

CAPITAL
MARKETS
INDUSTRY
TRENDS IN
THE POST-
PANDEMIC
WORLD

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Foreword

Today's capital markets look very different from those of a decade ago. Technological advancements, regulatory changes, and other socioeconomic factors have influenced customer perceptions and demand, leading to changes in the way businesses are run. These transformations are pushing financial institutions, service providers, and related players to either adapt or exit the industry. Beyond these systemic challenges, the COVID-19 pandemic has taken center stage in 2020. To contain the spread of the virus, most countries have adopted lockdown measures, impacting global financial markets. While economic activity is yet to pick up since the crisis began, capital markets have nearly recovered to their pre-crisis levels owing to a rapid liquidity

boost by governments around the world.

Fintech startups have emerged as competitors across the financial services industry in the past couple of years. But in the post-COVID-19 world, they are facing challenges in finding new business and are also experiencing a cash crunch as funding has dried up. This puts them in a precarious position and makes them increasingly amenable to partnering with investment banks and technology firms.

For the capital markets industry as a whole, the pandemic has also led to significant decline in revenue and a rise in operating challenges. Cost mutualization models such as utilities are being reexplored with a palpable

squeeze in big-ticket spends. While IT budgets have been pared down, the focus on legacy modernization, cloudification, and digitization will continue as these initiatives help overcome some of the COVID-19 operating challenges.

Business models are being realigned to focus on the core, less capital-intensive and more client-focused businesses; for example, exchanges are increasing data offerings and looking for opportunities for forward or backward integration to improve value realization.

This 2020 edition offers an analysis of the latest capital markets trends that will help guide capital markets players through their decisions in this challenging time.

DIGITAL TECHNOLOGIES WILL DRIVE THE FUTURE OF CAPITAL MARKETS FIRMS

Financial institutions are accelerating their growth by partnering with fintech startups and by adopting process automation tools and techniques and analytics based on artificial intelligence (AI) and machine learning (ML) technologies. These technologies are influencing executive decisions. Executives are increasing focus on how best to utilize these technologies and understand their broader impact on business. Firms are embracing these technologies to enhance their customers' experiences and also provide newer experiences. For example, with the help of data analytics and customized analytics dashboards, exchanges have been able to provide better insights into the markets and understand customer behavior in a better way.

Trend 1: Fintech startups compete and collaborate

Investment banks, hedge funds, and fund houses have dominated the capital markets space for ages and have garnered most of their business from capital issuances to trading and managing money. Over the past few years, trading has moved to automated quantitative trading methods and index funds. This movement has stemmed from the evolution of technology. And with this, fintech startups and disrupters have emerged globally across the capital markets value chain. Within the capital markets sphere, fintech startups provide a superior user experience, employ analytics and AI for fraud management and

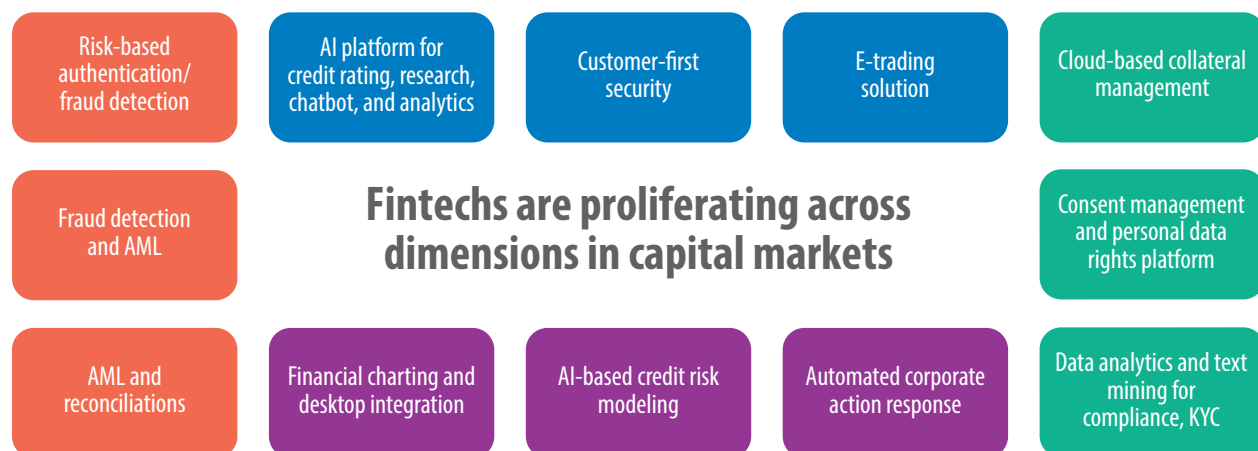
to predict outcomes, and provide advisory services to help investors manage corporate actions.

Since the COVID-19 outbreak, fintech startups have faced challenges including finding new business and a cash crunch as funding dries up. These firms were already warming up closer partnerships with big banks, but the pandemic will accelerate partnerships with IT consulting companies that serve these banks as well as direct investments between banks and fintechs. For example, research and collaboration between Infosys and its fintech partners have occurred across ideas and areas such as:

- **Trading:** With the rise in market volatility, demand is rising across trading firms for fintech-built interactive charts and technical analysis solutions to make trading intuitive and event-triggered.

There has been a shift toward quantitative trading in the past few years, and fintechs are riding the wave with fully managed quant trading solutions that leverage AI. Startups are also using predictive modeling that combines financial and nonfinancial data to create automated models for credit

Figure 1. Fintech startups are disrupting each aspect of the capital markets value chain



Source: Infosys

rating that aid trading in credit derivatives.

- Operations:** Operating efficiency of traditional trading firms is under immense scrutiny, with low-cost trading platforms available through fintech startups. Using AI and ML will create a competitive edge for firms in front-office functions as fintech startups create solutions for compliance, know your customer (KYC) rules, anti-money laundering (AML), and automated onboarding. Startups such as [Signzy](#) offer AI-based document verification and validation, enabling complete digitization of physical, paper-based onboarding processes. With returns from investment assets becoming increasingly volatile since the outbreak of

the pandemic, the focus has been to maximize value. The fintech startup [Scorpeo](#) offers a platform that captures the value embedded in corporate actions and also automates subsequent investor actions.

