Top 10 Challenges for the Front Office 2009
The front office: at the epicentre of today's industry challenges

Investment banking is undergoing rapid change on many fronts – regulatory, commercial, market, human and technological. The front office of the investment bank is the focal point on which all these forces of change converge.

From the credit crunch to product convergence, from ever-intensifying regulation to the rise of new markets, forces are creating challenges. These challenges impact the ability to grow the business, to drive efficiency throughout the business and to ensure the business is sufficiently controlled to respond to the inherent risky nature of the financial markets.

With this in mind, Accenture has developed and prioritised a list of the top ten challenges that are facing investment banking front offices today. All ten represent a critical test of the front office’s ability to adapt quickly and effectively while continuing to support the bank’s wider strategy and increase its returns.
The combination of market forces is generating unprecedented pressure on the front office’s processes, people and technology. These forces include:

- **Intensifying need for client focus** – The rise of wealth management, private banking and hedge funds has seen the buy side become more sophisticated, demanding and powerful. These organisations are forcing investment banks to place clients at the epicentre of their strategies where order flow will gravitate to those that most successfully respond.

- **Intensifying regulation** – Regulation has been shaping the industry for many years most recently with RegNMS and MiFID. However, the anticipated response to the credit crunch is new regulation in one form or another. Reporting and compliance requirements look set to increase still further, becoming more global as regulatory regimes are integrated.

- **Product convergence** – With investment strategies increasingly crossing traditional asset class barriers, traders need integrated cross-product trading capabilities as standard.

- **Electronic markets** – With electronic trading undergoing explosive growth, rising transaction volumes are being accompanied by liquidity-sharing agreements and buy-side disintermediation.

- **Globalisation** – New centres of trading and liquidity are emerging in developing markets worldwide. Emerging markets including China, India, Brazil, Russia and other Eastern European and Latin American countries will provide opportunities for investment banks and may disrupt the status quo.

- **The credit crunch** – For banks that have been significantly hit by the credit crunch and sub prime fall out, the first priority is an intensifying focus on cost reduction and efficiency, with growth and innovation relegated to secondary priorities. However, all banks are now living in a world of scarce and more expensive capital and where stricter prioritisation is required to allocate credit to business and change initiatives.
Zeroing in on the challenges

In combination, these forces demand radical action in the front office. To help investment banks plan and execute the right responses, Accenture has used its research, industry expertise and client insight to pinpoint and examine ten key challenges for the front office. In our opinion, the challenges are centred on an investment banks ability to grow through efficient and controlled business execution.

The Top 10 Challenges for the Front Office are as follows:

**Growth**
Challenges to grow the business

1. Winning at electronic trading
2. Maximising client relationships
3. Embracing multi-asset class trading
4. Organising for innovation and growth

**Efficiency**
Challenges to drive efficiency across the Front Office

5. Achieving front office cost efficiencies
6. Making IT effective
7. Providing a front-to-back, full-service offering

**Control**
Challenges to drive appropriate control for the desired risk

8. Managing risk
9. Using information to drive the front office
10. Managing front office talent

In this paper, we explore each of the Top 10 Challenges in detail. For each one, we describe the background and context and provide specific examples of challenges faced by many investment banks today. We also provide Accenture’s point of view based on our research, experience and insight in the market. We describe some of our services and solutions that have been developed, tried and tested to help our clients respond to the challenge. Finally, we illustrate some real world examples where Accenture has used its services and solutions to help our front office clients respond to the challenge and become high performing businesses.
“We expect an arms race to start soon in trading systems, where the fastest response will win out.”

Cort Dougan, CTO, FSMLabs
Electronic trading has quickly become a central component of the capital markets industry and continues to experience rapid growth. Decimalisation, the emergence of market standard protocols and the advancement of low latency high performance technology ushered in a new paradigm for trading. Electronic trading growth continues to accelerate for Equities (see Figure 1) and is gaining significant traction across the Fixed Income and FX markets.

Changing market structure and technology advancements are driving electronic trading and are reshaping the model for market interaction:

- Market liquidity is fragmenting under the impact of recent regulatory changes both in the US (such as RegNMS) and Europe (MiFID), helping to increase the number of execution venues and placing greater emphasis on cost transparency.
- Traditional exchanges are being forced to consolidate to boost efficiency and compete with new execution venues.
- Agreements to share liquidity between venues are springing up—initially in the US, but increasingly in Europe as well.
- Regulators are strengthening their requirements for proof of best execution.
- Low latency, high performing technologies provide increasing opportunities for automated and algorithmic trading and are creating an ever increasing arms race across auto trading participants

These changes in market structure are changing the priorities of the buy side and are placing a greater emphasis on the sell side to respond:

- The ongoing drive to boost efficiency and cut overheads is seeing the buy-side demand higher liquidity and lower transaction costs from brokers (see Figure 2).
- Disintermediation has increased, as the buy-side gains more direct control of trade execution.
- New technology has enabled advances in automated execution capabilities, reducing order sizes but increasing the transaction volumes.

**Drivers for growth in Electronic Trading**

Figure 1: Electronic trading growth accelerates

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Reduction of costs</th>
<th>Buy-side control</th>
<th>Regulation and best execution</th>
<th>Better trading platform</th>
<th>Market fragmentation</th>
<th>Cross / multi asset class</th>
<th>Trading in new markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>5</td>
<td>10</td>
<td>15</td>
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<td>Sell-side %</td>
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**Program Trading on the NYSE**

Figure 2: NYSE program trading as proportion of total volume

On the sell-side, the growth in electronic trading is creating three main challenges for the front office:

• The intensifying buy-side focus on trading overheads means the sell-side must minimise transaction costs to retain client order flow and, ultimately, market share. Effective transaction cost analysis and its incorporation into trading models and algorithms will be key to success.

