



GET COMFORTABLE OUTSIDE YOUR COMFORT ZONE

CAPITAL MARKETS | The Digital Opportunity for Improved Competitiveness

For investment banks, asset managers, and wealth managers, technology plays a leading role in driving business strategy. Anticipating widespread disruption in financial services, many capital markets firms are already investing in new tools and platforms. In fact, 93% of technology executives at capital markets firms, responding to a recent survey by Accenture and Oxford Economics, say their company has a long-term plan for technology innovation throughout the business.

Our survey results also indicate that capital markets firms seem to have a clear picture of the competitive challenges and changes ahead. More than 90% of respondents say that within five years, virtual assistants will handle more than half of customer interactions, and 87% predict that most business-to-business (B2B) financial transactions will take place on a blockchain. “The industry is changing so quickly that if you can’t move fast, you’ll be left behind,” says Stewart Carmichael, Chief Technology Officer of London-based Schroders Investment Management Ltd. “In four or five years’ time, there will be a massive shakeout.”

In some areas, capital markets firms are really preparing for a more digital future. Many have already made significant investments in artificial intelligence (AI) and in cloud computing to improve efficiency. Yet our survey results suggest that lack of collaboration with IT, incompatible systems, and compliance challenges can stand in the way of getting the most bang for the technology buck. In addition, change management can be a challenge at investment firms. Many of our survey respondents report a lack of executive buy-in for digital transformation, and similar numbers say employees tend to resist new technology adoption. For companies where this is an issue, senior leaders have an opportunity to boost their firms’ competitiveness by bringing everyone on board with a clear strategy for digital innovation.

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Stewart Carmichael, CTO, Schroders Investment Management Ltd.

THE GROWTH GOAL

Efficiency and Effectiveness

All three respondent groups within the capital markets segment—asset managers, wealth managers, and investment banks—say they expect technology’s influence to grow over the next three years. But they predict specific parts of their business will see the most dramatic benefits.

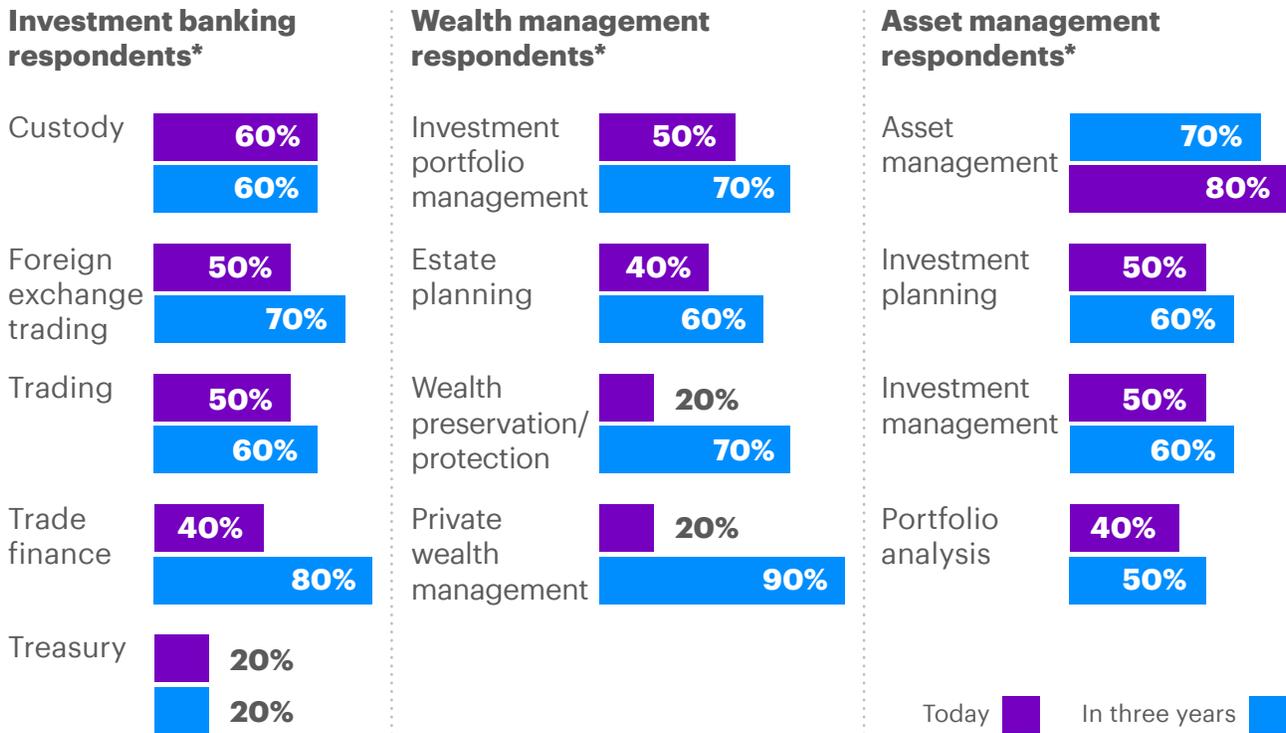
For example, more than half of investment banking respondents say custody is seeing a significant or very significant impact from technology today, and the same number say the same thing about custody in three years (see Figure 1). But when asked about trade finance three years from now, more than three-quarters expect a big impact from technology.

