

Investment Banks:

**BEWARE**

**BESPOKE**

# CUSTOM SYSTEMS

**FOR CORE BUSINESS FUNCTIONS  
ARE NO LONGER WORTH THE COST**

**From Wall Street to Marunouchi, investment banks have long favored the bespoke, whether selecting suits or systems. While the price of suits is a personal matter, the price of bespoke business and IT systems is of shareholder concern.**

Investment banks' continued reliance on customized, in-house legacy technologies is costing them, in an age where cloud-savvy competitors are using technology to help achieve game-changing Return on Equity (RoE). Accenture research shows that moving to as-a-Service, cloud-based solutions could help a large investment bank achieve an average of a 1 to 2 percent increase on RoE, the equivalent of savings in excess of \$1 billion.<sup>1</sup>

Given the competitive situation—60 percent of capital markets institutions say that cloud-based entrants will challenge traditional industry models<sup>2</sup>—moving to as-a-Service (aaS), cloud-based solutions seems to be a logical route for investment banks to take now, before restless shareholders begin banging the drums.

# LEADERS ARE CLOUD COMPETITORS IN JUST THREE YEARS

**No one wants to compete against a cloud-based competitor with legacy systems. The playing field is far from even. Yet, in three years, digital leaders will be more than 80 percent in the cloud.<sup>3</sup> Think about that. In less time than it takes for a student to earn a college degree, some of your competitors will be reaping all the benefits of cloud—agility, speed, efficiency and cost savings. The question is: Will you be joining them?**

Large investment firms are now moving to aaS models to stay at the forefront of innovation. Their existing technology landscapes are transforming and standardizing rapidly into hybrid Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS) models. Industry leader JPMorgan is migrating to public cloud, with plans to run proprietary applications on the public cloud during the latter half of 2017.<sup>4</sup>

While cost and efficiency are key drivers, they are not the sole impetus for this shift. Nine out of 10 investment banking respondents agree or strongly agree that cloud helps businesses stay at the forefront of innovative adoption.<sup>5</sup> In an age where clients have more options than ever for their investment dollars, innovation comes to the fore as a competitive advantage.

# REGTECH is UPON US

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**Regulators have realized they are mutual benefactors in the move to cloud—so much so that three in four investment banking executives agree or strongly agree regulatory concerns around cloud have been eliminated.<sup>6</sup>**

Bespoke systems are slow, as well as hard to monitor, whereas cloud systems and aaS processes are more standardized. Within financial services, security and regulatory concerns have been among the biggest obstacles to cloud adoption. Regulations vary considerably by geography. For example, the Monetary Authority of Singapore (MAS) has a well-defined framework in place for adoption of cloud-based outsourcing services covering both technology risk and outsourcing risk, while others do not yet have an equivalent.<sup>7</sup>

With the emergence of FinTech and RegTech providers comes an increasingly collaborative stance between financial institutions (including regulators). This stance is gradually changing the posture of regulators, who now see cloud as an enabler to streamlining the process of regulation and compliance.

**The time to strike is now, in a receptive regulator environment.**

# REGTECH

RegTech, like FinTech before it, is about using technology to solve problems. More and more financial firms are using digital technology to help them with regulatory compliance. From support in automating shareholder disclosure of regulatory compliance, to software that helps evaluate compliance risks, financial companies are turning to technology to help simplify and standardize their response to government requirements.

Over the last five years, RegTech investments have more than tripled. Over the same period, investments in RegTech startups have grown by 38.5 percent (CAGR).<sup>8</sup> RegTech is now both mature and viable for use, clustering around nine core offerings:<sup>9</sup>

- Risk services
- Fund-specific solutions
- Data solutions
- Regulator solutions
- Group compliance office
- KYC utilities
- Trade surveillance
- Anti-fraud solutions
- Personal data solutions

European governments and regulatory bodies are, for the most part, getting on board. Australian treasurer Scott Morrison also said that RegTech will help create “a regulatory system which is technologically advanced.”<sup>10</sup> In 2015, funds were allocated in the UK government budget to support the adoption of new technologies to better deliver regulatory requirements.<sup>11</sup>

RegTech developments will also be shared between global regulators. An example of the provision for RegTech sharing can be seen in the 2016 memorandum of understanding between the Australian Securities and Investments Commission (ASIC) and the Monetary Authority of Singapore.<sup>12</sup>

As regulations begin to catch up to the speed of change in the market, weaving through the maze of edicts will only become more crucial. And digital technologies appear to be the most appropriate for taking this rather mundane, but essential, task off of human workers’ to-do lists.

# PRÊT-À-PORTER PROCESSES ARE FUEL FOR GROWTH

**The FinTech sector is growing, with US\$15 billion in funding as of August 2016.<sup>13</sup> This growth is fueling an explosion of easy to adopt, cost-effective Software-as-a-Service (SaaS) and Business-Process-as-a-Service (BPaaS) solutions.**

While IaaS and PaaS cloud solutions are driving much of the optimization of existing IT within investment banks, SaaS and BPaaS solutions present opportunities for banks to create entirely new cloud-enabled operating models, moving traditionally in-house delivered technology and processes to as-a-Service models. The ecosystem is currently dominated by industry consortia style utilities and traditional market infrastructure. Horizontal business processes (e.g., know-your-customer) were some of the first to be offered. These are now being followed by vertical business process offerings such as post-trade operations. As FinTech providers continue to collaborate and increasingly compete with banks, the range of such SaaS and BPaaS solutions is poised to grow.

