

Post-trade infrastructure transformation  
**Strategic. Evolutionary. Practical.**

## Unlocking The Post-Trade Puzzle

Advanced Technologies SIG

October 2<sup>nd</sup> 2019

## About Ascendant Strategy

- *ASL are a capital markets consulting practice, focussing on strategic transformation and enablement of the post-trade infrastructure and process.*
- *We are a content-led consulting business based on skills and experiences that have been developed through leadership of successful outcomes internally within financial services organisations.*
- *We recognise that each organisation is unique, as are its challenges and so our practitioners focus on providing solutions to your challenges, not finding a challenge for their solutions.*

## Introduction

- *'Post-trade processes comprise the services that are performed subsequent to the execution of a trade, and include:*
  - *clearing*
  - *settlement, including processes preparing for settlement such as affirmation, confirmation, allocation and matching*
  - *custody and asset servicing*
  - *related activities such as collateralisation'*

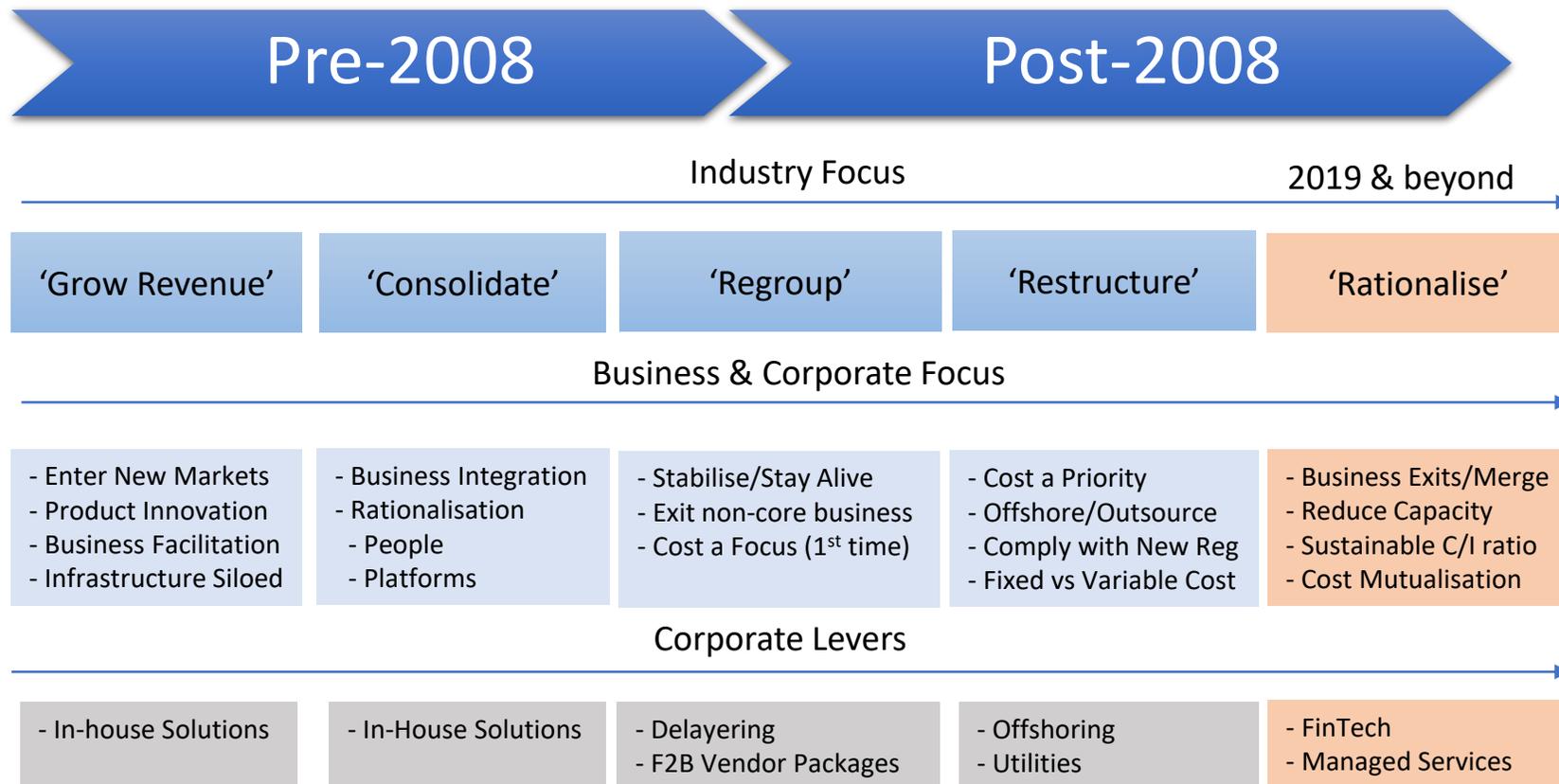
AFME 'Post Trade Explained 2015'