Among wealth managers, the percentage who see significant impact from technology in private wealth management today more than quadruples when asked about its impact in three years, and the percentage who see a big impact in wealth preservation and wealth protection more than doubles. These responses suggest respondents feel they can get the best returns on technology investments by carefully targeting them to specific lines of business or functional areas.

Yet regardless of precisely where and how they are deploying technology in their organizations, our survey results suggest many capital markets firms expect digital transformation to improve their firm’s bottom line. Asked to name the top three ways technology will improve competitiveness, 40% say it will improve customer loyalty, and the same percentage think it will reduce operational costs and create new revenue streams.

Figure 1: Lines of business where technology is making a difference

Rate how great an impact you expect from technology in the following areas, now and in three years. “Significant” and “Very significant” responses.



*Because n-counts for each respondent group are small, results are indicative rather than statistically significant.

Survey demographics and methodology

In early 2018, Oxford Economics and Accenture surveyed 90 executives in the financial services industry responsible for technology purchase decisions at their organization. The survey sample included 30 respondents each from capital markets firms, retail banks, and insurers; among the 30 capital markets respondents, 10 each were from investment banking, wealth management, and asset management. Unless otherwise noted, all survey data cited in this paper reflect responses from capital markets firms.

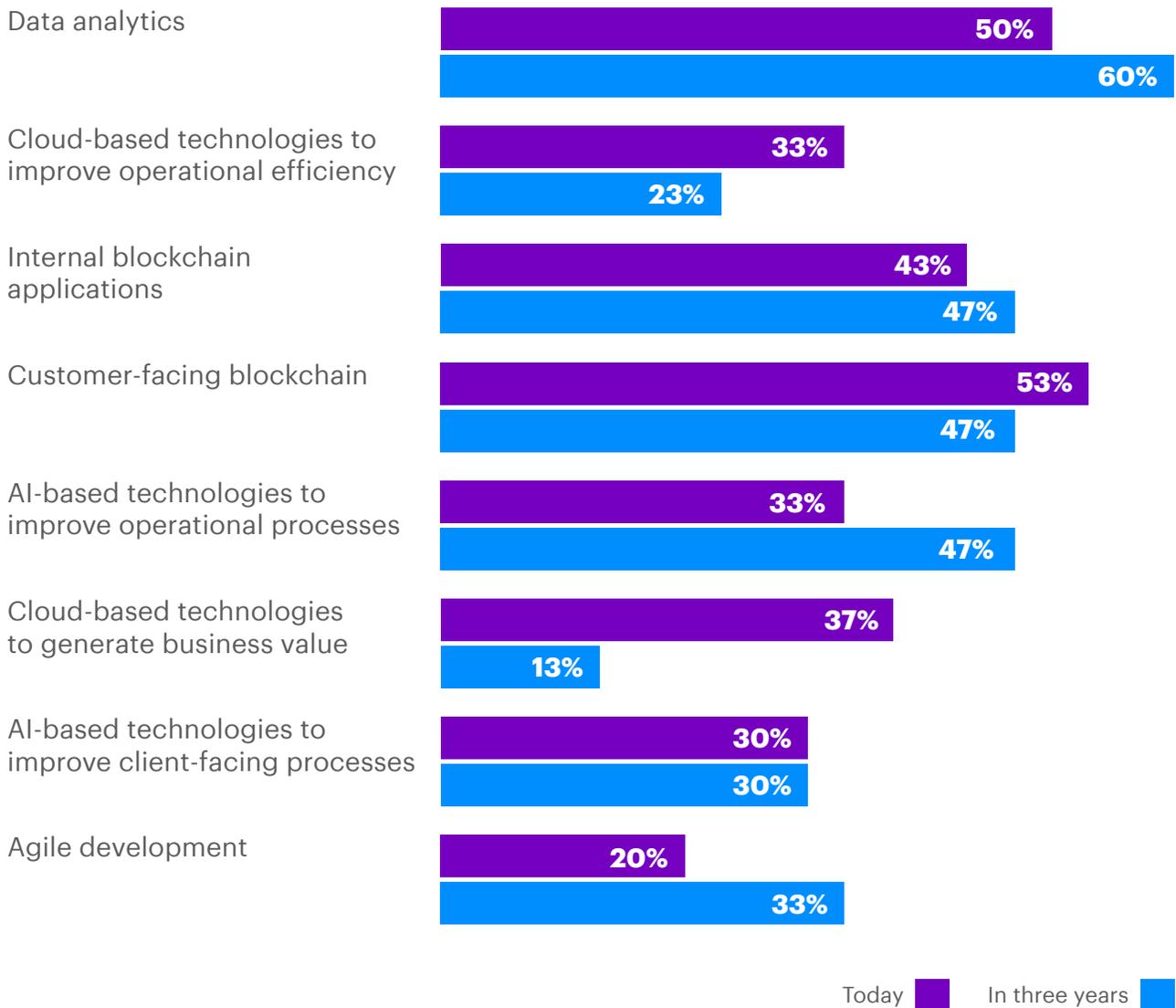
Respondent organizations were roughly evenly distributed across North America, Asia Pacific, and Europe. Respondent titles were evenly distributed among CTOs, CIOs, and EVP/SVP/VPs of IT. In terms of revenues, 43% of capital markets respondents reported \$10 billion–\$25 billion last year; 43% reported \$25.1 billion–\$50 billion; and 13% reported \$50.1 billion–\$100 billion.