• As the full effects of MiFID / RegNMS continue to emerge, the sell-side must also respond to the regulations by proving best execution and responding to new execution venues. New MTFs, dark and now grey pools are emerging on a frequent basis, placing greater challenges on internalisation, order and execution management and smart order routing.

• There is an ongoing challenge to provide trading services and technology that are flexible and distinctive enough to keep pace with evolving client demand, and to ensure they remain competitive with innovative and high performing algorithms. Eliminating latency continues to be a nirvana with organizations innovating to create new technologies and co-locating infrastructure to meet this objective.

There are (also) three distinct challenges on the buy-side:

• Market fragmentation is making it increasingly difficult to tap into a large number of deep liquidity pools.

• New trading technologies needs to be integrated into existing platforms – a task requiring significant investment decisions, which are made more complicated by the large number of competing vendors offering electronic trading capabilities.

• Improve execution speeds to reduce the lag between when an investment decision is made and when an order is fulfilled on the market.
As the buy-side strives to win at electronic trading, the stakes are high because failure will result in a rapid loss of assets that drive trades, clients that contribute assets and market share. Accenture believes that front offices in buy-side firms need to make every effort to lead the market in this crucial area or risk losing assets under management.

One way to do this is by seizing opportunities for the sell-side to leverage its expertise in electronic trading. These include the potential to boost revenues and build deeper relationships by providing the sell-side with value-added offerings such as trading technology consultancy and support.

Clearly, trading technology is key to success. To date the technology response has been inconsistent, with the growing similarity between different vendors’ functionality, making it more difficult to choose between them. In such an environment, Accenture’s view is that bold technology decisions need to be made, with speed-to-market often being more important than trying to make the perfect choice.

To help front offices tackle these issues, Accenture has developed a framework to help focus firms’ thinking about their electronic trading capabilities (see Figure 3).

**Electronic Trading**

*Figure 3: Accenture’s Electronic Trading Decision Framework*

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**Table: Trading Technology**

<table>
<thead>
<tr>
<th>Trading Analytics</th>
<th>Client Service</th>
<th>Connectivity</th>
<th>Market Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Cost Analysis</td>
<td>Advisory Services</td>
<td>Alternative Distribution Channels</td>
<td>Communication Protocols</td>
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<tr>
<td>Algorithm Design</td>
<td></td>
<td>Direct Market Access</td>
<td>Smart Order Routing</td>
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<td>Fill Handling / Real-time Aggregation</td>
<td>Crossing</td>
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<td>Transition Trading</td>
<td>Order Management System</td>
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<td>Fill Handling / Real-time Aggregation</td>
<td>Order Management System</td>
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<td>Algorithmic Trading</td>
<td>Execution Management System</td>
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<td>High Frequency Trading</td>
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<td>Trade Capture</td>
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<td>Real-Time Compliance</td>
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<td>Regulatory and Compliance Reporting</td>
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<td>Trade Capture</td>
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<td>Capture</td>
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<td>Affirmation</td>
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<td>Assignment</td>
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<td>Real-Time Risk Management</td>
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<td>On-demand Risk Management</td>
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<td>Dynamic Hedging</td>
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<td>Automated Stop Loss / Take Win</td>
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<td></td>
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<td>Real-Time P&amp;L</td>
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Our perspective

Expansive thinking and efficient execution drive success
This specialised Accenture unit is dedicated to developing custom trading systems, risk management systems and other cutting-edge technologies to help investment banks and other financial services institutions achieve high performance in global markets. It combines financial industry expertise, in-depth skills in advanced technologies and proven execution methodologies to develop high-quality front office solutions rapidly and effectively.

### Client snapshot
**FX Trading Platform**

This internet-based trading platform offers foreign exchange (FX) trade execution and straight through processing (STP) in over 300 major and minor currency pairs, plus trading and research services in more than 60 countries worldwide. Seeking to improve the cost efficiency of its front office, it asked Accenture to project manage and implement three product offerings:

- **A Treasury Centre**, enabling multiple quote providers to respond simultaneously to requests for FX quotes in real time.
- **An Operations Centre**, enabling customers and quote-providing banks to view deals in real time and agree on post-trade account details.
- **A Settlement Centre**, enabling clients to match executed trades with counterparties.

Following the successful implementation, more than 700 institutions have joined the platform and trading volumes continue to grow rapidly, almost trebling in just two years. The platform can also provide STP for the entire transaction lifecycle, helping to improve efficiency and keep risk to a minimum.

### Capital Markets Solutions Group service portfolio

<table>
<thead>
<tr>
<th>Equities</th>
<th>Fixed Incomes</th>
<th>Derivatives</th>
<th>Other</th>
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<tbody>
<tr>
<td>Equities Prime Brokerage Stock Borrow / Loan</td>
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<tr>
<td>Government Bonds Corporate Bonds Money Markets / Repo Emerging Markets Banking Products Mortgages, Real Estate, ABS</td>
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<tr>
<td>Equity Derivatives IR Derivatives Credit Derivates Structured Product Inflation Derivates Exchange Traded</td>
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<tr>
<td>Energy, Metals Foreign Exchange Property Islamic Products Alternative Investment Strategies</td>
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</tbody>
</table>

- **Pricing, Analytics, Rapid Product Innovation**
- **Market Connectivity (Exchanges, ATS, ECNs, Broker / Dealers)**
- **Client Connectivity**
- **Order Management, Execution Management, Algorithmic Trading**
- **Risk Management (Ad hoc, Real time)**
- **Middle Office (Trade Capture, Finance Risk Control)**
- **Data Management (Instrument, Market, Partner, Reference)**
- **Back Office (Confirmations, Settlements)**

Source: Accenture
"We can believe that we know where the world should go. But unless we’re in touch with our customers, our model of the world can diverge from reality."