**Unlocking the Post-Trade Puzzle:  
New Approaches to Solving the Issue of  
Operational Costs in the Post-Trade  
Environment**

July 2019

The cost/income challenge for banks has gone on for a decade..



## And they haven't solved it

*'Investment banks have traditionally preferred short-term approaches to cost reduction, and most business transformations have focused on organization rather than technology or operations. This is no longer enough'*

E&Y : 'Investment bank transformation: from ideas to action' 2015

*'Most investment banks today need to implement a radical cost reduction program that is focused on operational effectiveness'*

PWC : 'Turning around investment banking: An agenda for reviving profitable and sustainable growth' 2016

*'Many of today's post-trade operations consist of complex legacy technology: rich in functionality, yet hard to untangle. Data has been dispersed across multiple repositories. The application inventories in many investment banks show the list of post-trade systems running into hundreds, if not thousands'*

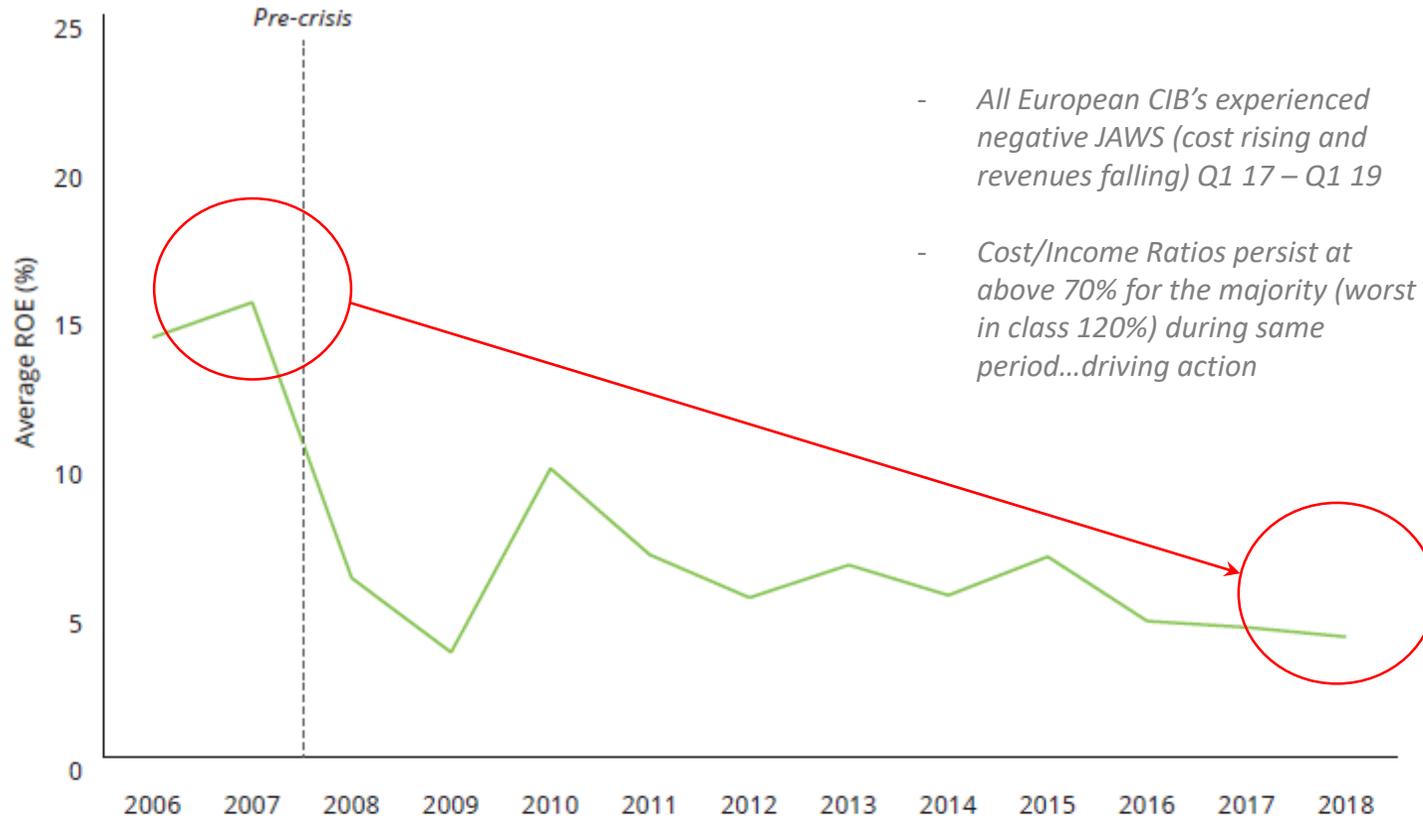
E&Y: 'Capital Markets: innovation and the FinTech landscape' 2016