Which technologies are having the most influence? For capital markets firms, customer-facing blockchain and data analytics are making the biggest waves today (see Figure 2). Three years from now, analytics still gets the most votes for significant impact—but AI to improve operational processes moves up to tie for second place with blockchain.

Interestingly, respondents expect cloud technology to wane in impact over the next three years, both for improving operational efficiency and for generating business value. This suggests that cloud is already reaching maturity and becoming a core piece of many firms’ digital ecosystem.

Figure 2: Operational AI has everyone’s attention

Please select which technologies are having the biggest impact on your company now and in three years. Capital markets respondents.



ANALYTICS AND AI

Capital Markets in the Future

In some respects, capital markets firms seem to be further along the technology maturity curve than companies in other financial industry segments we surveyed.

For example, 37% say they are investing today in AI to improve client-facing processes, vs. only 17% of retail banking respondents and 27% of financial services providers overall. Investment firms also try to stay on top of technology advancements throughout their industry segment: 83% say they pay close attention to what technologies their direct competitors are investing in.

These technology investments are not being made piecemeal. Most capital markets firms have an in-house team dedicated to digital innovation, and 77% say they take a systematic approach to evaluating emerging technology.

At Schroders, digital transformation has been meticulously planned. Until three years ago, says Mr. Carmichael, the firm did not invest heavily in technology—“and I don’t think Schroders was particularly different from a lot of the buy-side firms in that regard,” he adds. Now, the CTO and CEO share a vision of a technology- and data-led company. “That’s the new paradigm for our industry,” says Mr. Carmichael.