Steve Ballmer, CEO, Microsoft Corporation
In an increasingly competitive environment characterised by rising client expectations, investment banks are increasingly shifting away from a ‘pushing product’ mentality towards a clearer focus on client needs. However, many banks have a long way to go in terms of fully understanding client needs and meeting these effectively. Accenture research indicates that just 10% of an investment bank’s clients typically contribute more than 75% of its profits, while at the other end of the value spectrum – 80% of profit destruction is the result of just 20% of clients (see Figure 1). Yet the service these various clients receive is not tailored to reflect their differing degrees of value to the business.

Banks’ front office sales functions often use research and other ‘push’ services to try meet client needs more fully, but Accenture research suggests that the vast majority of these services are ignored by most clients – more than 80% in some cases. Further findings are that 55% of salespeople view CRM systems as ‘a burden that primarily benefits management’ – and over three-quarters do not store all their client contacts in these systems, but hold some back for their own exclusive use. This is less surprising given the fact that less than a third of salespeople are incentivised to cross-sell or refer.

<table>
<thead>
<tr>
<th>% Clients Destroying Profits</th>
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<tbody>
<tr>
<td>% Clients</td>
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<td>70</td>
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<tr>
<td>80</td>
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<tr>
<td>90</td>
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</tbody>
</table>

Source: Accenture Research
Against this background, investment bank front offices face several challenges when trying to build lasting, value-creating client relationships. These include:

- A limited ability to derive true client insight and understand client profitability on the basis of existing management information.

- No clear link between revenue targets and client planning – meaning opportunities to customise the service proposition by client or segment are missed.

- Salespeople spending too much time performing low value-add tasks and not enough developing client relationships.

- Poor usability, performance and integration of CRM with desktop applications such as Outlook and Excel, with other internal systems, and external data providers.

- Client relationships are rarely shared across organisational silos, and are frequently lost when a salesperson leaves the firm.

- At a higher level, banks often lack a channel management strategy to integrate human, technical and client self-service channels.
Our perspective
Taking a holistic view of the client relationship

In Accenture’s view, front offices can draw on best practice established both within and outside the investment banking industry to industrialise their client relationship management and sales processes. This enables them to achieve an all-round view of the client relationship and lifetime value.

The first step towards this holistic customer view is to draw up a master plan founded on the three interrelated attributes of enterprise agility, execution excellence and customer relevance (see Figure 2). This provides the basis for starting the journey to customer-centricity, using an iterative process to enable customer insight and focus to be improved on a continuous basis. The bank can accelerate its progress towards customer-centricity, and increase the resulting benefits, by using a variety of cross-industry offerings and concepts across marketing, sales and service. These can help the front office to increase the value of client relationships and boost sales force effectiveness.

Client Relationship Framework

Figure 2: A master plan defining the necessary ingredients for success
This solution is a proven approach for analysing and improving the effectiveness of sales processes. The transformation can range from redefining specific sales processes (such as coverage management, cross-selling or broker review) to the entire sales operating model. The benefits include having sales processes and incentives aligned with organisation goals, improved sales productivity through streamlined processes, and robust and flexible processes that technology can support effectively. Front offices implementing this solution find they gain improved client satisfaction through better service and more tailored service delivery.

Client snapshot

New integrated client strategy

This global investment bank wanted to improve the effectiveness of its sales function by developing an integrated client strategy defining how the bank’s service proposition would meet its client’s rapidly-changing needs. Accenture met this requirement by applying its Client Strategy & Insight and Sales Process Transformation solutions. The project began with extensive interviews with global senior management and a survey of opinion among key clients. Accenture then used the findings to develop the new client strategy – including prioritised objectives and metrics – and the target operating model. The Accenture team then performed detailed process reengineering work across the relevant front office areas.

The benefits delivered to the client included a segmented client base and improved understanding of clients’ cross-product needs. The project also provided the bank with a refreshed target operating model against which the programme portfolio could be mapped and greater insight into client profitability through improved processes and reporting.
“Multi-asset class trading should not be viewed as a fad, or worse, merely a ploy to get more order flow from reluctant customers or to attract attention. Buy-side firms are already and will continue to think across products.”

Chris Biscoe, Head of eCommerce, Barclays Capital
Multi-Asset Class Trading is critical to next generation profit models

In today’s complex and diverse capital markets (see Figure 1), clients’ investment strategies are increasingly crossing traditional asset class barriers. As a result, front offices stand to gain significant competitive advantage from having a single, comprehensive trading platform that enables trading of securities across the asset spectrum. This will enable them to capture a higher share of their clients’ business and transact it more efficiently and effectively.

Looking forward, clients’ changing requirements mean the next generation of trading, clearing and settlement systems will need to span multi-asset class, multi-strategy, multi-venue investment operations and risk management. They will need to maintain a global real-time stock record, enable the trading of sophisticated risk profiles and not just individual asset classes.

Source: Accenture Research

Figure 1: Increasingly diverse and complex capital markets

Asset Complexity vs. Trading Volume

Source: Accenture Research
The migration to a single multi-asset trading platform raises three main challenges for investment bank front offices:

- Investment banks commonly have multiple producers of data across product silos and front-to-back processes, as well as multiple consumers of data across and outside the firm with widely varying needs, agendas and organisational structures.

- As a result, both the producers and consumers of trading information represent are characterised by a fragmented and siloed processes, organization and systems.

- These challenges are increased by the continuing growth in the number and complexity of products and asset classes, reflecting managers 'desperately seeking Alpha.'
Our perspective

Incentivised and aware people, streamlined processes, flexible systems

In Accenture’s view, the leading investment banks of tomorrow will have a single multi-asset trading platform. Ideally, this platform will optimise efficiency and control through a common global setup, horizontal integration of processes across asset classes and locations. It will also have product-specific processes at the front end of the trade flow for structured products, and common services for flow management and straight-through products.

