Capital Markets Perspective on COVID-19: Navigating the human and business impact
The COVID-19 pandemic is a profound health and humanitarian crisis that massively challenges the financial and operational resilience of the global capital markets industry. The outbreak has initiated a call to action for leaders worldwide to rapidly assess the fast-changing developments, and to mitigate the ensuing impact on their people, their customers and their organizations.

Drawing on our insights from working with firms across all sectors of capital markets around the globe, we believe this unprecedented set of challenges should be addressed in three phases: stabilization, reconfiguration and recovery.
The global capital markets have continued to function well through the current period of significant market volatility, interest rate cuts and diverse global stimulus packages. The immediate priority now, however, is to prevent the public health crisis from becoming an enduring financial crisis.

**Stabilization: what to do now**

As we learned from prior systemic shocks, the global capital markets industry is a highly interconnected and sometimes fragile ecosystem. Working with regulators, governments and trade bodies, industry players must collectively identify points of dislocation and react accordingly to prevent economic contagion and dangerous “beggar thy neighbor” behavior. The industry should be providing funding and liquidity to ensure that the global markets, specifically the credit markets, continue to function. One might want to call this “achieving ecosystem resiliency”.

Each underlying segment of the global capital markets industry, from investment banks and wealth managers to asset managers, will have to play a critical role as a systemic stabilizer for their customers, their employees and their economies at large.

Institutional and private investors have complex investment portfolios with multiple participants, many of whom will experience simultaneous stress. Consequently, the industry needs a holistic view on potential weak points to avoid spreading that stress to other market participants.

In our view, how the industry deals with delinquency and credit impairment within these portfolios will be important for the unfolding, larger economic effects. If they try to sell assets too quickly, this could lead to further economic shocks.

While those institutional and private investors will have to stabilize their impacted portfolios, they will also need to quickly develop and implement cost optimization strategies to protect their franchises.

More broadly, we feel the industry also needs to ensure that the fundamental tenets of crisis management are in place: being clear about intent, starting the mission, allowing flexibility to revise the plan and adjusting as necessary. This approach should bring to life the even more agile ways of working that many firms have already adopted in recent years.
As a second step, the industry will need to adapt to dramatically changed priorities and will have to reallocate resources accordingly. While it remains to be seen whether these developments will be temporary or structural in nature, the core of this reconfiguration phase will require a clear focus on execution and implementation.

A core challenge will be the pivot from a period of sustained growth to a world where credit and market risk management, cost optimization and digital engagement will dominate as the global economy lurches into recession.

The capital markets industry will be called upon to innovate, develop and implement immediately accessible solutions for liquidity and efficient functioning of markets. Simultaneously, firms need to ensure that their core business models survive and thrive beyond this market crisis.

We believe industry players should focus on three key areas:

1. Operational resilience, delivered at scale
2. Leadership resilience, spread throughout the firm
3. Bending the cost curve, enabling the firm of tomorrow
Operational resilience, delivered at scale

The global capital markets infrastructure has been tested throughout this crisis with unprecedented volumes, the move to fully electronic trading floors, remote trading operations and the need to keep markets orderly and liquid.

Up to now, the industry has performed across the board and stepped up to be part of the solutions required to mitigate financial impacts, maximize access to credit and capital and keep our world’s economies functioning.

This crisis will, however, further accelerate the industry’s need to change and adapt. To thrive tomorrow, we believe firms need to move to the technology architectures of the future. This call to action will separate the truly agile from those who might continue to suffer from an ever-increasing legacy technology burden that will likely limit growth.

The market infrastructure providers are already among today’s winners because of, not in spite of, their hulking legacy mainframes that are able to maintain business as usual. However, we assume the winners in the next period will likely include investment banks, wealth and asset managers, software providers and major service suppliers who are investing to modernize.

Business will not likely return to the way it was pre-pandemic. Leaders across wealth and asset management and investment banking are now realizing that electronic, remote and digital connected ways of working can be successful.

We believe this will change the notions of large trading floors, base assumptions of infrastructure requirements and lead to a redesign of operating models and business flows. For example, one firm we know has activated its “continuous improvement team” to document all its operational processes during this time of crisis to immediately identify opportunities for re-engineering later. There is clearly an opportunity to learn from this experience and prepare for unforeseen obstacles.
As capital markets firms are working to further stabilize their businesses, it is more essential than ever for leaders to communicate with their people and their clients in an authentically compassionate, caring and confident way.

Nearly all companies are still thinking through how to change their ways of working for the future. However, waiting to have all the answers before communicating leaves people uncertain and afraid.

Leaders who regularly and candidly communicate to their employees, regarding what they know and don’t know, highlight authentic vulnerability that—by and large—resonates with all employees. This display of vulnerability is further exposed through the current new ways of working and communicating, most often over video chat.

For the first time, colleagues are seeing true glimpses inside others’ personal lives—including children, pets or even taste in art. Some of our clients have shared that they have seen conversations becoming much more honest, making a genuine connection, when someone asks how they’re doing today.

This human touch in today’s virtual world continues to highlight and illustrate the radical changes across the pervasive digital engagement environment.
The wealth management sector should appreciate the financial inclusion and financial literacy components of current actions to ensure equity across all client segments. Nonetheless, the very nature of wealth management (safeguarding client assets) remains unchanged and is perhaps even more critical in today’s environment—players should not lose sight of their core mission.