- Data and analytics:** Analytics and AI based on leveraging diverse forms of data are transforming every element of the capital markets value chain. Fintechs are providing AI-powered fraud management and risk management platforms to bolster trading processes. Of particular interest are also fintechs that provide a single platform that provides a comprehensive view of firmwide parties, transactions, accounts, exposures, and various interrelated risks in order to power a range of

use cases from regulatory compliance to customer 360 to fraud detection. Predictive analytics also are being used in understanding flash crash events. Further analytics is being used for identification of unusual trading patterns across a range of datasets.

Capital markets participants are also under financial stress from the COVID-19 situation. However, they will continue to look for opportunities to innovate and disrupt their business model. They are likely to focus their resources on acquiring proven fintech firms once the pandemic eases. Alternatively, they would obtain services from fintech startups for disruptive technologies that they don't have in-house capabilities for.

Trend 2: Demand rising for intelligent automation

Intelligent automation (IA), also called intelligent process automation or hyperautomation, uses multiple technologies to measure, manage, simplify, discover, design, and automate processes and workflows across the enterprise. The technologies include, among others, robotic process automation (RPA), AI and business rules, ML, natural language processing (NLP), and business process management software.

Capital markets firms are increasingly using IA to automate manual processes in order to reduce costs and accelerate digital transformation. According to Gartner estimates, by 2024, financial organizations will lower operational costs by 30% by using

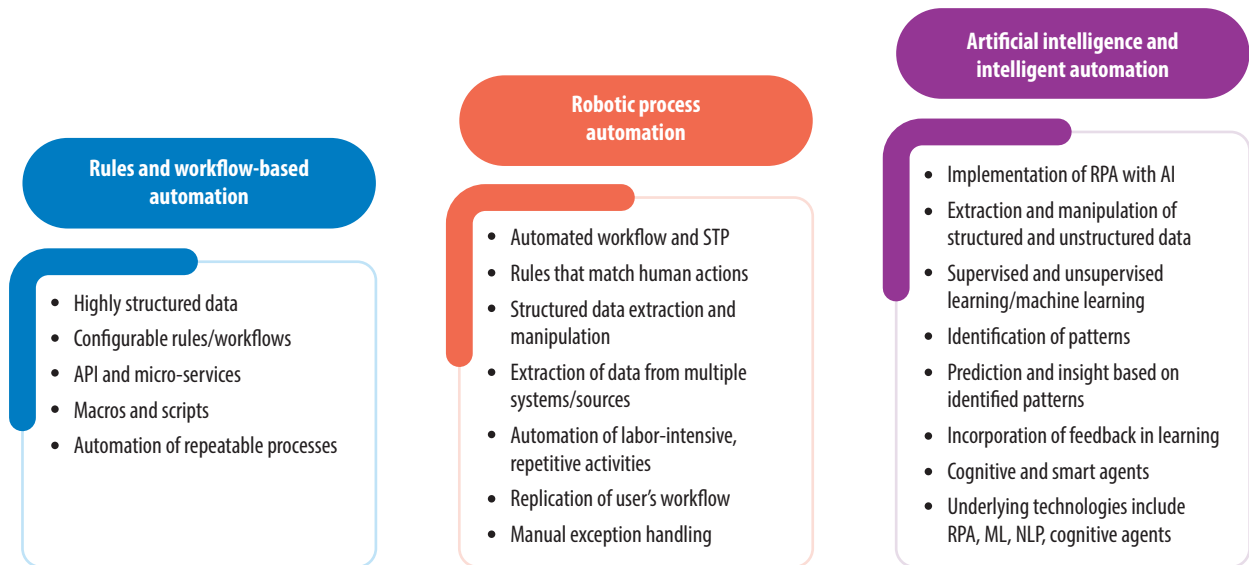
hyperautomation technologies. IA also will help firms get real-time and continuous intelligence about business functions and processes and key performance indicators such as implementation costs, cycle time, throughput, accuracy, compliance, and qualitative indicators. New technology has brought in a lot of different and sophisticated automation and cognitive tools, which when combined with supervised and unsupervised learning, can be used to perform complex tasks.

Need for smarter automation

Ancient information technology (IT) architectures and legacy systems have had a detrimental

effect on the performance of trade processing, settlement, and reporting. Capital markets firms are in the process of meeting multiple regulatory, capital, and liquidity requirements. They also are expected to undertake architectural simplification and redefine business processes and workflows to reduce operational inefficiency, improve straight-through processing (STP), free up human resources, and increase profitability. The current technology architecture is a complex web that may not cope with changing customer expectations and the increase in transactional volume. Automated processing can both speed up processing time and reduce operational risk.

Figure 2. Evolution of process automation technology landscape



Source: Infosys

Benefits of intelligent automation

Intelligent automation should reduce manual effort and costs significantly. Efficiency gains can be upward of 60% for selected use cases. This reduction in manual effort also means that the operational small and medium enterprises can work on important and high-value tasks, which results in improved quality and productivity. Automation will also make possible further benefits of STP, as process breaks can be significantly reduced using automation. This also will bring the benefits of greater capacity, transparency, scalability, real-time information, reduced failures and settlement cycles,

process refactoring, and reduction in system and operational redundancy.

IA brings in transformation of the systems and processes in the enterprise. With the right strategy for frameworks, processes, roles, and tools, robots can significantly reduce time to market and the development life cycle.