Achieving this will require significant investment in people and processes as well as systems. Traders will need to be aware of the potential opportunities for cross-sell and referrals, and incentivised to capitalise on them. Streamlined processes will need to be in place, designed to internalise trade flow to reduce costs, and to seek out higher-margin business lines such as prime services. Trading systems will need to be flexible and open to handle new asset classes and trading strategies as they emerge. This means the optimal approach to multi-asset trading platforms is through a combination of Service-Oriented Architecture (SOA) and Enterprise Application Integration (EAI), as illustrated in Figure 3.

Multi-Asset Trading Framework

Figure 2: Multi-asset trading platform combining SOA and EAI

<table>
<thead>
<tr>
<th>Front Office</th>
<th>Middle &amp; Back Office</th>
<th>Client Services</th>
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<tbody>
<tr>
<td>Investment Ideas</td>
<td>Sales Marketing – Existing Business</td>
<td>Sales Marketing – New Business</td>
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<tr>
<td>Client Data: CRM, Profiles</td>
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<tr>
<td>Research: reports, economic trends</td>
<td>Trading Data: instructions, order, executions, tax lot-level, positions, books, P&amp;L execution venues</td>
<td>Settlement Data: allocations, SSI, breaks, netted amounts, custodians, payments, recon hints</td>
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This is a highly flexible, quick-start tool that enables the front office to prototype new trading system functionality at a rapid pace during the system specification phase, enabling development and deployment of sophisticated internal and client-facing trading solutions within tight timeframes. The solution comes complete with pre-built libraries that jumpstart development projects and improve time to market. The benefits include multi-asset class support, FinCAD-based pricing and messaging middleware support.

### Rapid Application Development Prototype

![Diagram of Rapid Application Development Prototype]

#### Source: Accenture

### Client snapshot

**Embracing multi-asset trading**

This European-based investment bank wanted to move from a product-focused trading model to a multi-asset approach. This change required the creation of an overall P&L and risk exposure view that was not supported by the current environment. Accenture verified the bank’s requirements through a detailed planning phase and an assessment of its chosen front office platform for consolidating its trading architecture. The Accenture team then managed a phased introduction of the platform, and the implementation and setup of the client’s selected pre-deal limit checking system.

The bank now has a unified view of the overall trading positions, consistent real-time valuation of all products on the basis of individual trades, and improved support for credit derivatives. The benefits include significant operating cost savings, with the number of front office systems reduced from 8 to 3.
Organising for Innovation and Growth

“49% of Executives see innovation as a main driver of profitable growth...”
Accenture-Economist Intelligence Unit

...yet only "12% of projects in the pipeline (down from 20% in 1990) are 'new to the world'."
George S. Day, Sustaining Corporate Profits Requires “Big I” and “small i” innovation
Background

Innovation drives growth and competitive advantage

By focusing on creating new products, services, processes, business models and markets, trading and sales desks gain three main advantages that enable them to achieve sustainable above average returns. These three advantages are:

- **Faster time-to-market**: Consistently reaching the market early enough with differentiated offerings that earn high margins, and quickly producing new innovation to counter the commoditisation of existing offerings.

- **Differentiation**: Providing an offering, a process, a business model, or a set of offerings which the customer believes deliver superior price performance. The premium for differentiation is illustrated in Figure 1.

- **Disruptive effect**: Innovations that help to redefine the marketplace are commonly termed ‘disruptive’ innovations. Creating and embracing disruptive offerings that make current offerings, processes and business models obsolete will catch the competition off guard and provide propulsive power to growth.

As investment banks confront today’s challenging conditions and seek to organise for innovation and growth across their operations, there is a clear need for them to reshape and realign the front office to operate in a more client-centric way, reduce costs, and increase revenues and operational fluency.

**Differentiation Strategies**

Figure 1: The higher profitability of differentiated offerings

Source: Product Development Institute
To realise these benefits of innovation, front offices must tackle three tough challenges:

- Employees are the most frequent sources of new ideas – well ahead of customer insight and analytical marketing techniques – yet employee innovation is often hampered by a number of barriers. These commonly include the fact that clear employee incentives to innovate are not in place, investment in talent is not dedicated to innovation initiatives, and process and organisational mechanisms are not geared to optimise ideas gardening (such as having an ‘Innovation Council’ or ‘Innovation Centre’) and implementation.

- There is a widespread short-term focus that tends to work against innovation, since resources are allocated to short-term execution needs rather than longer-term innovation efforts.

- There is frequently a glaring mismatch between the importance attributed to the innovation and the investment trend – with innovation investment typically being one of the first areas for cost cutting, and innovation investment being managed in line with the wrong priorities.
Our perspective

The Accenture Growth Accelerator

Accenture’s research and experience with leading investment banks highlights three organisational attributes that they tend to share around innovation, and two things that they do right to make the most of the resulting innovation flow. These five traits are encapsulated in the Accenture Growth Accelerator (see Figure 3).

The three organisational attributes represents a positive answer to the question, ‘Is our front office focused on the right growth opportunities?’ These attributes are:

- **Profit pools** – the most successful investment banks have a footprint of categories, segments, geographies or channels that generate superior underlying growth and/or profitability.
- **White spaces** – they continuously scan customers, consumers, competitors and technology developments for emerging business opportunities, independent of their current category or brand portfolio.
- **Winning concepts** – they drive more winning innovation to market at higher speed and with longer lifecycles.

The leaders in the investment banking industry exploit the resulting innovation by doing these two things right – thereby answering the question, ‘How do we use the front office to accelerate our innovation and growth?’ These two things are:

- **Operational excellence** – the most successful players establish mastery of execution in marketing, sales & servicing, and innovation management. They are open to innovations and manage the integration of business, IT and HR components effectively through an operating model that is clear, collaborative and integrated.
- **Best people** – they have superior talent management with clear accountabilities, thereby positioning their people as a true competitive advantage.