*'Investment banks have been pursuing cost reduction for years. What will it take to achieve sustainable cost efficiency?'*

Accenture : 'TOP 10 CHALLENGES FOR INVESTMENT BANKS 2017'

# Progress has been outpaced by terminal economic decline

Return on Equity of 12 Global Investment Banks



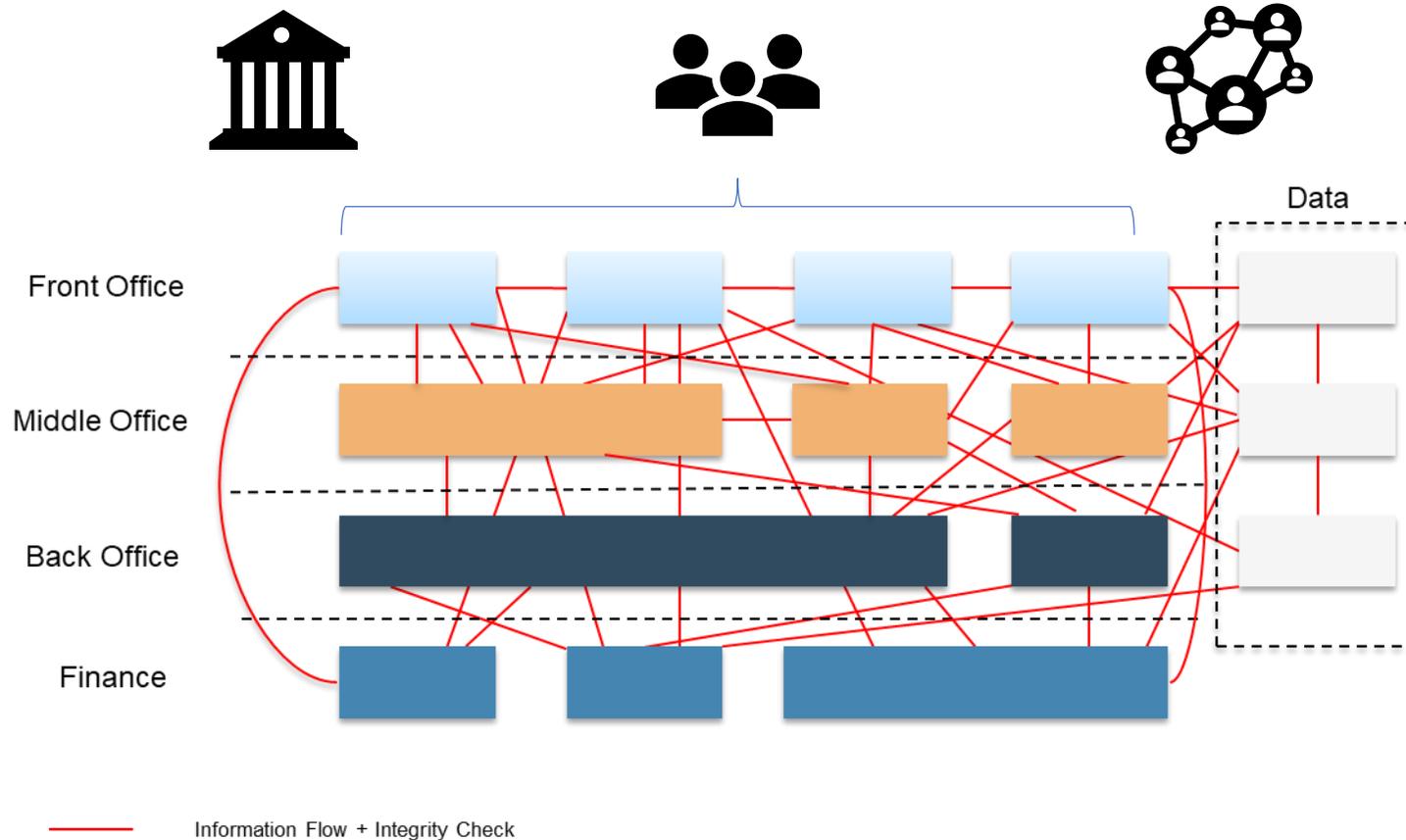
- All European CIB's experienced negative JAWS (cost rising and revenues falling) Q1 17 – Q1 19
- Cost/Income Ratios persist at above 70% for the majority (worst in class 120%) during same period...driving action