Steps for intelligent automation

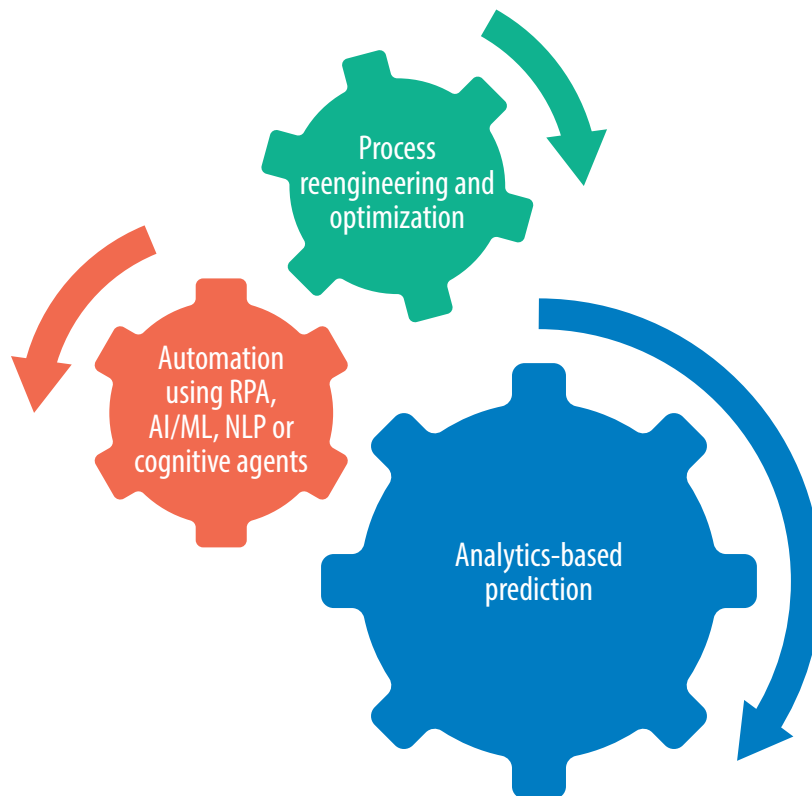
The steps in IA include analyzing processes to find inefficiency and analyzing data to find inconsistencies. Inefficiency could be because of (a) the manual nature of a process — for example, trade entry,

client onboarding, and paper confirmations; (b) the complexity inherent in a process, for example, STP failures due to process breaks; or (c) capacity restraints, for example, reconciliations being done only once a day or once a week. Data inconsistency could be because of data quality from interfacing systems, infrastructure limitations, or capacity constraints to maintain reference data. Processes can be analyzed to identify the workflow execution, and then appropriate tools and software platforms can be used to automate the analyzed processes. Automation brings changes to the business workflow and rules. Analysis of data leads to identification of patterns, which can be used to predict the outcome of the processes.

Each tool within the IA software stack performs disparate functions.

RPA captures structured data from multiple systems, manipulates the data, mimics human actions, and automates basic, noncomplex, repetitive, and highly manual tasks. The ability to learn without programming is provided by ML. NLP provides identification and manipulation of images, text, and other data in an unstructured format. It can be used in document analysis and chatbots. Identifying patterns and anomalies can be done using pattern analysis. Robots can help gather information from multiple sources as well as perform tasks such as aggregating and assembling the data, preparing reports, etc. Cognitive agents can suggest updates and repairs and can resolve breaks, failures, and mismatches.

Figure 3: Steps in the intelligent automation process



Source: Infosys

Use cases

Smarter automation helps derive value across multiple business functions of the capital markets landscape, especially in the middle and back offices. Manual, high-volume processes that are prone to operational risk in the trade life cycle and client services areas are ideal candidates. Smarter automation increases the possibility of significant reduction in lead time and efforts and increasing effectiveness of the business processes.

A range of business functions can be impacted; however, major benefits can be achieved in

confirmations, settlements, data management, reconciliation, and regulatory reporting.

Smarter automation also can provide significant benefits in the areas of corporate actions, investment management, KYC, onboarding and client services, trade capture and allocation, client and management reporting, risk analysis, collateral management, and trade monitoring and trade surveillance.

Software vendors and solution providers

The IA software market for capital markets is competitive,

and software vendors try to differentiate their offerings in business functions, use cases, and user experience. Solution providers that specialize in domain-related software such as trading systems are in the process of acquiring automation suites as part of their solution, either by working with the IA software vendors or with in-house developers. The tools can be deployed on premises or in the cloud, which reduces maintenance, infrastructure, support, and upgrade costs.

Trend 3: Exchanges offering insights on markets, investor behavior, and risk analytics

Stock exchanges have massive amounts of order, trade, and pricing data, which eventually was packaged and sold to customers directly or via third-party entities. Data services developed into a successful line of business (LOB) for most exchanges around the world.

Over time, exchanges partnered with established entities that consume the “raw” data and convert it to consumable information for capital markets firms. At the height of the high-frequency boom, many high-frequency quoting (HFQ) and trading firms took over the role of market makers from the traditional brokers’ deals by acting on the raw data from exchanges through use of proprietary algorithms. The partnerships

offered a way for exchanges to extend the monetization of the base data coming out of their matching engines.