**Accenture Diagnostic Tool**

Figure 3: Organisational characteristics of innovation in high performance banks
This Accenture diagnostic tool helps trading and sales desks to assess their capabilities for international growth. It does this by assisting top management in identifying and addressing strengths and weaknesses that will accelerate or hinder their journey towards internationalisation. The tool also supports the management of internal and external core issues, customer experience issues, and operational and production issues.

### Example Front Office Analysis

<table>
<thead>
<tr>
<th>Capabilities</th>
<th>Main components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment management</td>
<td>1. Differentiated services model by segment</td>
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<tr>
<td></td>
<td>2. Sales force compensation and reward</td>
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<tr>
<td></td>
<td>3. Learning and Sales culture</td>
</tr>
<tr>
<td></td>
<td>4. Segment performance management</td>
</tr>
<tr>
<td>Marketing sales and services</td>
<td>5. Customer data collection</td>
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<td></td>
<td>6. Actual drive of sales behavior</td>
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<tr>
<td></td>
<td>7. Customer acquisition engine</td>
</tr>
<tr>
<td></td>
<td>8. Simplicity of interaction management</td>
</tr>
<tr>
<td>Channel integration and management</td>
<td>9. Branch and multi-channel experience</td>
</tr>
<tr>
<td></td>
<td>10. Branch modular configuration / flexibility / layout</td>
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<tr>
<td></td>
<td>11. High quality Contact Center</td>
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<tr>
<td></td>
<td>12. High quality Internet and Mobile</td>
</tr>
<tr>
<td></td>
<td>13. High quality ATM</td>
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<tr>
<td></td>
<td>14. Channel migration</td>
</tr>
<tr>
<td>Brand management</td>
<td>15. Brand promise / positioning</td>
</tr>
<tr>
<td></td>
<td>16. Brand communication</td>
</tr>
<tr>
<td>Product management</td>
<td>18. Is current product management enabling our growth strategy?</td>
</tr>
<tr>
<td></td>
<td>19. Do we need to simplify our product catalogue?</td>
</tr>
<tr>
<td>Product development</td>
<td>20. Will access to external product factories be important in our future?</td>
</tr>
<tr>
<td>Process excellence</td>
<td>21. Is our product development approach adequate?</td>
</tr>
<tr>
<td>IT Re-Platforming</td>
<td>22. To which extent have new capabilities been designed together by IT / Organisation / Marketing / … owning the end-to-end processes?</td>
</tr>
<tr>
<td></td>
<td>23. Do you think that sales and origination processes need to be reengineered?</td>
</tr>
<tr>
<td></td>
<td>24. Do you think that back-office processes need to be reengineered?</td>
</tr>
<tr>
<td>Possible improvement area = ○</td>
<td>25. To which extent IT (architecture, tools, procedures, security, …) could improve business performances?</td>
</tr>
<tr>
<td></td>
<td>26. Are current IT initiatives aligned with business requirements?</td>
</tr>
</tbody>
</table>

### Client snapshot

**Improving the client experience through innovation**

Following more than a decade of strong performance, this major US-based bank found that its clients’ loyalty was suffering because the complexity of its products and processes was preventing it from delivering a simple, consistent, high-quality client experience. To address this problem, the bank launched a programme to identify solutions and strategic change ideas to improve the client experience. This included the creation of an innovation capability to tap into insights from its 160,000 employees.

To help the bank create this capability, Accenture implemented its proprietary innovation process, the Accenture Innovation Solutions Network. This successfully stimulated innovation and employee engagement in the strategic programme, realising two main benefits for the bank. Firstly, the network generated a pipeline of over 50 ideas or ‘grapes’ highlighting specific product and process issues, as well as ideas for improving the client experience. Secondly, it fostered employee engagement in the customer loyalty programme, with over 250 participating ‘innovators’ in 90 different jobs contributing ideas on seven different topics or ‘seeds.’
Achieving Front Office Cost Efficiencies

"Tactical...cost cutting may improve the income statement in the short run, but strategic cost reduction is required for long-term impact."

Gartner Research 2008
Background

In the face of stagnating revenues, cost has become a key issue

The front office has historically been one of the first functions where an investment bank seeks headcount savings – but one of the last where it looks to invest in cost efficiency. However, with cost pressures now intensifying and other functions already ‘lean’ following previous cost initiatives, the front office now presents a prime opportunity for efficiency programmes. The traditional approach of cutting headcount, reducing travel and expenses will not deliver lasting efficiency gains unless the underlying processes are also improved and restructured. Indeed Accenture research shows that although costs fell by 12% across 2H07, the most recent measures remain broadly flat, suggesting short term cost cutting, but not strategic cost efficiency. To do this, investment banks need to integrate the various ‘silos’ in the front office and standardise their processes to make them less costly and more effective.

Average Cost Efficiency

Figure 1: High Performance Investment banking: Measuring Efficiency and Productivity.

Average Productivity ($US million per headcount)

Figure 2: High Performance Investment banking: Measuring Efficiency and Productivity.
Addressing the inefficiencies embedded in the front office raises five main challenges:

- **Process and staffing duplications** across common tasks such as trade booking and client relationship management need to be identified and removed. This reduces the administrative workload and frees up the front office for revenue-generating tasks. Where possible, tasks should be transitioned to low cost locations.

- **Manual processes should be automated** where possible, with greater use of straight-through processing (STP) to link the front office to the rest of the bank.

- **Appropriate metrics need to be identified and implemented** to enable ongoing analysis of processes and continuous efficiency improvements. These must be used to manage and drive the desired behaviour from the Sales and Trading workforce.

- **Front offices need to understand the true profitability and cost-to-execute** for all client segments and asset classes, and manage clients on the basis of long-term profitability rather than short-term revenue.