Successful leaders will leverage this time of instability to not just return to business as usual but also seize the opportunity for experimentation and innovation. As both clients and employees are anxious and vulnerable, think of offering them something more purposeful to work towards and new solutions. Underpinning this is leadership—part personal, part professional, part a new leadership paradigm—that is balancing today’s planning, tomorrow’s execution and a personal touch.

Radical changes like the new pervasive digital engagement model, internally and externally, call for bottom-up adoption with a top-down strategic articulation of the future, with a focus on tomorrow.

For example, new pricing models (e.g. subscription-based wealth advice) and new offerings (e.g. robo-advisory offerings) demand firm-wide coordination and adoption. Leaders cast shadows and they ultimately shape tomorrow’s digital and personal engagement models for clients and employees alike.
There’s no denying that many companies will struggle through these times, and many players within the global capital markets industry will face significant revenue and cost challenges.

Bending the cost curve

It is critical to note that surviving and thriving means being reflective and open to treating the crisis as an opportunity, including:

- Serving customers and partners in new ways.
- Delivering products and services that drive market differentiation.
- Creating a competitive cost and operating advantage from challenging situations.

This is a real opportunity to innovate your business operating model and to fundamentally bend the cost curve to emerge stronger, faster and better than before. Capital markets are inherently flexible, dynamic and resilient, and firms can be too.

What we are seeing is something beyond separating noise from signal. It is the very nature of signal itself. Loud and resounding, it reinforces the pervasive nature of digital engagement, advanced technology and analytics, and it delivers a simplified and cost-effective core operating model.
Enabling the firm of tomorrow

With restricted travel and social distancing in place, companies will now have to revisit sales models and interactions with clients and investors. Omnichannel and ecosystem strategies that are more prevalent in retail and commercial banking will rapidly become embedded within the capital markets sector. These models are likely to shape a future playbook that optimizes the real estate footprint and mitigates sales and travel expenses, while maintaining the client experience.

One result is an even stronger focus on the value of central bank digital currency and distributed ledger technology, and their respective abilities to drive both efficiency gains and new products and markets in our industry. This brings significant opportunities to differentiate in a post-pandemic landscape across multiple industry pieces:

- **Digital versus payment of tokenized assets versus tokenized cash to simplify trading flows.**
- **Digital assets creating fully digital markets, with an ability to better manage collateral.**
- **Inherent security and transparency with the potential to redesign AML and KYC functions.**

This is already playing out in many of our client discussions, as US dollar availability is strained globally due to the pandemic. Many recognize the potential in future scenarios where a central bank digital currency, a “digital dollar”, could more easily be moved cross-border and fulfill demand.
Recovery: what could be ahead

As the world emerges from this period of disruption, the capital markets industry will have a critical role to play in enabling the flow of capital to allow a quick rebound once the dust settles.

We expect, however, that significant consolidation may continue within and across global industries.

Just as the capital markets industry needs to pivot for short-term cost management, it also needs to elastically pivot to support and drive growth. The fact that technology is playing an important role in mitigating the impact of the crisis is also an opportunity for the industry to become more innovative and more efficient.

We also expect to see leading firms drive new operating models with differentiation, durability and cost-effectiveness at their core.

Aligned to a new environment, players will leverage analytics, intelligence and data to realign sales, coverage and products, and could also look to deliver a compelling customer experience more cost-effectively. How? By leveraging the inherent operational resilience and leadership with a relentless client focus. One side of the coin mandates checking computer and IT infrastructure’s resilience and remaining absolutely vigilant about cyber risk. The other, matching the right technologies with the right cost structure, with an eye on mitigating any future black swans.
Potential changes to business models

The industry, as a whole, could actively consider decentralization strategies including core processing, operational customer lifecycle management, and security and identity management.

Asset managers could consider new opportunities from using advanced analytics and digital engagement to drive a distribution advantage while fundamentally lowering their operating cost through modern technology platforms.

Wealth managers could investigate how to incorporate true financial literacy and wellness into their advice relationships to retain and win new clients.

Sell-side firms could look for differentiated potential in data and analytics to enable the trading business of the future.

Market infrastructure players could further advance their infrastructure modernization agendas, learning from this period of unprecedented volumes.

What are the implications for specific capital markets segments and their business models? How could firms benefit?
Looking ahead

There is a clear history of asset prices bottoming before the associated defaults, delinquencies and failures start to improve. The inherent resilience in the global markets and the drive to return to normalcy is still very much intact.

At the same time, the shift to analytics, data, technology and cost resilience is highlighted even more now. We should take comfort in the resilience of modern economies and the ability to adapt to shocks to consumption and outputs. This is part of a new chapter. It is a story about the art of the possible.
Contacts

Michael Spellacy
Senior Managing Director, Lead – Global Capital Markets
michael.spellacy@accenture.com

Matt Long
Managing Director, Lead – Capital Markets, Europe
matthew.j.long@accenture.com

Laurie McGraw
Managing Director, Lead – Capital Markets, North America
laurie.a.mcgraw@accenture.com

Nicole Bodack
Managing Director, Lead – Capital Markets, Growth Markets
nicole.bodack@accenture.com

Soichiro Muto
Managing Director, Lead – Capital Markets, Growth Markets
soichiro.muto@accenture.com
To help our clients navigate both the human and business impact of COVID-19, we’ve created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

VISIT OUR HUB HERE
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