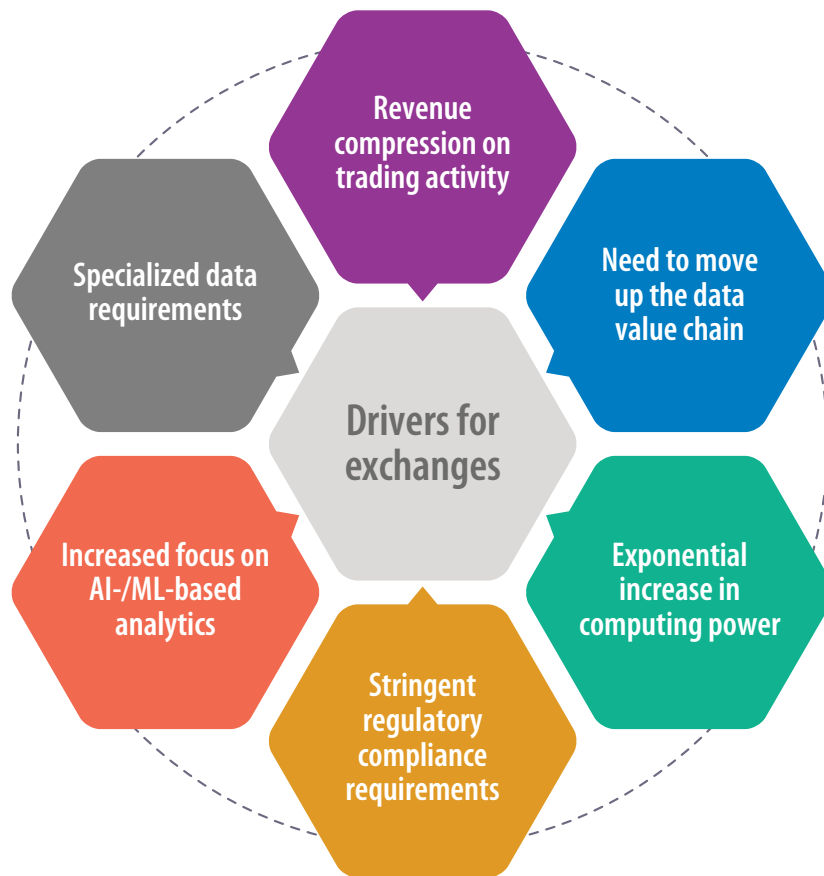
The financial data vendor market had been dominated by third parties offering various products and services, including Bloomberg, Reuters, Markit, FACTSET, Morningstar, Refinitiv, etc. These organizations obtain data from exchanges and provide refined datasets for risk analytics, market intelligence, alternatives, etc., in partnership with the exchanges.

Capital markets data drivers

Over the past few decades, demand for data has been increasing. Revenue growth from

trading activities is flattening out, which caused exchanges and data providers to look for new products and income models. Also, there is a need to move up the “data value chain” to differentiate and increase market share via integration. Clients want more-accurate and better-curated data directly from the “source” in the aftermath of a slew of regulations coming out of the financial crisis. In addition, algorithmic, HFQ, and boutique trading firms have developed specialized data requirements. Exponential increases in computing power in recent years meant significant cost reduction in crunching large datasets. The massive focus on ML and AI has led to better and faster tools for analytics.

Figure 4. Drivers for data service provisions by exchanges



Source: Infosys

Examples of exchanges monetizing their data

All this has led to stock exchanges increasing their data offerings substantially. Euronext has started offering the “Momentum Risk Monitor” product for better risk analytics. This tool is offering the investor community advanced and value-added datasets that aid in price pattern recognition, early price trend detection, market noise filtering, and many more. Nasdaq has diversified its data services to provide investment analytics, alternative datasets, and buy-side intelligence. Nasdaq

also acquired eVestment, a data analytics and research platform for investment management firms.

Intercontinental Exchange (ICE), which owns some of world’s largest exchanges, also has made deep forays into the data market with independent valuations, evaluated fixed-income prices, and analytics across multiple asset classes. It provides liquidity indicators, relative value analysis, spread analytics, and other credit risk metrics. ICE also started selling compliance data solutions to help meet the best-execution requirements for regulatory schemes such as the Markets in

Financial Instruments Directive (MiFID) and rules and guidance from the Financial Industry Regulatory Authority (FINRA), etc. Euronext has acquired companies that provide central securities depositories and custody services — an example of industry integration to provide high-quality data services. Stock exchanges are also providing actionable data to industry players on market surveillance, investor behavior, fraud, etc.

Technology enabling data monetization

Technology improvements and digitization have led to exchanges providing data services in various formats, such as application programming interfaces (APIs), real-time feeds, file-based data exchange, etc. Ever-expanding connectivity and the quantum leaps achieved by the market infrastructure have facilitated cross-border data exchanges at low latency. Such investments in infrastructure also have ensured that exchanges are able to function reliably and meet the data requirements of the global markets, even during the COVID-19 pandemic.

More recently, the market has been seeing a shift in the role exchanges are playing with forward/backward integration, utilities, and value-added products; thus, stock exchanges becoming more entrenched in the data market is a trend that will continue strongly in years to come.

THE AGE OF TECHNOLOGY CONSOLIDATION, SIMPLIFICATION, AND CLOUD MIGRATIONS

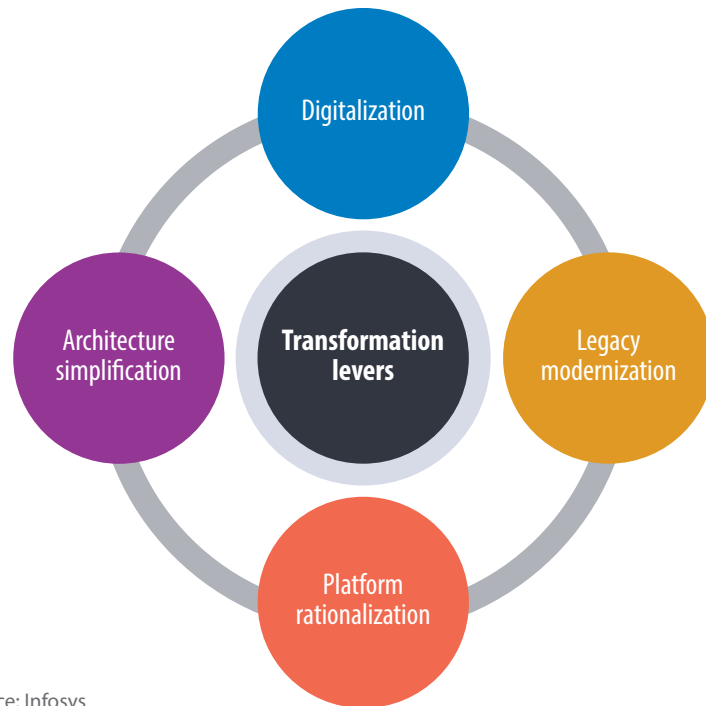
Firms have been struggling to bring a balance between the technology spend and the value proposition. Often, it is easier and more cost-effective to build a new application than to add a new functionality to the legacy application. Most of the firms are looking forward to reengineering their existing technology setup to be able to accommodate new requirements. This reengineering includes legacy modernization, platform/architecture simplification, application consolidation, etc. Migration from an on-premises setup to the cloud is delivering significant benefits in terms of ease of usage, scalability, security, and cost.