- **Going forward, projects that reflect personal agendas or that will have little impact** should be dropped to make way for change projects to deliver major cost-efficiency gains.
Our perspective

**Analysis of six key levers can identify significant opportunities for cost efficiencies**

Accenture’s experience shows that investment banks should focus on six key cost levers that shape front office efficiency. Each lever can be analysed to pinpoint hidden inefficiencies and costs for removal. This can be done by taking each lever and posing a series of challenging questions about processes and performance (see Figure 2).

---

**Cost Efficiency Levers**

*Figure 2: Six cost efficiency levers, with key questions to ask about each*
Front office solution highlight

Cost Efficiency Analytics

The offering delivers a quick assessment of the opportunities for cost reduction available to banks. The tool accelerates the analysis process providing market-leading benchmarks and an automatically generated heat map for action. This subsequently enables a programme of strategic change across the bank to deliver short-term cost-cuts and long-term sustainable improvements.

This will enable the client to drive a programme of strategic change across the investment bank to deliver short-term cost-cuts and long-term sustainable operating model improvements.

Client snapshot

Equities Trading End-to-End Process Transformation

This US dealer subsidiary of a global financial services institution asked Accenture for help in addressing a cost issue in its trading environment. These originated from manually intensive trade execution process; unstable technology and disruptive systems procedures; insufficient support levels; lack of alignment between trading desk, back office and support staff; and minimal technology on the listed securities trading desk.

Accenture helped the client develop an integrated and focused equity trading transformation programme, including trading desk stabilisation, trading desk operation support, agency desk system rollout and a listed desk trade execution strategy. The programme included the implementation of a low-cost, flexible and scalable trading platform. The resulting benefits included a 20% reduction in staff and productivity improvements of around 70%. Accenture’s involvement also increased peak processing volume capacity by over 50% through upgraded technology, and significantly reduced trade error rates.
"The effective delivery of front and middle office technology is a key competitive differentiator."

John Thain, Chairman and CEO, Merrill Lynch
Increased scrutiny on IT spend will require greater efficiency in the front office

Industry figures show that investment banks worldwide now spend US$123bn a year on IT – of which 28% is spent for IT in the front office (see Figure 1). Especially in the current uncertain conditions it is vital to ensure that this substantial amount is put to the most effective possible use. This applies not just to new IT investment, but also to the front office’s existing IT assets.

Industry estimates suggest that up to 60% of investment banks’ strategic change programmes fail, largely because of excessive complexity and a lack of adequate senior support or a clear vision for IT. This poor track record makes it all the more important to ensure the IT spend is effective and delivers the intended benefits for the front office.

Investment Banking Spend 2009

Source: Gartner Research 2008
To meet the growing demand at board level in investment banks for greater efficiency and effectiveness across the organisation, front office IT departments need to change the way their teams deliver solutions. In doing this, the challenge is to strike the right balance between the following four factors:

1. **Efficiency** – delivering the right IT solutions to support all business processes with the appropriate level of resources, both people and infrastructure.

2. **Flexibility** – reducing the time taken to deliver new technology solutions, and helping to support and increase the front office’s ability to react to changes in the marketplace.

3. **Capacity** – providing systems that can meet changing volume requirements across the front office without affecting performance.

4. **Control** – compliance with internal and external regulations and front office risk factors, helping to reduce risk to the organisation.

Rather than trying to assess each of the businesses in the front office separately against these four qualities, the most efficient approach is to adopt a standard framework that coordinates and aligns the responses in each area. This approach (see Figure 2) can be applied across the front office as whole, or a specific desk which has a portfolio of products.

**Technology Lifecycle**

Figure 2: A framework for coordinating front office IT effectiveness initiatives

- New product generation
- 1st & 2nd mover strategy key to success
- Low cost income
- Key persons dependencies around processes & tools (manual intensive)
- Custom build prevalent
- Small number of highly skilled resource
- Relatively immature control processes
- Resources manually provide majority of functions through RTQ capture through to risk management – lack of automation

- Large scale growth (volume of business)
- Current processes from innovation phase become strained and unreliable
- Focus on development of new infrastructure to handle volume and control requests
- Resources continue to support all functions in early stages – key to prioritise which functions need to be automated and order appropriately, rather than try to solve all problems in year 1
- Strategy for industrialisation has to be forward looking to accommodate the future needs of the optimisation phase, where IT need to support further efficiency and capacity requirements

- Tight margins mean efficiency is a priority
- Volume issues, as capacity of systems are key to increasing market share
- Differentiation through speed of processing and quality of price offer
- Resource overhead needs to be controlled, headcount cannot be allowed to increase in proportion to volume growth

- Business is decline, volumes start to lower
- PnL can be negative
- Main consideration is appropriate risk and position management, rather than servicing new business
Our perspective

IT effectiveness is more than just delivering IT

Since IT is essentially a tool for helping the front office execute the investment bank’s strategy, it follows that IT effectiveness should be assessed on the basis of its contribution to strategic value creation. To support such an assessment, Accenture has created a core framework for aligning IT with strategy (see Figure 3). This provides investment banks with a means of measuring and improving the true effectiveness of front office IT, and the resulting returns for the organisation as a whole.

IT Alignment Framework

Figure 3: A framework assessing, tracking and improving front office IT effectiveness
This solution provides the front office IT teams with a systems architecture based on distinct components, helping them to identify and develop the highest priority initiatives and functions in the order of their criticality to the business.

**Technology & Business Alignment**

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Industry Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission (Corporate/Regional/LOB)</td>
<td>Strategic Business Objectives e.g. “Deliver a consistently high level of service to all clients, globally”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
</tr>
<tr>
<td>e.g. “Focus on growing the hedge fund client base in EMEA”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology Roadmap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
</tr>
<tr>
<td>e.g. “9 month initiative to consolidate client analytic tools across all OLP business lines”</td>
</tr>
<tr>
<td>e.g. “6 month project to improve DMA”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Current) Governance (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Current) Application Architecture (Target)</td>
</tr>
</tbody>
</table>

**Client snapshot**

**Optimising IT effectiveness in equity derivatives**

This leading global investment bank asked Accenture to work directly with its equity derivatives front office to assess and improve the effectiveness of its IT. Accenture provided specialist consultants to map out the front office’s processes, highlight efficiency gains, document the business flows and identify the bottlenecks in the business. The Accenture team then went on to provide a review of the business needs and IT capacity every six months, highlighting the components that were candidates for development.

