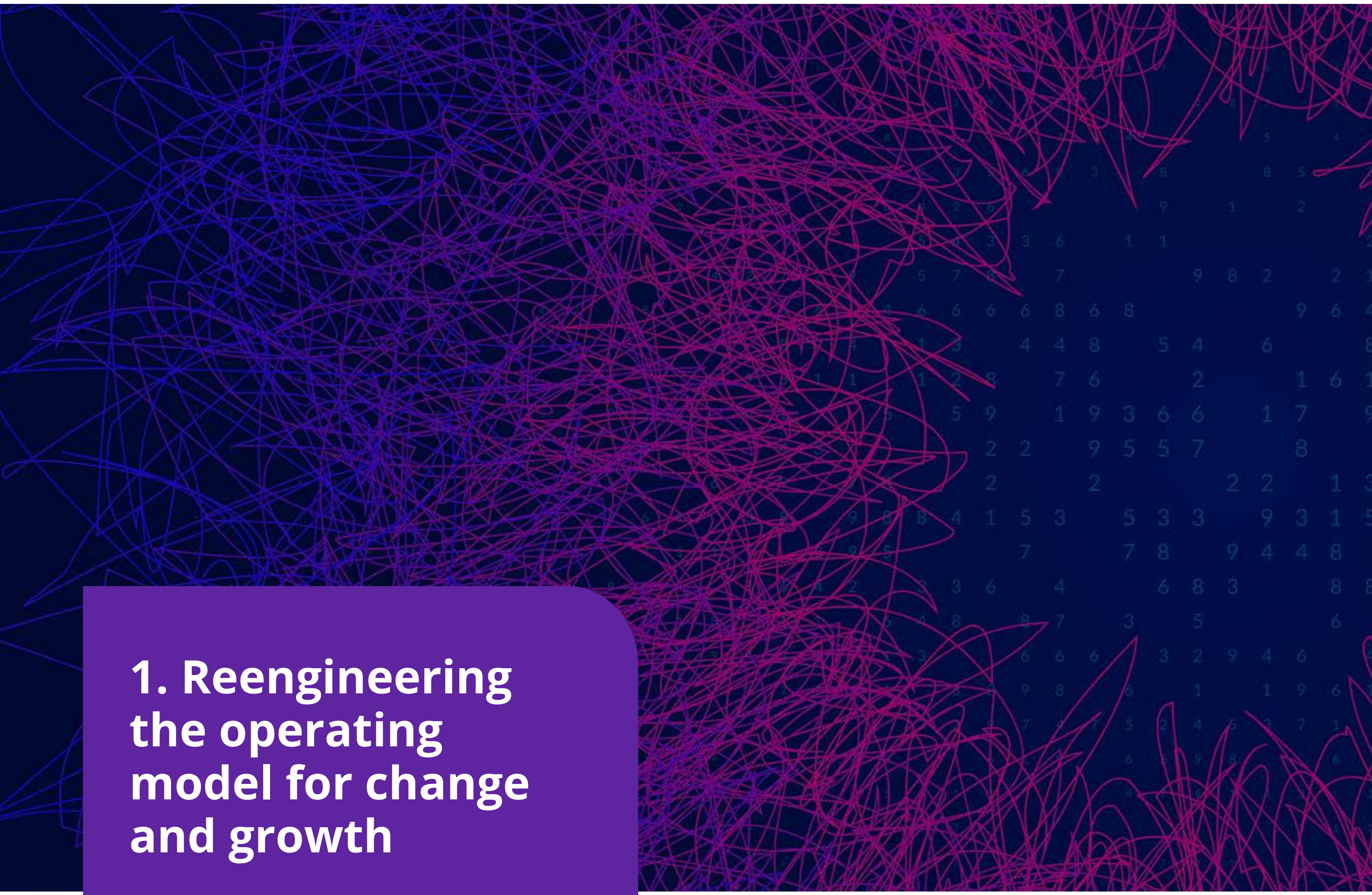

1. Reengineering the operating model for change and growth

The Capital Markets Enterprise 2021

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The financial services industry is emerging from a decade of adjusting to the realities of life after the 2008–2010 financial crisis and the ensuing regulatory initiatives. As it does so, buy- and sell-side capital markets participants are facing an array of structural challenges. And in many cases, their long-term economic viability is far from certain, particularly the smaller or more regional firms that operate without the economies of scale of Tier 1 global players.