Trend 4: Increased focus on post-trade transformation

Capital markets firms invested in digitizing their front-office systems because there was a commercial imperative to do so. Investments in post-trade systems were made primarily to reduce the cost of processing trades and meeting regulatory requirements. The piecemeal approach to modernization left the post-trade world largely batch-driven, with a significant manual portion, and way behind the sophistication of the front office.

Capital markets firms are now working on legacy modernization, platform consolidation, architecture simplification, and digitalization of the post-trade infrastructure to increase business agility.

Figure 5. Levers — large business transformation



Source: Infosys

Legacy modernization

Capital markets firms were grappling with challenges due to a large and monolithic legacy code base. The option of big-bang changes was never in the cards due to budgetary constraints and the inability to justify the return on investment and value proposition to business sponsors. Historically, market participants have tried a piecemeal approach to modernizing the post-trade infrastructure. However, with increasing cost pressure and a competitive business environment, firms are evaluating options such as:

- Moving to the cloud to shorten the time to market and address variability in volume.
- Focusing on standardization of the products to harmonize in post-trade processing.
- Rearchitecting post-trade systems to be product and asset class agnostic.
- Mutualizing the cost of trade using shared infrastructure by embracing the utility model.

Platform consolidation

The legacy-laden post-trade infrastructure of many capital markets firms is siloed by business units, and has significant redundancies and tight coupling of the business components. Firms are now moving from the fragmented, asset class-specific IT infrastructure to a consolidated platform.

Commercial off-the-shelf (COTS) products are also available that cover multiasset, multientity processing in the cloud, covering

“front to back to risk” processing on a single platform. These platforms provide a rich user experience and increase the STP rates.

In the environment of COVID-19-led market consolidation and business uncertainties, it remains to be seen how the evolution of post-trade processing will play out given the multiple options available to the industry.

Architecture simplification

The IT landscape of firms is filled with disparate applications that are maintained to support the business. This has stemmed from siloed business structures.

Simplification of post-trade architecture has gained prominence due to cost pressures and the need for capital markets firms to respond quickly to the markets’ needs. It is also increasingly difficult to implement change due to the lack of skills and insufficient documentation, leading to longer regression testing.

Without a significant architectural overhaul, it is difficult to realize the competitive advantage of embracing emerging technologies such as the cloud, big data, RPA, AI, and ML that support digital transformation. Simplification of IT architecture also helps maximize the benefits of cloud computing, including:

- Multiple choices for pricing models to reduce capex and move toward the opex model.
- Improved business continuity planning, reduced total cost of ownership, and

advanced analytics to empower the business with actionable insights.

Architectural simplification will help build the operational resilience required to gain market share, client mind share, and sustained profitability through lower operational costs, shorter time to market, and the ability to respond faster to the changing times.

Digitalization

Digital transformation is focused on achieving business agility through operational effectiveness and resilience. Firms are focusing on digitizing business to maximize digital-led revenue growth. This requires closely looking at gaps in the current business operations and supporting infrastructure as well as the customer-facing digital experience.

Capital markets firms are at different levels of maturity when it comes to digital adoption strategy. Some players have the digital strategy outlined to create customer value and digital revenue through business transformation. Some still are working on a piecemeal approach to digitize select client-facing applications but still grapple with legacy platforms and a large number of applications. “Dragging and dropping” purpose-built platforms in the cloud is counterproductive. To succeed in digital transformation, firms must address the gaps in the technology architecture through legacy modernization, platform consolidation, and architecture simplification.

Trend 5: Leveraging a cloud microservices stack to enable open, API-based services

Capital markets firms face a dynamic regulatory environment and increased competition, and their revenue and margins are under pressure. These firms need to be agile and responsive to transform themselves quickly to changing market conditions and scale their operations to meet increasing digital demands of customers. At the same time, the firms need to keep themselves lean.

Achieving this with large, inflexible legacy systems is difficult, time consuming, and expensive. On the other hand, a microservices architecture provides the required flexibility

and elasticity to introduce changes quicker, helps isolate faults, and allows movement to the cloud.

Technology drivers for microservices adoption

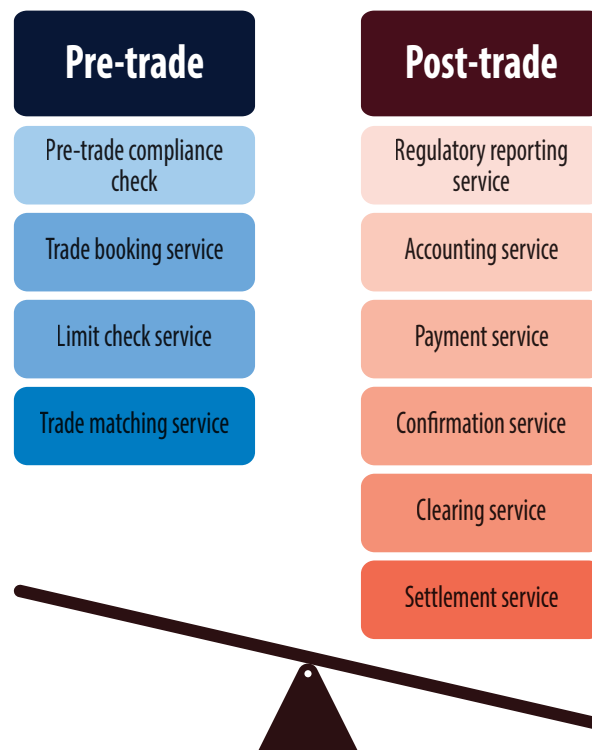
A transition to a microservices-centric architectural approach is led by many technology and business drivers. Technology drivers include (a) the transition to rich, dynamic, and interactive user experiences across multiple platforms; (b) flexibility to develop services in the language of choice; (c) flexibility in deployment options (public and/or private

cloud, etc.) and frequent deployment of components; (d) independent component life cycles; and (e) improved ability to build new applications, based on compositions of new and existing microservices.

