

Building Future-ready Capital Market Firms

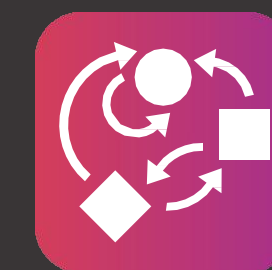
Banking, Financial Services and Insurance



PURPOSE-DRIVEN

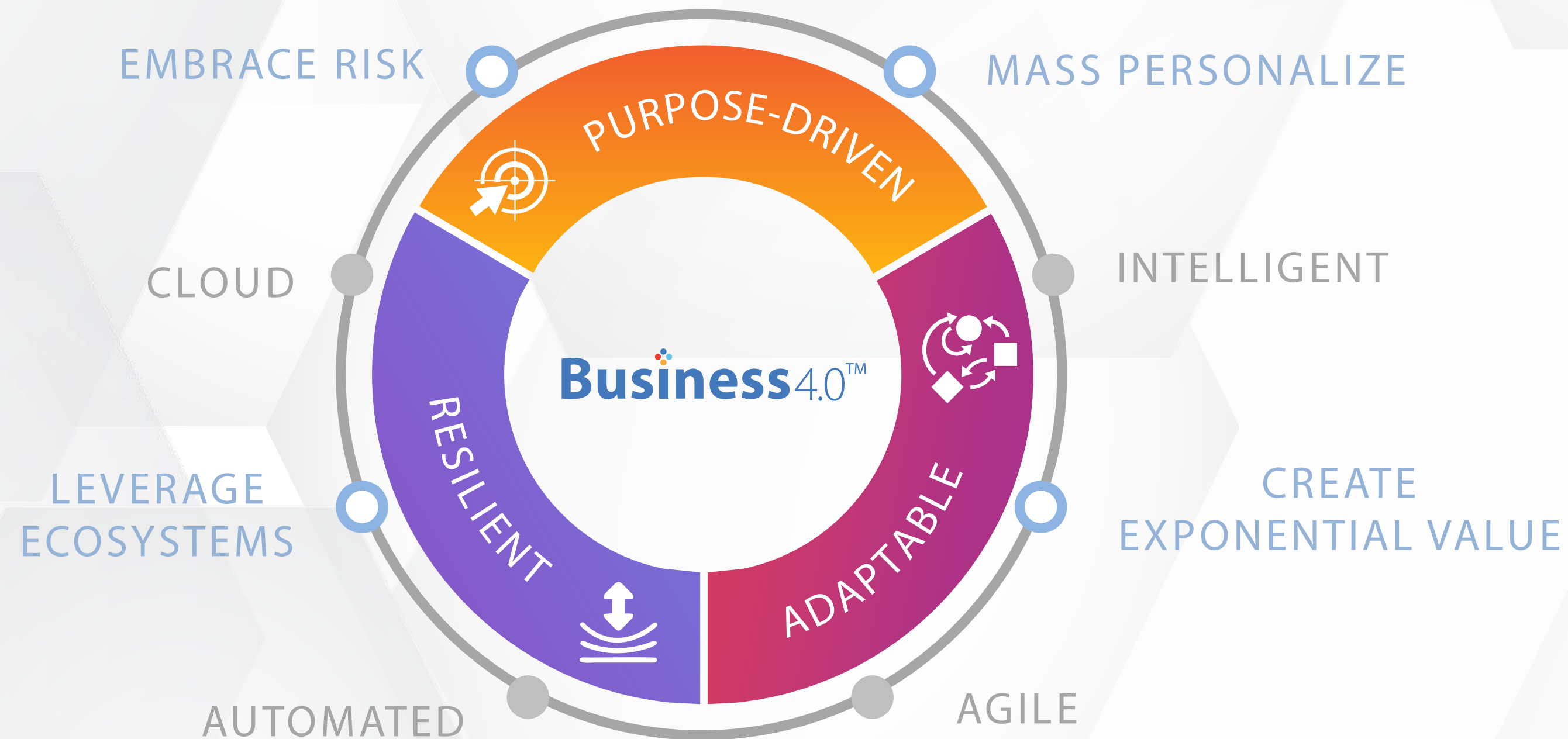


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About the Authors



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Srinivasa Kumar Yerchuru heads the Industry Advisory Group of TCS' Banking, Financial Services and Insurance (BFSI) business unit. He has 27 years of experience across consulting, solution development and implementation in the BFSI industry. He has wide experience in leading multi-million-dollar industry transformation programs from concept to go-live in capital markets and insurance domains spanning depositories, pension funds, asset management, global custody and investment banking. Srinivasa holds a master's degree in Engineering from the Indian Institute of Science, Bangalore, India, and is an alumnus of the University of Michigan – Stephen M. Ross School of Business, Michigan, USA.

