

2020 OUTLOOK – TIME FOR REAL POST TRADE TRANSFORMATION WITHIN CAPITAL MARKETS



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The last decade has taken most banks on a cost reduction journey - think 'regroup', 'restructure', 'rationalise' business models. From post-2008 survival, most organisations can highlight some progress but in reality, a failure to successfully transform operating models is contributing to lack of sustained business profitability.

As the capital markets landscape has restructured,

cost reduction has been led by front office exits, business shutdown and capital release. What remains, is increasingly sticky and complex to unwind, with post trade accounting for an increasing proportion of this number. Estimates vary, but in some instances almost 25% of revenues of CIB's are spent on post trade process and technology costs¹.

Organisations are grappling with post trade infrastructure and processes built-up over time – and the unique complexity associated with their business. This complexity is tough to unravel and not a quick task. Bringing in off-the-shelf solutions

¹Five themes for transforming wholesale banking operations and technology' by McKinsey 2019

is hard and expensive, given most firms require customised functionality which cannot be resold and/or significant in-house standardisation required to fit. Most CXOs have experienced this implementation nightmare, and it often creates significant aversion to change.

The Ascendant Strategy perspective for the 2020's – CXO's need to think differently about the challenge

Material change in the post trade environment requires a material change in thinking – but material does not have to mean destructive. Embracing the next decade as an opportunity for transformation will lead to economic sustainability.

Organisations must think differently about the problem. Traditional approaches of top down budgeting ('What can we skim?'), technology ('Lets replace system a with system b') and basic ROI thresholds ('This project must deliver positive ROI

within 18 months') will not deliver a transformative outcome. But if the challenge is addressed in the right way, there is opportunity for to deliver major impacts to bottom-line costs – and we believe 30-40% reductions in post trade cost are achievable.

To drive success a clear Strategy and Vision is needed

1. The vision must be visible. Led and owned top down by the CXO and not delegated downwards. Sponsorship should be real and personal. Make cost and efficiency agendas career opportunities for talent to grow internally into the 2020's, rather than a competition to be last out of the door or a footnote at a quarterly town hall.

2. Firms must bring people on the journey. Over the last decade, cost reduction generally meant fewer internal jobs. The reality is that to transform the operating model, people will be the drivers of a successful outcome (technology is only the enabler) and as such need to understand how and what role they will play in the future. For organisations looking forward into the next decade, they must recognise the role people will play on the journey and at the destination in the future operating model. By doing this, skills can be nurtured, valuable institutional knowledge retained and leadership can focus on delivering the future.

3. The vision should articulate the challenge. To succeed with a transformation that yields significant total cost of ownership (TCO) reduction, the basics must be defined and communicated clearly to the broader organisation, alongside metrics establishing the starting point and

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demonstrating progress.

4. The operating model must support the business of today and tomorrow not yesterday.

As organisations have redefined business models, their platforms and processes have typically stayed the same. This means many carry costly and complex infrastructures which are a legacy of the past but a blocker to future profitability.

5. Technology must align to the operating model, not define it.

IT must enable the transformation; it is not the transformation itself. Disconnecting technology from the target operating model leads to failure of transformation – 'let's replace system a with vendor b or c' as opposed to reimagining the value chain to support the overall objective.

6. Firms must leverage external services.

People, applications and infrastructure. The FinTech landscape has matured and evolved significantly over the last 5 years, with technologies emerging alongside credible use cases to support a cost efficiency transformation agenda. The adoption of external innovation will leverage cost mutualisation via utilisation of

managed services underpinned by cost efficient, scalable hosting solutions. These services must blend into legacy architecture that will persist internally in some shape or form. Creating a roadmap sympathetic to the legacy of the past but also able to look forward is essential for success. Adoption is not without challenges, as effort is needed to create the levels of data standardisation that are required to support a service orientated architecture. But this investment has to be made to deliver the sustainable platforms and processes for the future of post trade – and complexity can no longer be an excuse for retaining technology in house.

7. Change governance must be robust.

Alongside sponsorship and ownership of the vision, change governance is ultimately critical to the outcome. This continues to be overlooked by many organisations, who misunderstand the level and skills of resourcing required to deliver these types of transformational outcomes. In cost-conscious environments, it becomes too convenient to label transformation responsibility 'part of the day job' implying shared ownership but in

reality, avoiding cost. This typically results in failure, as without the dedication of individuals or teams who understand the legacy environment, partnered with disciplined programme management teams, little progress is made.

Transforming the legacy built up in post trade architecture is hard – that is why it remains unsolved by many – so recognising this organisational complexity and resourcing appropriately is key to success. And in guiding the execution team, the role of the sponsor(s) becomes critical. Steering committees need to be visible, active and accountable for the outcome – and stakeholders need to be fully engaged and supportive of the objectives.

By focussing on these themes, organisations can be impactful in delivering material changes

to their bottom line but to succeed, organisations have to think differently around how they address the challenge.

At Ascendant Strategy, we recognise that every organisation's 'legacy' is unique and so our approaches reflect that. And we use the word 'approach' very deliberately to highlight that we don't repackage standard methodologies, frameworks or solutions from other places to force-fit them to a problem. We bring credible and tested approaches that fit the culture, size and change maturity of an organisation, with focus on delivering practical, tangible outcomes. Our teams are experienced practitioners who have sponsored, led and driven transformation across capital markets. We respect complexity, but we don't let it block the outcome.



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How do you do it?
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To Be

Future value chain
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Target TCO



Design

Solution mix
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KPI's



...but execution made complex by legacy business behaviours