We are at a crossroads. For many capital markets firms, the next lap of their journey starts with tough decisions around where to compete and which clients and products to keep. But as firms redraft plans in the wake of the pandemic, they have a once-in-a-generation opportunity to reset their operating models.

Perhaps the toughest and most immediate decision they need to make is whether they are prepared to invest for the long term. The radical simplification of processes and platforms that underpin their often complex and siloed organizations is a priority, as is the tooling required to boost agility and transform their approach to client service.

A perfect storm of challenges

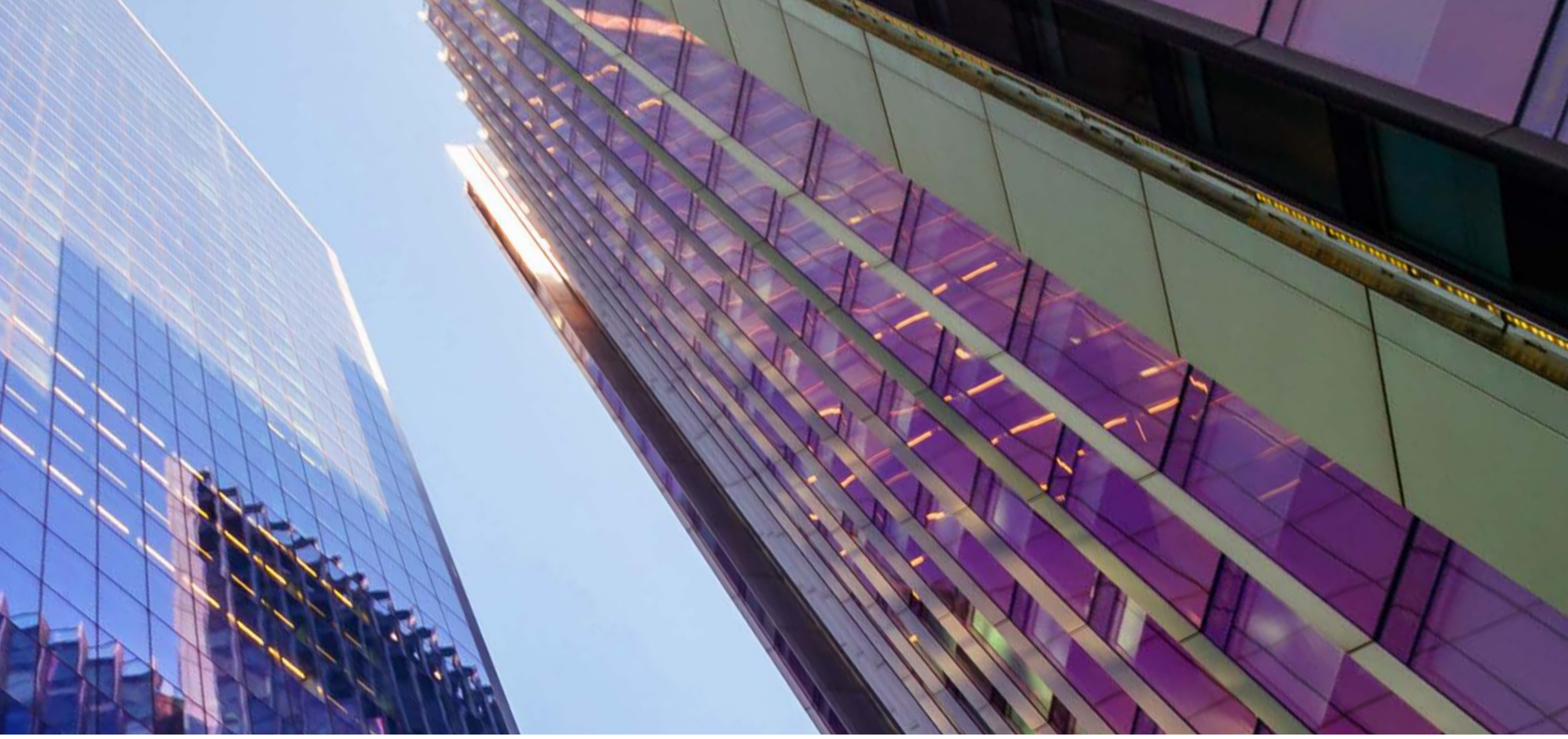
Despite years of cost-cutting, firms have realized that their convoluted business and organizational models are still far too expensive — not least because of legacy and fragmented IT estates that are costly to run, maintain and change. The result is a series of business processing bottlenecks and associated operational risks. Besides the need to invest in simplification, supervisory bodies are focused on operational resilience, leading to uncomfortable levels of regulatory scrutiny that compound the pressure to make wholesale improvements.