Source: Macro-Trends database, January 2019  
 Note: ROE = Return on Equity

Deloitte : The Investment Bank Of The Future 2019

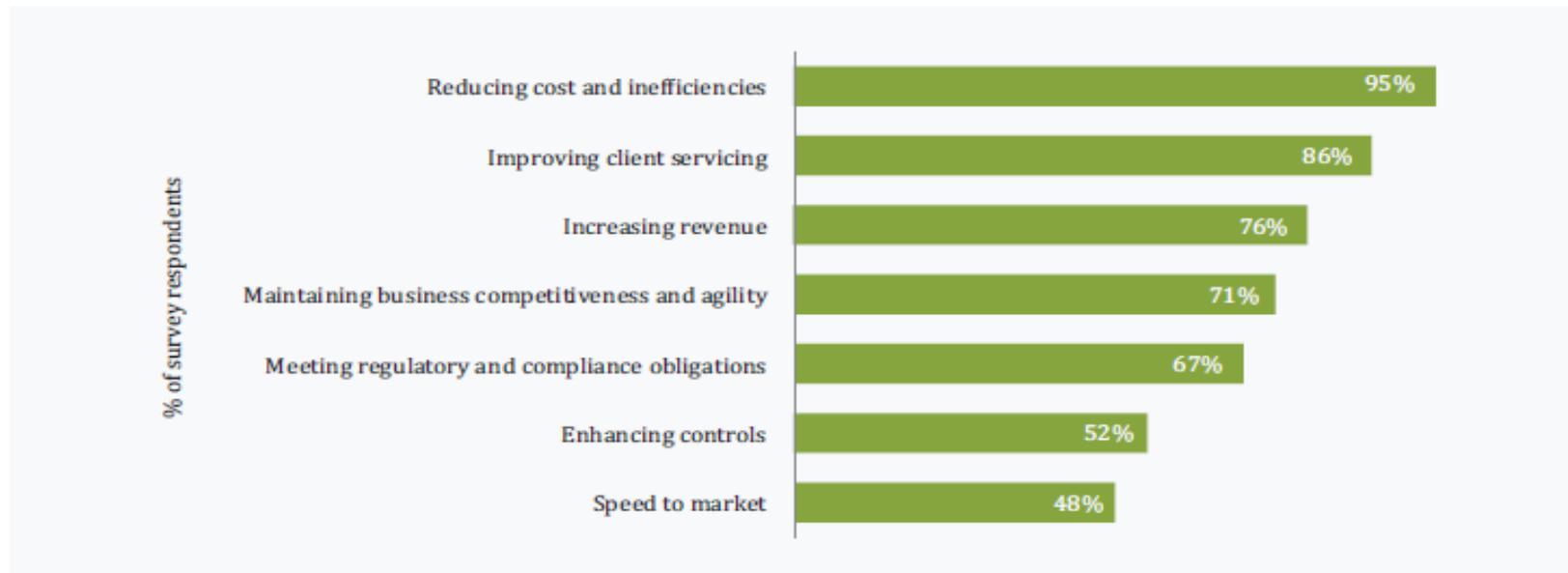
Whilst electrification of the front office has largely been completed.....