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Karthik Dhinakara Ram leads the Capital Markets Industry Advisory Group within TCS' Banking, Financial Services and Insurance (BFSI) business unit. He has over 25 years of experience in delivering consulting, solution development, and program management engagements to buy-side, sell-side and market infrastructure firms. He has also been involved in large transformations for TCS' clients across North America, Europe, LATAM and Asia. Karthik holds a Bachelor's degree in Computer Science and Engineering from Madras University, Chennai, India.

Executive Summary



Capital market firms continue to weather the COVID-19 crisis with varying levels of impact across different lines of business within the industry. Firms have seen improved sales and trading revenues, fluctuation in the value of in assets under management (AUM), a net increase in the AUM inflow for wealth management firms, AUM outflow from asset management firms, increase in digital advisory revenues, dip in mergers and acquisitions (M&A) advisory, and so on. Even as each business or product line copes with specific implications caused by the pandemic, firms must focus on transforming into future-ready enterprises. Such a

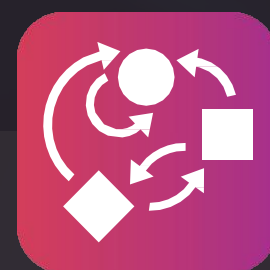
transformation needs to strike a balance across the three pillars of resilience, value leadership, and growth. The transformation, which will span three different time horizons, must hinge on building a digital core, enabling cognitive business operations, deploying enhanced channels, and embracing a resilient business model supported by a purpose-driven ecosystem. This white paper recommends a three-phase strategy and discusses the key tenets firms need to imbibe to become future-ready and drive growth and transformation in a dynamic environment.



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The Post Pandemic Capital Markets Landscape

The overall economic outlook remains positive despite a short-term pandemic induced contraction. While most major markets have recovered, potential lockdowns in some European markets could further dampen those economies. Overall, the industry remains optimistic given continued government stimulus, lower US unemployment index, rising consumer confidence, and the possibility of a vaccine in the near future.

The Q3 (July-Sep 2020) results of a few large financial firms that have released their quarterly earnings reflect this broad economic impact. Overall, capital market firms have performed well compared with other industries, but the impact is varied across different line of business. Investment banks' revenue indicate a year-on-year increase but a quarter-on-quarter dip due to falling volatility, decrease in client volumes within fixed income, commodities, and currencies (FICC) segments, improved equity sales and trading activities, and increase in underwriting fees. Asset management firms have shown an improvement in AUM while registering a decrease in revenue due to a dip in the net interest rate. The earnings reports of wealth management firms are a mixed bag with both positive and negative revenue growth. Firms have reported revenue growth due to higher asset management and transactional revenues; at the same time, revenues have declined due to a fall in net interest income. Irrespective of the financials, digital adoption has seen an uptick across the industry – more than 5x increase in remote meetings leveraging a digital engagement platform.

The Power of the Right Strategy



As the pandemic continues to play out in the market, firms need a multi-year strategy that strikes the right balance between resilience, value, and efficiency in the short term and sustainable growth in the long-term (see Figure 1). In our view, these strategies must be implemented over three time horizons -- now (immediate to next six months), near future (three to 18 months) and future-proofing (12 months and beyond).