The benefits for the client from the Accenture engagement includes business processes that no longer reside with individuals, but are fully documented. The review every six months has provided transparency on existing and emerging issues, based on pre-defined metrics. Business control issues have been kept to a minimum.
"Customers are won or lost through the quality of the service they receive rather than any assessment of what part of the company delivered it."

Diane Schueneman, Head of Global Infrastructure Solutions, Merrill Lynch
Background

**Full service capability is now a key differentiator**

Clients today do not choose their investment bank purely on the basis of price. As well as keen pricing, clients are looking for a front-to-back, full-service offering that includes the provision of research, efficient and cost-effective back-office transaction processing, and a leading-edge client service experience. These are now all important differentiating factors in the marketplace.

Firms seeking to deliver such a front-to-back service are often hampered by the fact that front offices have historically been willing to invest significant amounts in their applications, but have neglected the legacy risk and operations infrastructure. Now the evolution of the marketplace and the increasing demands of electronic trading are creating growing pressure on the legacy systems and processes in product control, operations, risk management and other functions across the organisation. Trade volume growth is often accompanied by a growth in operations headcount to handle the manual processes and breakpoints in the current infrastructure.
Key challenges

Infrastructure investment and market evolution

This background means clients are exposed to fragmented organisational structures and processes, resulting in inconsistent customer experiences. At the same time, the legacy of product silos in investment banks and historical underinvestment in core processes and technology is driving the cost base upwards. So, in tandem with the increasing commoditisation of most asset classes, firms are under growing pressure to reduce their costs of processing in order to remain competitive.

A further characteristic of today’s clients is that they are trading a variety of different product types but want centralised client service. Many investment banks are simply not set up to support this, given their legacy of fragmented business process and technology architectures across regions, products and entities. As a result processing is not easily scalable, with key breakpoints in processes impacting clients and requiring manual intervention.

Vertically Aligned Architectures

Organic Application Growth
Our perspective

A service model that focuses on internal and external clients

To overcome these problems and provide a full front-to-back service offering, investment banks need to introduce common business processes across products, asset classes and locations, enabling them to simplify their support model and reduce the overheads currently incurred from supporting business processes across a fragmented infrastructure. Research shows that leading players in the industry are focusing on a small number of powerful levers to achieve these aims. The resulting steps include:

- Extending straight-through processing to cover 99 per cent of commoditized, high-volume transactions. To satisfy customers, banks need to ensure minimal manual touch points and provide optimised speed of response.

- Ensuring 99.95 per cent availability of critical business applications ensuring downtime and customer disruption are minimal.

- Improving their global sourcing capabilities by ensuring they have the right people with the right skills in the right locations to serve their customers. Banks are increasingly servicing a global customer base, and need to understand which skill-sets they need and where.

- Increasing client satisfaction and making it measurable, to ensure they are in the top tier of client satisfaction as measured by external means – such as reports on the timeliness and accuracy of confirmations; benchmark tracking for collateral and valuations; and surveys that compare the firm’s performance with that of its competitors.

- Becoming the best in class in the e-channels space. This means continuing to ask whether the firm is serving customers in the way that they want to be served.

With these improvements in place, front offices can provide their clients with the full-service offering they want by consolidating down to as few ‘like’ services as possible. This enables the front office to provide a consistent client experience and remove duplicated processing – both systemic and manual – in order benefit from a lower operational cost base.

Trade Support services – these should remain near to trading desks to maintain service levels, ensure errors in the trade flow are caught as early as possible, and facilitate new product set-up.

Control services – provided out of each operations location (until centralised processing is achieved) to ensure the control framework is consistently enforced.
Multi-Asset Class processing services. These services are rules-based and predictable. They will be moved into the global processing hubs to drive process improvement and economies of scale.

Management Information services. These need to be globally consistent and provided from a centralised low cost location.

Service Management services. The size and importance of the Service Management area will increase significantly as and when the firm enters into outsourcing and/or off shoring arrangements.

Change Management services. Services needed wherever activities are performed and must be close to other Infrastructure and FO teams.

Product-Specific Trade Processing services. Where possible, these will be provided through global processing hubs to facilitate economies of scale and consistent service. Some specialised product-specific processing services may be provided locally where required.

Client Support services. For top-tier clients these are provided out of the location required by the client, while other segments are serviced out of local service centres. Client-specific and/or local activities are balanced against considerations of economy of scale and standardisation.

Front to Back Full Service Framework
Figure 1: A new service model
The HPCM model provides a comprehensive framework for meeting an investment bank’s specific needs in terms of front office operating model and process development. It helps banks build competitive advantage by drawing on Accenture’s collective thinking and experience of how leading banks are structured.

The solution then applies that expertise to support clients in the definition, design and implementation of their target organisation structures and in ensuring their front office can deliver a front-to-back service offering to clients.