.....it has left behind a legacy tail of systems and processes

## Which are inefficient but is it a problem ? Yes

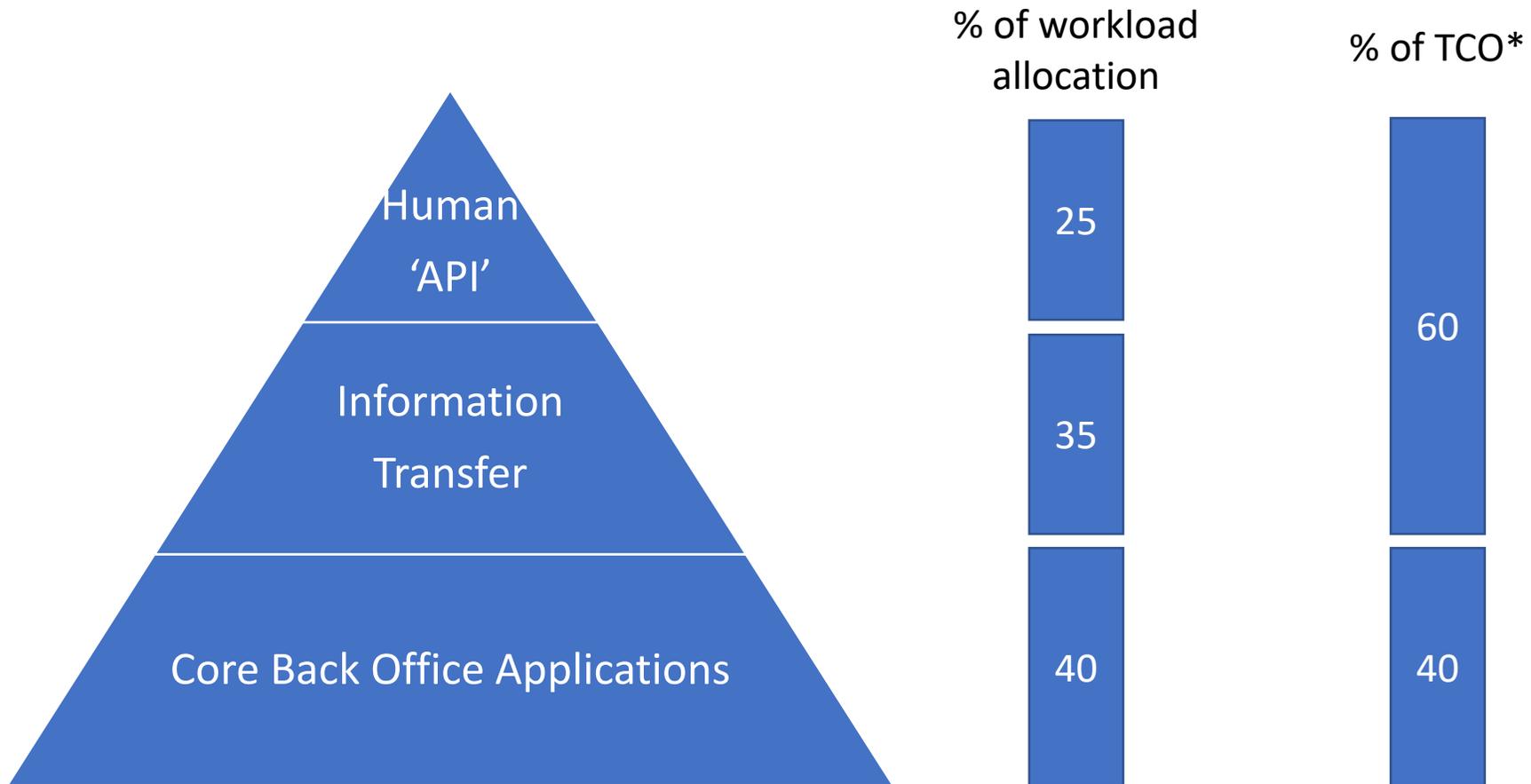
Figure 1: Which factors, in order of importance, are driving the adoption of technology?