NOW		NEAR FUTURE		FUTURE-PROOFING	
Resilience	<div>Defend the enterprise Contain new threats Reimagine the workplace Reframe guidelines</div>	<div>Perform resilience audits Build predictable Resilience</div>	<div>It may happen again! Build infallible resilience – future-proof</div>	Resilience	
Value	<div>Refocus to become agile and adaptable Ensure customer centricity</div>	<div>Stabilize and optimize newer ways of working</div>	<div>Ensure continuous optimization Realize eXtremedigital</div>	Value	
Growth	<div>Invest for growth Scale advisory model Adopt new investment strategy Raise additional capital Adopt innovative pricing models Expand research capabilities</div>	<div>Align to post-COVID normal Create new revenue streams Leverage ecosystems Converge client segments Offer data-as-a-service Explore M&A opportunities</div>	<div>Accelerate growth Embrace continuous innovation Build marketplaces</div>	Growth	

Figure 1: Strategies for Building Future-ready Firms

The immediate focus for all firms continues to be resilience and ensuring uninterrupted service delivery given the pandemic is yet to be contained. Moreover, the potential for further damage due to the second wave looms large in most markets, and firms will need to prepare for this. Measures aimed at infusing resilience such as remote working capabilities, split-team models, minimal workforce in office, usage of collaboration tools, nudging clients toward digital channels, and increasing capacity to handle spikes in volumes needs to be re-examined considering a longer timeframe for recovery and changing market dynamics. In addition, firms must remain agile and continuously reassess value delivered to clients through new engagement channels to retain a competitive edge in the market.

In the near-future time horizon, the focus will lean more towards value leadership and enabling growth for the long-term once an acceptable level of business resilience is achieved within the firm. Firms must stabilize and optimize some of the measures put in place earlier, strategically accelerate digital initiatives to transform business and operating models in response to changing market perceptions, and implement artificial intelligence (AI) backed automation for cost and efficiency optimization. Firms must also actively explore new opportunities that emerge in the market due to changing socio economic conditions and create new revenue streams.

In the long-term or the future-proofing time horizon, capital markets firms will need to introspect and leverage the learnings from the prevailing crisis to develop capabilities required to cope with similar future unexpected disruptions. Embracing digital models underpinned by Machine First™ principles, establishing new revenue streams, and designing contextualized customer and advisor journeys have emerged as imperatives for weathering future disruptions.



Charting a Course through Stormy Waters



The pandemic has highlighted how unprepared the world is for a major systemic crisis. So, how can capital markets firms prepare to effectively deal with paradigm shocks that may occur in the future? To become future-ready, asset and wealth management firms on the buy side will need to accelerate digital transformation with focus on improving digital touchpoints and transparency. To move toward next gen asset management, firms need to focus on self-service and collaboration tools for clients, analytics for portfolio managers, intelligent automation of business processes, modernization and cloud enablement of core platforms, and so on. For fund managers, it's a great value addition to derive incisive insights on their portfolio of holdings. Early warnings systems can deliver alerts on complex patterns and trends by deciphering and categorizing news and views in real time. Further, AI backed solutions can analyze the impact of evolving events on specific companies and provide advance warnings.

Similarly, in the private equity space, digitalization of documents and financial statements and information extraction using asset management ontologies must see an uptick to enhance the accuracy and speed in consumption of investment reports by major investors and global custodians.¹ There is currently a void in the provision of holistic services to retirement advisors, sponsors, and plan participants that needs to be filled by deploying technology tools encompassing financial wellness, robo-advisory, data platforms, channels and core platform modernization.²



¹ TCS, Improving Data Management in Capital Markets, March 2019, Accessed October 2020, <https://www.tcs.com/data-management-in-capital-markets>

² TCS, Leveraging Data Analytics to Drive Engagement in Pensions, May 2019, Accessed October 2020, <https://www.tcs.com/driving-engagement-in-pensions-through-data-analytics>

Sell side firms are stepping up digital transformation programs, especially in areas like cross asset trading platforms, sales and trading business where end-to-end digitalization of processes and controls is envisioned. Intelligent automation solutions with the capability to leverage insights-as-a-service frameworks for harvesting growth opportunities are also in the spotlight. Firms must also deploy research desk transformation solutions to effectively transform their platform by acquiring the scale and agility required to meet the rising demand for value-based research.³

Both buy side and sell side firms will need to undertake specific interventions in key areas:



Backoffice transformation

Firms need to enhance user productivity and prepare for an eventual target state where workforce is widely distributed by enabling automation driven zero touch operations and workflows with intuitive user interfaces (UI). These solutions can help in ensuring business continuity besides significantly mitigating operational risk and reducing operational costs.