Microservices adoption in capital markets

A review of the trade life cycle from front-office to back-office functions illuminates the multiple distinct functions that can be developed as microservices. Following are a few potential services that can be used at an organizational level.

Figure 6: Potential capital markets functions for microservices



Source: Infosys



Challenges with microservices

Higher network latency and processing time between two or more services over a network can lead to performance degradation. Also, identifying the services that are distinct, independent, and maintainable is quite challenging, and maintainability can become complex due to communication overhead between teams and the use of different programming languages. Due to interdependencies between services, testing and deployment

become more complex, and implementation of security controls can be challenging and may lead to degradation of execution performance. The protocol typically used with microservices (hypertext transfer protocol) is designed for public-facing services and can be unsuitable for working with internal microservices.

Future path

From a technology standpoint, a microservice architecture significantly helps in designing

and implementing enterprise applications. Together with APIs, such an architecture keeps applications leaner, agile, and automated. By moving to a cloud microservices stack, capital markets firms can adapt quickly to ever-changing customer demands. Decisions to move away from a legacy infrastructure are difficult yet are imperative.



COLLABORATIVE INVESTMENTS FOR INNOVATIVE TECHNOLOGY SOLUTIONS

The financial industry ecosystem has evolved. Business models or partnerships that worked in the past may fail to hold up. Today, financial institutions and capital markets infrastructure providers come together to build technology solutions that can fill gaps and deliver the immediate requirements of cost optimization or revenue growth. These solutions can take the form of a custom application that caters to a defined set of requirements within a group of firms or a utility (data utility, post-trade utility) and then sets the industry on the run, giving rise to many such collaborations (joint ventures) among capital markets players and IT firms.

Trend 6: Focus shifts toward utilities and services in capital markets

Continued relevance of the utility model

In a utility model a bank uses a common shared platform — for example, internally within its divisions, for deployment of services across technology or operations. Examples of the utility model in capital markets are establishment of a depository or a clearing corporation, a post-trade processing solution, and common reference data entities serving

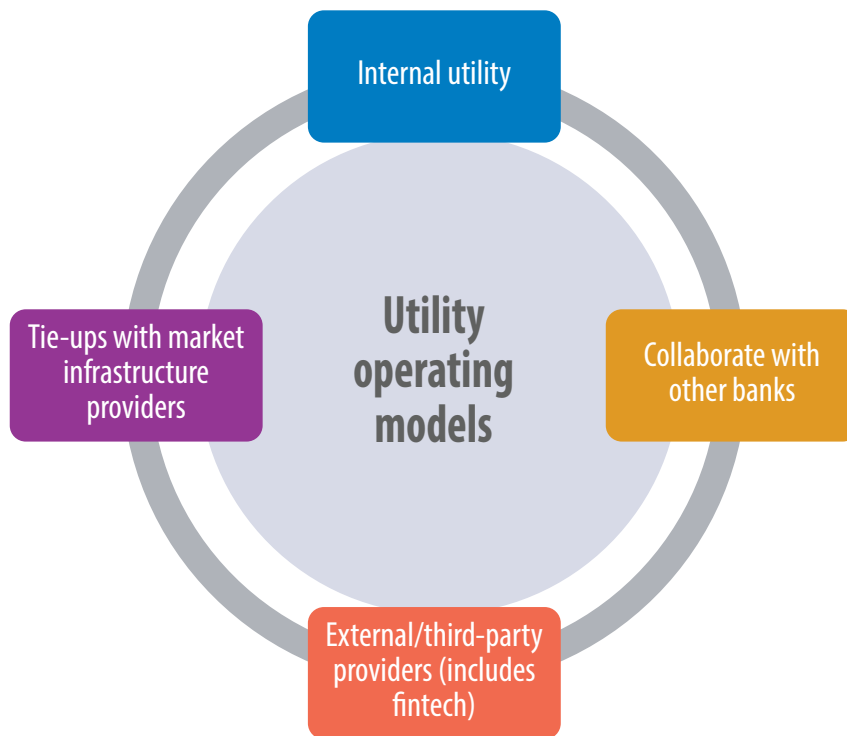
industry players. Investment banks have used the concept in areas such as clearing and settlement, corporate actions, reconciliation, reference data, etc.

Operating utility models being used

An internal utility is a model that is used by different divisions within a bank, for example, a client onboarding application. Another model is a collaboration

between banks in the form of a consortium. A utility model can also be a partnership with third-party service providers, including fintechs that offer specialized services such as regulatory reporting services, collateral management services, etc. Partnering with market infrastructure providers of clearing services, depository services, and foreign exchange CLS (Continuous Linked Settlement) also is an example.

Figure 7. Utility operating models



Source: Infosys

Drivers of utility models

Pre-COVID-19, many investment banks were facing tepid revenue growth and rising competition. Post-COVID-19, this trend is expected to continue, and capital markets firms will be less inclined to make large investments in infrastructure, making the utility model a viable option.

Operating costs are rising due to increased regulatory scrutiny, compliance obligations, and reporting. Capital markets firms may prefer investing in repeating and standard processes through the utility model.

Functions such as clearing and settlement are standard post-trade processes and have stopped

being differentiators in winning new mandates. To run them in a cost-effective manner, utilities are a viable option.

There is also a need to centralize reference data. For example, asset management firms that have various divisions using different rules engines and logic for reference data are now switching over to a centralized rules engine that provides a single copy of data across the firm. This leads to improved quality of data.