*Technology and Innovation in Europe's Capital Markets by AFME & PwC September 2018*

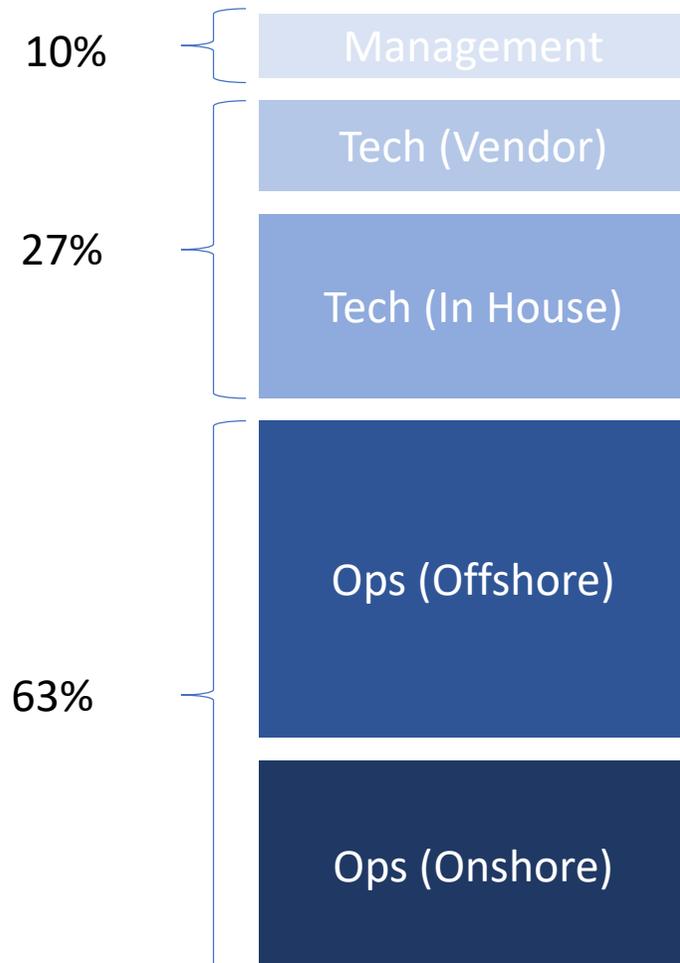
***“Some organisations spend more than 25% of revenues on operations and technology”*** *Mckinsey 2019 (Five Themes For Transforming Wholesale Banking & Technology)*

## The Real Post Trade Challenge – IT Fails To Deliver Industrialisation



\*Total Cost Of Ownership of people and IT

## Corporate Actions Case Study\* – The ‘Legacy of Failure’



- Corporate actions processing covers areas such as dividend, rights issues and stock splits.
- Process has seen significant investment in technology over the last 20 years – both in house and by vendors
- TCO for the corporate actions process equates to \$1.9bn across capital markets (incl. sellside and custodians/excl. buy side)
- Despite transformation efforts, over 70% of the cost base is people driven.....