New products through ecosystem play

Firms must leverage digital technologies to launch new services in areas such as digital currencies, crypto custody, application programming interface (API) marketplace, and data monetization. The custodian banking space will witness increasing demand for platforms such as alternative investment platforms, and firms can assemble additional functionalities from buy side on the platform. From a market infrastructure perspective, firms need to embrace next generation technologies such as distributed ledger technology (DLT), digital currencies, and crypto custody, which are gaining traction. These capabilities will need to be augmented by leveraging data analytics, AI, and machine learning (ML) to generate insights from vast amounts of data and monetize it to fuel further growth.

³ TCS, Transforming Investment Advisory with Cognitive Contextual Search, September 2018, Accessed October 2020, <https://www.tcs.com/reimagining-investment-research-cognitive-contextual-search>

Tenets of Future-readiness

As firms journey toward becoming future-ready, they will need to equip themselves with capabilities across seven key tenets with special attention on incorporating resilience, adaptability, and a purpose-driven approach to deliver successful business outcomes (see Figure 2).

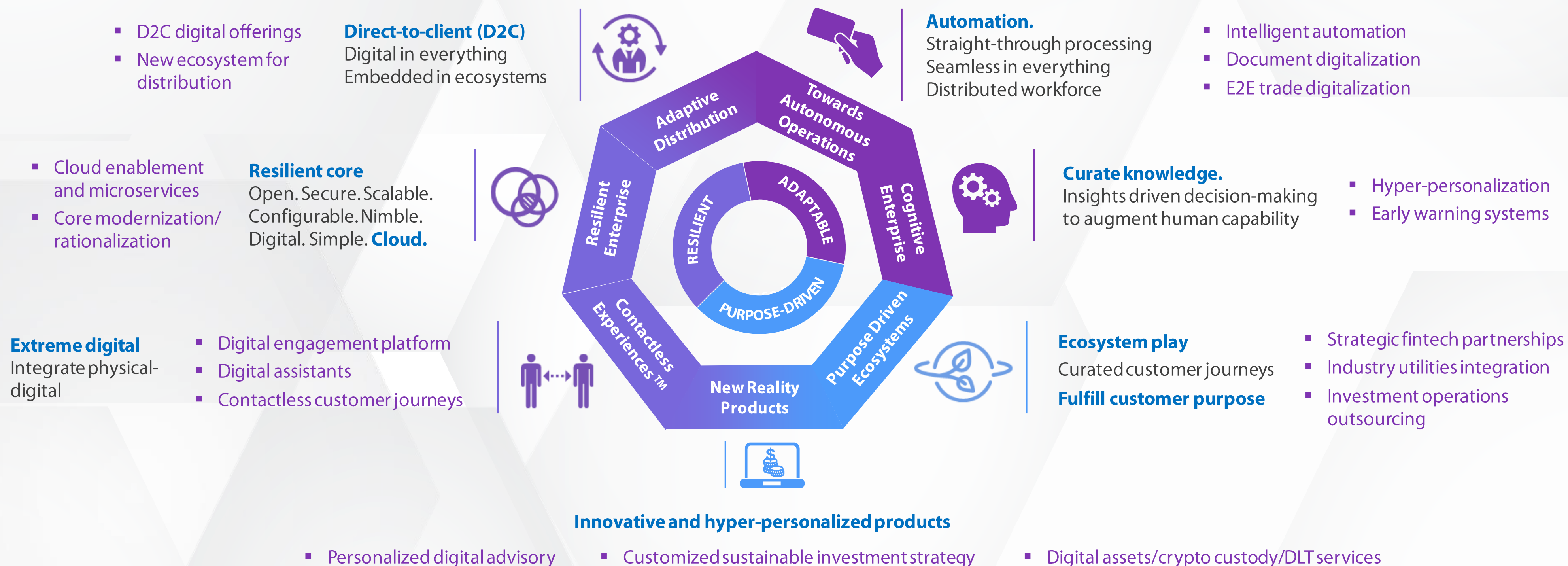


Figure 2: Tenets of Future-ready Capital Market Firms

Building a digital platform by leveraging various digital technologies and frameworks is at the core of a future-ready business strategy. At the same time, firms will need to gain the necessary business agility to stay on top in the prevailing volatile market conditions. An agile core platform that incorporates capabilities to stay tuned to the pulse of the industry, evaluate digital capabilities against set benchmarks and those of best-in-class competitors, reduce digital debt, improve automation, reimagine offerings and end-to-end customer journeys, and leverage partner ecosystems is key (see Figure 3).