He believes AI and machine learning add capacity to Schroders’ human work force. With time that might formerly have been spent on repetitive tasks, employees can perform, say, a data analysis daily rather than monthly. And bots help streamline analysis too. “We use quite a lot of machine learning in our data science environment,” Mr. Carmichael says, “because of the vast quantities of public data we’re looking at and that are being used for research insights.”

Trade cost analysis, best placement, timing, and fundamental stock analysis are other areas of investment decision-making where Schroders is applying machine learning, he adds. AI can also tighten security for capital markets firms and their customers, in the same way it helps credit card providers spot fraud by automatically flagging activity that breaks with normal patterns.

Our survey results suggest that many capital markets firms are taking a holistic, long-term view of technology transformation and investing accordingly. Only 63% of capital markets respondents report upgrading their technology on an as-needed basis, vs. 83% of insurers and 80% of retail banks.

GETTING PAST THE STUMBLING BLOCKS

Yet in other ways, capital markets firms struggle with digital innovation more than companies in other industry segments. For example, more than a third (37%) cite lack of system integration or compatibility as a top-three obstacle to achieving desired results from technology investments at their firm (see Figure 3), compared with only 23% of retail bank respondents.

Perhaps more ominously, many capital markets firms suffer from a pervasive lack of buy-in for digital transformation. More than a quarter (27%) say lack of executive support stands in the way of technology innovation—vs. just 17% for retail banks. And that problem trickles down: 30% of capital markets respondents say lack of employee support for digital transformation is an obstacle at their firm, a dramatically bigger response rate than among banks (7%) or insurance companies (3%). No wonder change management tops the list of challenges for capital markets firms in making their technology investments pay off.

These findings suggest that executive leaders at capital markets firms have an opportunity to pull employees together behind a technology strategy. Since investment firms tend to be organizationally fragmented, getting everyone on the same page is no easy task. It helps if senior leadership has a clear vision for digital innovation, makes it a priority, and emphasizes communication and training when implementing the strategy.

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Figure 3: Change-management challenges top the list of obstacles

At your company, what are the biggest obstacles to achieving desired results from technology investments? Capital markets respondents, top-three ranked responses.



THE AGILE APPROACH

No financial service firm can afford operational hiccups. Our capital markets respondents think the difficulty of integrating old and new technology is a major obstacle to digital transformation not only at their firm but throughout the industry.

One approach to the challenge is agile development, which can drive innovation and speed up the pace of change. In essence, agile creates a continuous feedback loop between an organization's business unit leaders and its technology teams, so that digital transformation solves real-time, real-world problems rather than proceeding in a strategic vacuum. "The value you get from it is that you work only on the things that the business prioritizes," explains Mr. Carmichael. "And you can stop eventually—you don't continue to develop features that have less value."

He adds that at Schroders, agile has produced a cultural and managerial shift. Senior executives are much more involved in how technology can enhance their line of business. It's a significant time commitment, he says, but it has paid off.

Our survey results suggest the agile approach will play an increasingly important part in capital markets firms' technology strategies. Only 20% say agile development is having a major impact on their company today, but when asked about its influence in three years, that percentage increases to 33%. And the level could rise significantly higher, if firms can overcome their change-management challenges.

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CONCLUSION AND ACTION POINTS

Capital markets firms, keenly focused on their future competitiveness, are already investing heavily in AI and in foundational technologies like cloud computing and data analytics, and over the next three years their investments in blockchain and agile development look set to soar. They're attuned to which tools their rivals are using and realistic about the competitive tussle ahead.

Yet these firms could do a better job of managing digital transformation. Many admit that fears about workforce shrinkage and the difficulty of building employee skills can hinder them from making the most of technology. The following actions can help strengthen their competitive position:

- Adopting agile delivery processes across the business, including the technology function
- Investing in DevOps-driven automation tools to support these processes
- Investing in behavioral change across the business and within the technology function, to facilitate the success of agile programs
- Applying innovative processes and tools to existing, legacy technology to free up time and resources and to improve focus
- Establishing an ecosystem of partnerships and strategic alliances to amplify digitally driven innovation at scale

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