Other utility model drivers are operational flexibility to cope with variable volumes, adhering to regulatory guidelines and compliance within stipulated deadlines, embracing the

latest technological trends and innovations, and the need to reallocate funds to strategic programs.

Benefits of the utility model

The shared utilities model enables participants to adopt best practices and industry standards, which reduces operational complexity. Primarily, there is cost reduction due to avoiding industrywide duplication of effort. Use of common providers' utility services offers the advantages of economies of scale and improved regulatory compliance. Data quality is improved in the case of centralized reference data.

Trend 7: Technology sharing through joint ventures

Due to the pandemic, joint ventures (JVs) are an effective alternative to continue business operations for all the players — capital markets firms, market facilitators (infrastructure providers), and IT firms. Competition has narrowed margins and increased pressure to reduce the cost per transaction. JVs between capital markets firms and IT companies to build solutions will help capital markets firms strengthen their IT infrastructure, and the solutions can be made customizable and extended to other clients of the partnering IT firm. This “synthetic COTS” product model is different from the traditional JV model,

where the IT firm has only an IT role to play and the control lies with the other partners. Although this is new, JVs have been offering innovative solutions to the market, reducing the post-economic recovery period by 20%, according to a Deloitte study.

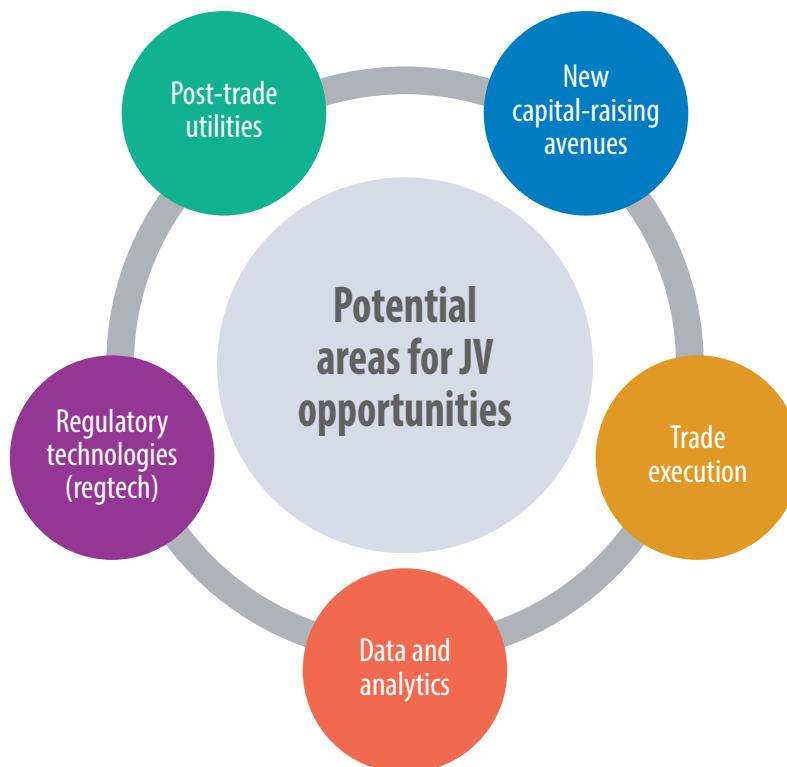
IT firms have to be prepared for the potential opportunities and focus on (a) their experience in JV projects, (b) growth strategy in successfully running a JV project, (c) governance model, and (d) key learnings from the past about resolving conflicts. In this pandemic, the potential JV opportunities include:

- **New capital-raising avenues:** Crowdfunding has picked up

rapidly and has a potential to grow in private placements and allied areas with the help of new technology solutions such as blockchain and distributed ledger. A JV between a technology provider and a capital markets player is advantageous in establishing such a service.

- **Trade execution:** New trading platforms/venues and liquidity pools are giving rise to multilateral trading facilities. Technology is helping the new entrants by enabling valuation of their illiquid assets. This, along with regulatory requirements, has created demand for collateral

Figure 8. Potential joint venture opportunities in capital markets



Source: Infosys



- management platforms.
- **Data and analytics:** These solutions deliver greater transparency, more accuracy in pricing, advanced modeling, and enhanced understanding of clients' needs.
- **Regulatory technologies (regtech):** Digital KYC, cybersecurity solutions, and collateral management are enabling fintech providers to surface.
- **Post-trade utilities:** These range from clearing and settlement to other post-trade services in trade life cycle management and regulatory reporting, where demand is growing for high-

end, technology-enabled functionality.

Benefits of the new technology sharing arrangement

A JV can leverage the strengths of both partners, creating a mutually beneficial proposition. While capital markets firms provide business knowledge and new skill sets for the IT firms to learn, they have a chance to imbibe technologies, methodologies, etc., from the IT firms. The value of the JV is greater than the sum of its individual parts — the synergy the JV creates empowers both partners to overcome weakness in their respective areas. The IT

partner also provides a neutral anchor that other buyers of the offering will feel comfortable dealing with as opposed to buying a service directly from a competitor.

The model also reduces costs and the failure risk if the partnership does not deliver the expected solution.

IT firms also bring critical components, including IT transformation capabilities and process (operations) management abilities that can augment the capital markets firms' business knowledge and regulatory understanding to create a win-win situation.



EXPLORING NEW MARKETS AND STRENGTHENING THE CORE BUSINESS

Firms are continuously engaged in finding new ways to grow — acquiring a new group of customers or a new business, withdrawing from a capital-intensive business, or reviving internal methodologies including policymaking or employee incentives.

With the introduction of technology, new customer segments emerge over time that firms should be able to tap. The wealth management space has evolved similarly — with the introduction of technology, access has been democratized to retail customers, from only high net worth individuals earlier.

Firms put considerable efforts into identifying core businesses that are profitable. But to enhance productivity, they must review their policies that motivate their employees, and build a bridge between management's strategy and the teams on the ground.