In parallel and with certain exceptions, capital markets firms have seen revenues stagnate and margins narrow to a fraction of what they once were. On the sell side, the capital requirements for many staple products are now so onerous that the cost of carrying any form of inventory is prohibitive.

Less is more

Logically, firms should be reducing the range of products they actively support and focusing on where they can compete profitably. However, many firms struggle to turn away clear demand from their clients. This is true even where those clients lose them money in terms of margin and the high cost of servicing, due to the lack of automation and continued reliance on expensive manual processes.

Without significantly changing how firms service that client demand and making some hard decisions on what clients and business actually support, the revenue side of the equation will continue to be challenging at best.



Modern. Agile. Streamlined.

Inspired by (and often envious of) progress made in other industries, capital markets participants know without a doubt that modern, agile, digital technologies are a key part of the answer. Streamlining clunky workflows and processes and introducing flexible, modern technologies can allow firms to better understand client behaviors and preferences. It can also help them react rapidly to offer products and solutions that meet their needs.

But progress in effecting the required change remains frustratingly slow. At the risk of stating the obvious, fundamental change is impossible without a clear strategy backed by significant and sustained investment — investment that has been diverted year after year towards short-term initiatives to keep up with constantly changing regulatory obligations.

We all think we're special in some way

What is less obvious is the extent to which the amount of investment required is compounded by the belief that each capital markets firm's requirements are unique and require a bespoke strategy, operating model and associated technology solutions. However, the truth is that banks, brokerages and asset managers trade many of the same products with largely the same clients and counterparties in the same core geographies. While few might admit it, there is little that genuinely differentiates one firm from another — certainly once a trade is executed.

But all too often, firms allow this perceived uniqueness to dictate the way they organize their business processes — an approach compounded by underlying technology dependencies, organizational inertia and an outdated "If it ain't broke, don't fix it" mentality.

Chasing the unicorn

This go-it-alone attitude leaves each firm's strategy reliant on finding and retaining unsustainable levels of resource, many with a 'unicorn' combination of business domain expertise, firm-specific know-how and proven capabilities in the latest technologies. It's no surprise then that the industry is awash with underfunded and under-resourced change programs, and understandably, the delivery record of these initiatives is poor. At best, the result is incremental improvements to the unsustainable status quo, rather than the step-change that's required. At worst, outright failure and canceled projects add yet more complexity and cost to the businesses involved.

The kicker here is that it doesn't have to be this way. The end of the wave of regulation, the drive for operational efficiency, and the urgent requirement for a better understanding of client needs have coalesced just as new digital technologies — cloud, big data, AI, ML and client lifecycle management — have gained traction across a broad range of industries.

The mission for capital markets firms is to summon up the will to make the change. The opportunity for improved client outcomes, operational efficiency and a sustainable return on capital is there for the taking.

This is the first of a four-part blog series on how to make the essential operational changes needed for future capital markets success. If you'd like to find out how DXC Luxoft can help you find answers for these burning questions, visit **our LinkedIn**. Or, if you'd prefer to talk reengineering the operation model for change and growth with one of our experts, contact **financialservices@luxoft.com**.

About the author

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Matthew has more than 20 years' combined expertise and international leadership experience as a CIO and COO in the Financial and Capital Markets industry. His career spans Credit Suisse, Deutsche Bank, Credit Agricole, Daiwa Capital Markets and Lloyds Banking Group. He joined DXC Luxoft in March 2020 to lead Capital Markets Solutions globally.