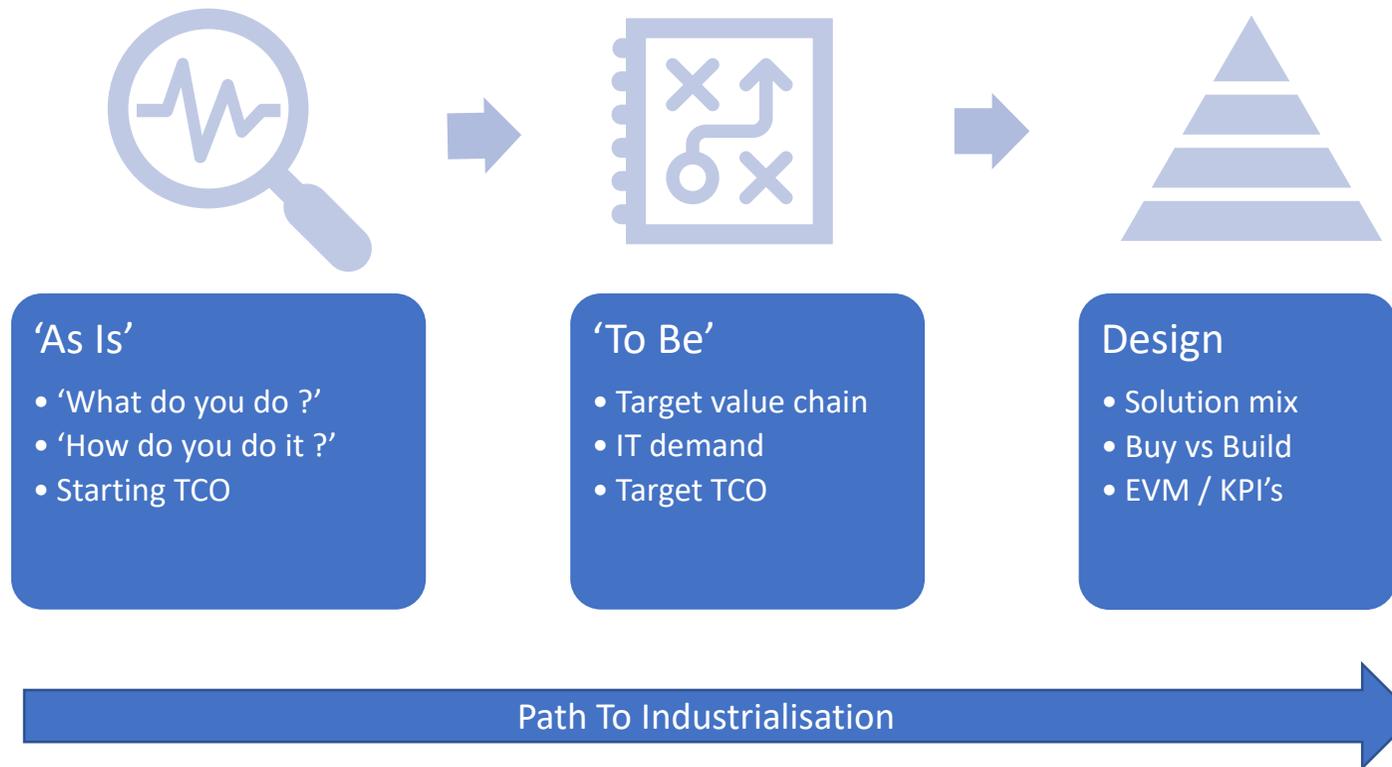
## Causes For Failure

- ✘ Technology typically budget holders and drivers of transformation – process owners too passive/disengaged
- ✘ Lack of top down focus around the economics of efficiency (changing.....)
- ✘ Application level focus on technology, rather than different technology solutions.
- ✘ Cost/benefit analysis too simplistic and focussed on ‘as-is’ cost, not ‘to-be’ value.
- ✘ Transformation viewed as efficiency programme rather than business enablement.
- ✘ Poor governance and change management discipline