We see SaaS adoption accelerating rapidly as industry enablers such as Blockchain become more prevalent. The more processes and utility models standardize, the faster the adoption of SaaS in both front and back offices.

In addition, as the consumerization of IT continues to proliferate, industry app development communities and front-office workers no longer accept that it takes in-house tech teams eight weeks or more to provision infrastructure to meet a specific need. Internal IT departments are behind in speed and outcomes with regard to delivering new capabilities, when compared to Everything-as-a-Service (XaaS) providers and brokers. Only 34 percent of executives we surveyed selected internal IT as the fastest at delivering new capabilities and best at providing outcomes.<sup>14</sup>

Internal citizen integrators (business users who take integration into their own hands) are on the rise in every organization, and most expect speed as a norm. Investment banks will have to rely more extensively on external solutions within a governance framework, or individuals will provision their own solutions—eventually causing highly complex architectures that lack fundamental logic and connections, versus an as-a-Service ecosystem that is highly configurable.

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# ACCELERATING YOUR FIRM'S JOURNEY TO THE CLOUD

**Accenture's journey to a cloud framework is helping several Tier 1 investment banks accelerate their journey to cloud. Getting the journey right involves a number of key activities:**



## **ASSESSING AND DEFINING THE CLOUD STRATEGY,**

including a portfolio assessment of the processes, applications and data suitable for transition to a BPaaS/ SaaS solution. Then, defining the appropriate hybrid PaaS/ IaaS strategies for all remaining in-house solutions.



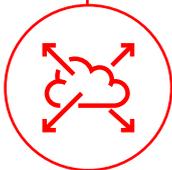
## **DEFINING TARGET CLOUD ARCHITECTURE AND REQUISITE TARGET PLATFORMS,**

including suggestions on private platform and hyper-scale cloud partners that could play within your cloud ecosystem. As cloud products and services evolve at pace, establishing appropriate hybrid cloud brokerage/orchestration is key.



### **FUTURE-PROOFING APPLICATIONS BY MIGRATING STRATEGIC PROPRIETARY APPLICATIONS FROM LEGACY ARCHITECTURES TO PAAS CONTAINERS**

(initially deployed to bank infrastructure and private clouds). This process will allow firms to fluidly redeploy IT solutions to public IaaS and PaaS services as they emerge and mature over time. Building a cloud service orchestration, integration and management capability into the bank's IT enterprise is one of the most essential components for success.



### **DEVELOPING A MULTI-SPEED IT OPERATING MODEL**

to support the bank's journey to cloud. This model will need to cater to the organizational, architectural, governance and business engagement needs that will arise when introducing XaaS models alongside traditional, in-house and bespoke delivery methods. Significant transformation is required of the workforce and processes.



The investment banks that thrive in this generation of industry evolution will be those that adopt a new paradigm in the delivery of IT and operations. They will recognize that the current era of investment banks attempting to independently build and operate their own information supply chain is over. Banks will still compete by creating differentiating value with proprietary products, processes, algorithms and data.

However, those who have the best chance to succeed and flourish will be the companies that rapidly adopt their operating models and IT systems with a pragmatic, value-driven XaaS mentality. While bespoke suits may stand the test of time, bespoke IT systems will not. Cloud is the future—and it has already begun to take hold in leading investment banks. Wise competitors will be quick followers.

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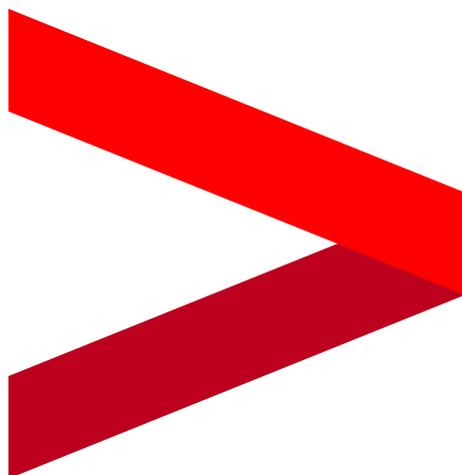
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## NOTES

- <sup>1</sup> Accenture analysis 2016.
- <sup>2</sup> Accenture Technology Strategy Survey, 2016.
- <sup>3</sup> Accenture analysis 2016.
- <sup>4</sup> Penny Crosman, “Unexpected Champion of Public Clouds: JPMorgan CIO Dana Deasy,” *American Banker*, September 22, 2016.
- <sup>5</sup> Accenture Technology Strategy Survey, 2016.
- <sup>6</sup> Ibid.
- <sup>7</sup> Monetary Authority of Singapore, “MAS Issues New Guidelines on Outsourcing Risk Management; Introduces Guidance on Cloud Services,” press release, July 27, 2016.
- <sup>8</sup> Angela Scott-Briggs, “Latest Trends in RegTech,” *TechBullion*, February 4, 2017.
- <sup>9</sup> Accenture CM Innovation Research; Devie Mohan, “The emergence of regtech as a catalyst for innovation,” *BankNXT*, November 27, 2015.
- <sup>10</sup> James Eyers, “Welcome to the new world of ‘regtech,’” *Financial Review*, June 20, 2016.
- <sup>11</sup> Ibid.
- <sup>12</sup> Ibid.
- <sup>13</sup> Andrew Meola, “THE FINTECH REPORT 2016: Financial industry trends and investment,” *Business Insider*, December 14, 2016.
- <sup>14</sup> Accenture Technology Strategy Survey, 2016.

## ABOUT ACCENTURE

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world’s largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 401,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at [www.accenture.com](http://www.accenture.com).

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