Trend 8: Emergence of midsize companies as a new customer group

Capital markets and advisory business revenue hit a 13-year low in 2019. In 2020, with lower interest rates, rising global trade tensions, and two-thirds of the global population under pandemic lockdowns, the potential of future profitability looks bleak.

Firms have begun tightening up controls and cost-containment measures. Lower costs help increase profitability, but in a long economic cycle, they lose sustainability. Capital markets firms are more open

now to explore the changes they can adopt to their existing business models.

Demand for financial advisory services will continue, but will slow down over the next few months. To cope with this, stepping into unexplored areas of fee-generating businesses is critical to sustaining improved profitability. This is where firms want to restrategize their market penetration model. They have started to look beyond the blue-chip customer portfolio to the middle-market companies.

Rationale for change

Weak profitability and the future outlook are forcing banks to look for more expansive footprint growth. Midsize companies, with revenues of €500 million to €2 billion, which previously were never part of the target customer base, are now gaining more meeting minutes than before.

As midsize companies expand at a much faster rate than their premium blue-chip counterparts, capital markets firms see good potential in many medium-



size deals. The high number of midsize-company deals act as a cushion and compensate for the falling deal volumes from blue-chip companies in the market. Further, their quick-to-adapt nature, small management teams, transparency, faster decision-making abilities, and shorter deal turnaround time are some factors giving them a competitive edge.

Recently, Goldman Sachs has carved out a separate “Cross Market Group” to service midsize companies in the U.S. and across the Atlantic. Other banks are

also keen to enter this segment, including JPMorgan Chase, Wells Fargo, and Citigroup.

A slow change in focus

Making headway in the midsize segment will take years. Also, this would require a shift in the way employees think, as they prefer working on large size deals.

For midsize companies, switching from their current banking partners to a new cross-border partner is difficult as years of trust already have been built in.

A majority of midsize companies in the cross-Atlantic region are family firms preferring conservative financing, a reason to be seen as a less-than-ideal target earlier.

Despite these challenges, this trend is emerging as identifying new areas of growth continues to drive the rapid expansion of services to this new client segment. Strategies such as adding smaller and more midsize corporates are a finely calibrated shift in revenue generation at a moderate cost.

Trend 9: Realignment of business models to focus on core, less capital-intensive, and client-focused businesses

The pandemic has increased the pressure for capital markets players — investment banks and facilitators (trading venues, interdealer brokers, clearinghouses, data providers, securities depositories, and other servicing firms). It is pushing firms to redefine the way they do business. Unlike the aftermath of the 2008 financial crisis, when regulations were looked on as the possible solution to becoming immune to future crises, the pandemic has exposed firms to an unlimited amount of scope, leading to reassessment from the core. Capital markets players are reassessing (a) alignment of strategy with core businesses, (b) profitability of LOBs that are capital intensive, and (c) client-centric business models.

Relook at the existing business models

Capital markets players are realigning their business to focus on margins from each LOB and those that meet return-on-capital expectations. Top financial institutions focus on strategic planning, evaluating the commitment required, and identifying new prospects to differentiate themselves in the market.

The strategic realignment requires firms to make investments in the short term to increase margins and improve efficiency in the long term. Additionally, the

strategy should consider the factors that improve performance by bringing cohesion between various departments/functions. Management should ensure workflows and operations are realigned with the business strategy. Firms must rechart and clarify goals and priorities at the top, and LOBs must communicate them to the teams on the ground. This has to be followed by frequent interactions with employees to help them understand the goals and priorities and align their team/individual goals and priorities to those of the organization. Firms should implement measures to convert these goals and priorities into behavior and to define actions. Finally, they should conduct reviews to ascertain that the outcomes match expectations and are helping meet the goals and priorities set at the beginning.

Deal with cost-intensive businesses

Capital markets firms are assessing whether the amount of capital is proportionate to the potential of the business. New and untapped markets are being explored, and new opportunities are being tapped to accelerate growth. This may require additional capital ingestion. Firms are taking a critical view of capital requirements, weighing whether to continue investing in a capital-intensive business or

invest in a business that provides suboptimal financial returns. For example, in the aftermath of the 2008 crisis, regulations were enacted that made the fixed-income market illiquid with higher capital requirements, resulting in many firms exiting that business altogether. A comparison with the competitors' strategies is required to try to and adapt/scale up.

Firms must assess the cost of managing that LOB in-house versus outsourcing. For example, there has been an increase in retirement plan providers exiting or outsourcing the plan administration business. For core or low-cost-intensive businesses, it is best to approach IT vendors to explore technology solutions that can be employed across various operations and functions — innovative fintech solutions, pre-trade/post-trade utilities, automating with RPA, getting into JVs for technological solutions, and also looking at cloud-based infrastructure solutions.

Build client focused business models

Business considerations

Investing patterns of clients have turned conservative. Firms are leveraging existing data in their systems in order to uncover insights that present the right investment products to satisfy their clients' needs, given this



renewed conservatism and higher premium on risk capital. By micro-categorizing clients, firms can decide whether to waive fees and commissions, increase trading limits, or provide short-term cash flow support as well.

Channel optimization a must

Firms are introducing new procedures to their client-calling staff to increase the frequency of communication and keep clients informed of new developments. New channels are being explored to reach out to customers, contact

centers are being expanded to increase reach, and 24/7 client-support personnel are being deployed. Digital capabilities, such as chat, text, and social media channels, are being provided for front-end personnel to be able to connect with customers.

Capital markets firms are continuously engaged in redefining the scope of work, job description, technical skills, and interpersonal skills of the client-facing personnel in order to effectively build client relationships. For new customers,

solutions such as digital onboarding and KYC processes are being introduced.

Firms should approach technology vendors that can offer digital transformation recommendations. Online trainings and self-help demos on various processes such as account opening, verification, statement generation, and issue resolution are being enabled for clients to avoid dependency on support teams.

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