## Thinking differently about the problem....

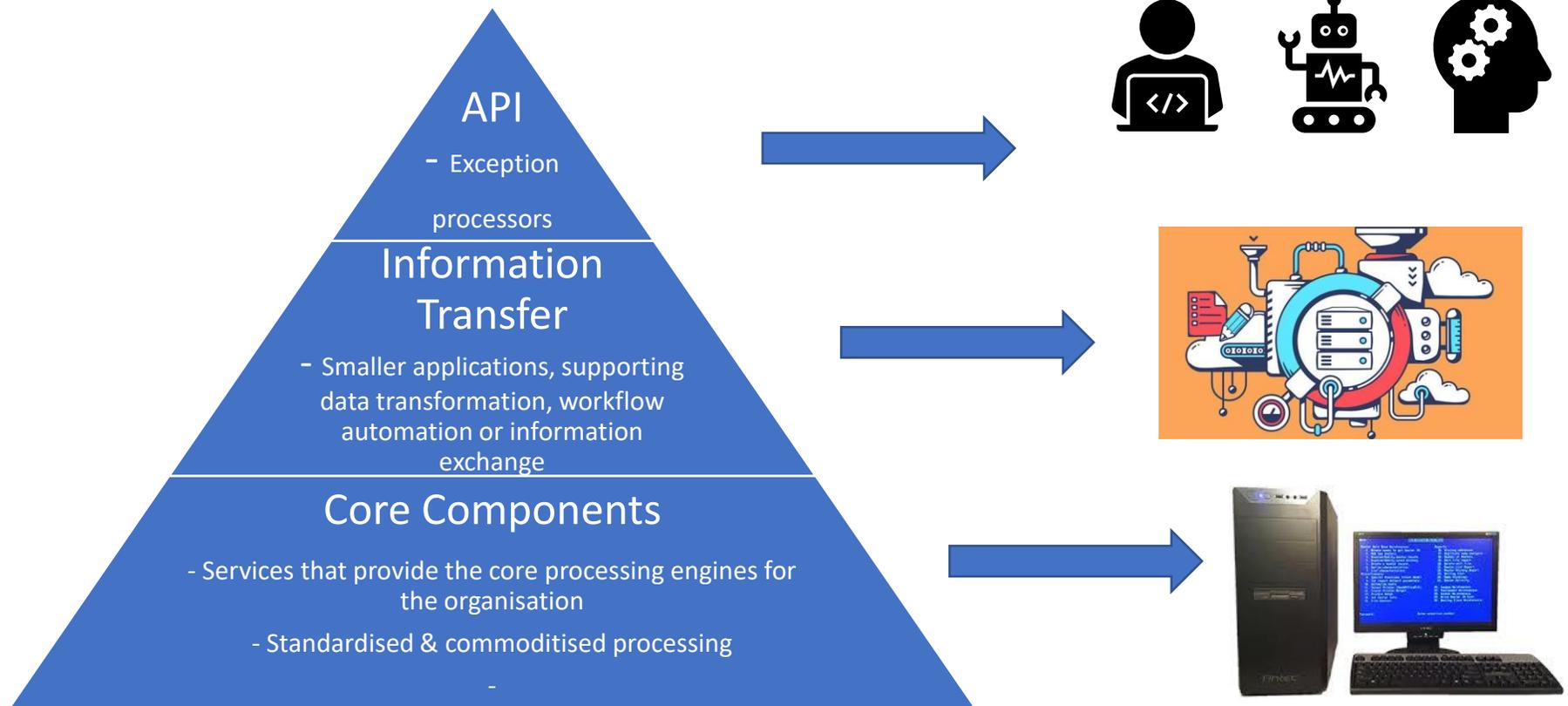
- Fintech is increasingly emerging as an enabler of post-trade transformation, with it being viewed as a **catalyst towards industrialisation** of traditional operations processes.
- Maturity of products driving credible business outcomes if **integrated into the right solution** – significant portability of solutions that have supported front office electronication within post-trade.
- And **simplistic process automation** of the past will not deliver transformative outcomes.
- The maturity of the FinTech landscape creates opportunities for automation of complex, legacy processes within capital markets. But will succeed only if **blended** alongside the legacy architecture that supports it.
- **And affordability** becomes a critical factor in linking solutioning to impact on cost income ratios.
- And to leverage the benefits technology can bring, the target operating model has to be designed to lead this transformation. **Not follow it.**

## Transformation journey.....conceptually simple



....but execution made complex by legacy business behaviours

## Value chain driven approach drives transformation solution(S)



## Success Factors For Transformation

- ✓ Alignment with **business objective**.....not a personal one !
- ✓ E2E focus on process definition – **business flow** rather than a broken process automation exercise
- ✓ Value chain has to be clear around **current & future state**
- ✓ Technology the **enabler, not the driver** of transformation
- ✓ No silver bullets – solution will be a **blend of products**, not one size fits all
- ✓ **Recognise complexity** – don't underestimate the time & detail required for success
- ✓ Change management **governance and discipline** is fundamental to success



# Thank You

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