

Can't squeeze operating costs any tighter?

Time to think the unthinkable

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The long-term economic viability of many buy- and sell-side capital markets participants is far from certain. With the cost-cutting strategies of the last decade succumbing to the law of diminishing returns, firms face significant structural challenges. Simply put, if you continue shrinking costs, eventually, you arrive at a point where quality suffers. When you can't squeeze costs any tighter, there's only one thing to do. Rethink how you operate. Completely.

The strategic value of outsourcing technology and non-differentiated operational activities

To a greater or lesser extent, banks and asset managers trade the same products, with the same clients, in the same geographies. However, all too often, the way they organize their business processes is unique. In part, this is driven by underlying technology dependencies and, partially, by organizational inertia — the product of an if it ain't broke, don't fix it mentality. Fundamental change to key systems is impossible without major investment; a dire predicament compounded by the belief that each firm has unique requirements that demand bespoke solutions.

By leveraging cloud-native capabilities, industry service providers are rapidly introducing as-a-Service (aaS) business solutions, offering compelling functionality at an increasingly competitive price. However, the traction for aaS solutions in other industries is way ahead of the highly regulated capital markets sector, where the risk appetite for groundbreaking solutions has held firms back. Also, aaS benefits are not necessarily free. Many financial institutions struggle to identify, adapt and outsource the associated business processes required to make use of these solutions in a cost-efficient manner.

This isn't just a cost play. Simplified and predictable systems and business processes drive higher quality outcomes for clients and internal stakeholders. Nevertheless, are firms bold enough to re-examine the status quo and their place in it?

Higher quality throughput at scale

This new reality in capital markets means focusing on the competitive advantage and what differentiates one firm from another in the eyes of their clients. As for the rest of what firms do, non-differentiating activities can and should be done as simply and efficiently as possible.

In other words, outsourcing completely to industry-standard platforms, operating at scale in the service of multiple firms. These platforms raise standards by deploying the latest technology and better, more qualified and more experienced people, ensuring higher quality throughput at scale.

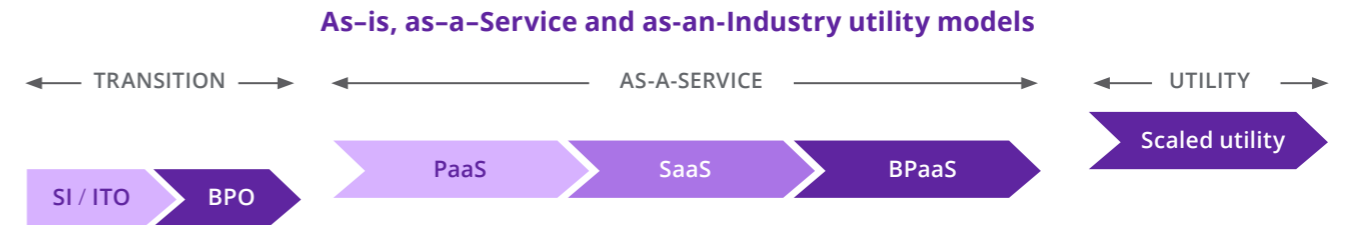
And that's the point. To achieve or maintain adequate levels of profitability and remain competitive, firms will have no choice but to embrace such industry platforms for non-differentiating activities, and focus everything else on sharpening whatever makes them attractive to customers.

Is nirvana around the corner?

This is a journey and the start should not be delayed any longer. It's about much more than just new technology. It's about focusing on understanding and improving today's business processes while adapting to new operating models. It's about choosing the aspects of your business and the required service model that best fits your particular organization right now, and being nimble enough to change again and again as the industry evolves.

You'll find several models in any transformation or adaptation. These models require transition programs — new, managed service offerings and a choice of levels for business processes. Each of these is a step along the journey that leads toward utility models with shared and common functionality that most likely will dominate the medium term.

Before you take the first step toward strategic



outsourcing, you need to understand both your business processes and data strategy. Crucially, you have to determine which insights will enable you to remain in control of your business, regardless of who is executing it. How much of the data clogging up your in-house systems will be redundant in future-state ecosystems? Which data allow you to differentiate your client-facing business, and can be monetized to generate new revenue streams?

Data is the key to transition, business process outsourcing and sustainable profitability, but it's not just about the data in your systems, created and processed by your business. It's the insights about your business, and being able to leverage the insights that enable you to remain compliant, competitive and in control.

Time for action and collaboration

Deep down, capital markets buy- and sell-side institutions know they have to act. They know it's pointless having a customized technology estate in-house with their own bespoke business processes wrapped around it, but they're stuck. They've outsourced all or most of the technology and business processes they think they can outsource, but the profitability challenge remains. The key blocker is fear. When it comes to change, many COOs are most worried about the risk of getting it wrong, even at the expense of getting it right.

COOs face a daunting task. Yes, many see the appeal of switching to aaS solutions, but they know that it's not simply a matter of exchanging like-for-like. Many think of it as a technology problem. However, while



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it's partly about adopting a new technology ecosystem, it's also about adapting business processes to wrap around it. This dance of adoption and adaptation has to be choreographed at pace and scale, while keeping up with business-as-usual. No wonder many firms adopt a wait-and-see approach.

Firms know they need to invest in the future, but many don't have the margin to begin or sustain the level of investment required. This is where partners come in, not just to provide solutions, but to share the investment; an approach that requires open minds and open books to arrive at the right operational models. This type of collaboration is rare in the dog-eat-dog world of capital markets, but every firm — large or small, well-maintained or weighed-down with legacy — is faced with this challenge in one form or another. Success in this space is mutual. It's not a zero-sum game.

We know. We understand the problem inside out because Luxoft is already working with industry-leading partners and vendors in the banking space. This is what makes us different. We're experts in ITO, BPO, hosting and servicing hosted solutions (i.e., aaS) with proven solutions that enable optimization, differentiation and a trusted transition.

Let's explore your own firm's strategic need to outsource technology and non-differentiated operational activities.

Please visit [Banking and Capital Markets | Luxoft](#) or get in touch financialservices@luxoft.com.