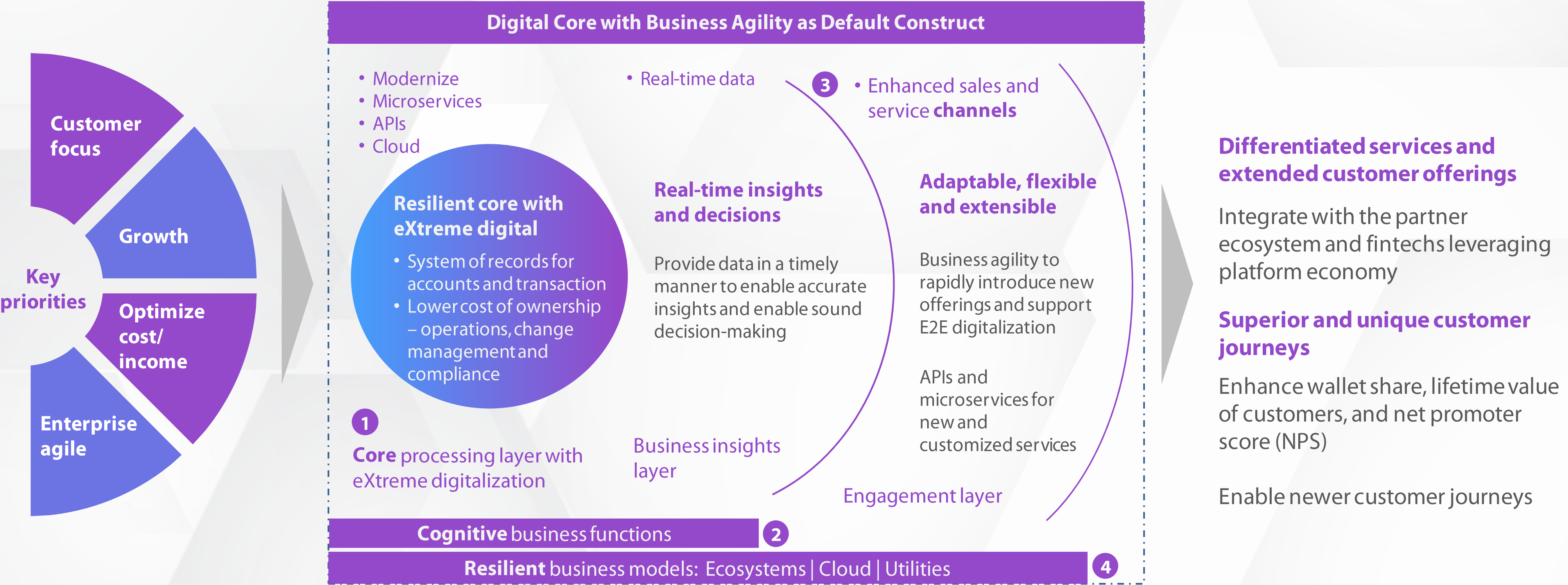


Figure 3: Digital Core Architecture for Superior Business Outcomes



Reap the Benefits of Early Adoption

The pandemic has created unprecedented challenges for capital markets firms in supporting customers and sustaining business in the changed social and economic scenario. Resilient firms that adapt rapidly to unexpected events and nimbly adjust and/or develop strategies to deliver on value leadership and growth will retain competitive advantage and achieve long-term business success. To make this a reality, firms will need to establish strategic partnerships with leading fintech players and access the capabilities required to deliver on the promise of an agile core platform and modify their overall business strategy to deal with the near term impacts of the pandemic.

Contact

For more information on TCS' Banking & Financial Services,
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About Tata Consultancy Services Ltd (TCS)

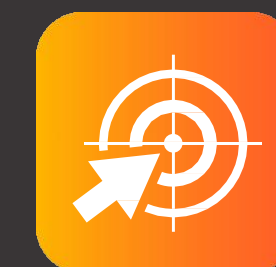
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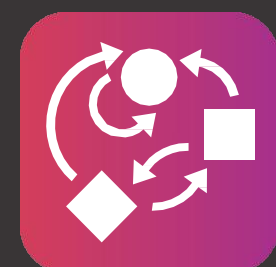
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