Accenture’s High Performance Capital Markets Model

<table>
<thead>
<tr>
<th>Institutional clients</th>
<th>Governments</th>
<th>Corporate clients</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Strategy</strong></td>
<td>1.1 Corporate Strategy</td>
<td>1.2 Business Unit Strategy</td>
</tr>
<tr>
<td><strong>2. Deliver Client Services</strong></td>
<td>2.1 Account Management</td>
<td>2.2 Sell / Cross Sell Product and Services</td>
</tr>
</tbody>
</table>

**Core Investment Bank**

- **3. Research**
  - 3.1 Research Advisory
  - 3.2 Analytics
  - 3.3 Research Production

- **4. Trading**
  - 4.1 Structure Product
  - 4.2 Trading Risk Management
  - 4.3 Pricing
  - 4.4 Quotes and Orders
  - 4.5 Trade Execution

- **5. Corporate Finance**
  - 5.1 Advisory
  - 5.2 Issuance
  - 5.3 Complex Finance

**6. Cross Product Processing**

- 6.1 Confirmations
- 6.2 Cash Management and Payments
- 6.3 Inventory Management
- 6.4 Data Management
- 6.5 Clearing and Settlement
- 6.6 Revenue Accounting and Reporting
- 6.7 Collateral Management
- 6.8 Trade Lifecycle Management

**Corp. Core**

- **7. Treasury**
  - 7.1 Asset and Liability Management
  - 7.2 Credit Rating Management
  - 7.3 Liquidity Management
  - 7.4 Business Activity Funding

- **8. Finance**
  - 8.1 Business Decision Support
  - 8.2 Credit Risk
  - 8.3 External Reporting
  - 8.4 Liquidity Risk

- **9 Risk Mgmt**
  - 9.1 Market Risk
  - 9.2 Credit Risk
  - 9.3 Operational Risk
  - 9.4 Liquidity Risk

- **10. Regulatory**
  - 10.1 Audit
  - 10.2 Legal and Compliance

- **11. Technology**
  - 11.1 IT Strategy
  - 11.2 Application Development
  - 11.3 Application Management
  - 11.4 Infrastructure

- **12. Resource Mgt**
  - 12.1 Procurement
  - 12.2 Third Party Management

- **13. Human Resources**
  - 13.1 Organization Management
  - 13.2 Talent Management
  - 13.3 HR Services and Administration
  - 13.4 HR Operations and Support
Client snapshot

New operating model to support front-to-back service offering

This global investment bank had seen trade volumes through its main EMEA equity and debt transaction managers more than double in two years, and was projecting further rapid increases through 2010. It had handled this growth by expanding its core cash equity and debt processing teams during the period. However, to support future growth in front office activities, and to enable it to provide a full front-to-back offering, the bank decided to re-engineer the related middle office and back office systems and processes.

As the first step in the transformation to its target operating model for cash middle office, client services and settlements, the bank asked Accenture to develop the business case for moving the EMEA middle office transaction management capabilities onto a new platform. Accenture managed the development of the business case, including conducting a review of the current business processes, identifying operational changes, and executing the high-level requirements design and planning with subject matter experts. As a result of Accenture’s work, the bank gained a business and technology roadmap that enabled it to remove redundant processes cost-effectively, improve straight-through processing, and proceduralise some functions to enable them to be off shored.
"The only way to recover the loss of confidence is to have a better grip on risk management, a more holistic approach with more transparent reporting and having the board aware."

Guillermo Kopp, Executive Director, TowerGroup
Background

Effective risk management and risk control has been proven to be a key competitive differentiator

The financial losses over the past 12 months have highlighted the severe impact of insufficient risk controls and failures in a bank’s overall management of its risk. Write-offs have already reached hundreds of billion dollars (see Figure 1), and are predicted by some analysts to top the trillion dollar mark before the crisis subsides.

The winners and losers over this tumultuous period have been differentiated by their ability to perform a cross-asset, enterprise-wide analysis of their risks concentrations, and then act decisively through effective cooperation between the front office and control functions. The better performers have also demonstrated rigorous internal processes for valuing complex and illiquid securities, supported by flexible risk management that can respond rapidly to reflect in market conditions.

Estimated Write-downs and Unusual Charges*

Figure 1: Banks’ estimated write-downs and unusual charges, as of December 2008

Sources: Bloomberg data – total write-downs and credit losses
*Estimated losses on unsecuritized loans and mark-to-market losses related securities (i.e. ABS, CDOs, corporate debt etc.)
Key challenges

Front office risk management and middle office risk control must evolve at a similar pace to ensure there is a consistent view of the risk profile of the bank

Putting the right cross-asset risk view and approach in place requires several steps, each of which raises distinct challenges:

• **Effective utilisation of scarce capital** – Performing risk-based profitability measurement to analyse financial performance in a risk-adjusted way and provide a consistent cross-business view of profitability and capital allocation.

• **‘Controlled’ speed to market for new products** – Supporting controlled business growth for new and more complex products, without compromising on controls or resorting to crude ‘volume caps’ that will limit business volumes.

• **Portfolio view of risk** – obtaining a cross-asset class portfolio view of risk, to enable effective desk level management of the overall risk and boost returns through active portfolio management.

• **Dynamic limits** – Reacting quickly to changes in markets, and potentially re-allocating and aggregating trading limits for intraday and end-of-day risk positions in response to emerging opportunities or threats.

• **Risk control versus front office pricing models** – reducing the variances between pricing models used in the front and middle offices, for example through common data, curve alignment and consistent modelling.

• **High data quality to enable scalability** – Implementing data quality controls in front office systems to reduce errors in risk calculations and increase the control function’s ability to scale in line with business growth, without impacting operational performance.
Our perspective

Effective alignment between the front office and the risk management/risk control functions improves both value protection and value creation

As Figure 2 shows, achieving this alignment means cutting across traditional silos and taking a holistic view of the information used in front office decision making. To do this, banks need to develop a genuinely firm-wide view and use of data, and make liquidity pricing an input to trading decisions. Further important components are front office portfolio risk management and stress-testing capabilities, enabling the portfolio to be measured and hedged dynamically on a consistent firm-wide level, thereby enabling the front office to exploit opportunities across different asset classes and financial markets.

In addition to optimising people and processes, this improved alignment across the organisation includes a strong systems element, using new front office architectures and grid computing to calculate common scenarios for both standard sensitivity analysis and stress testing. These should be supported by centralised analysis of results to maintain the necessary portfolio-wide view of risk. Risk control activities will need to be kept automatically up-to-date as such innovations get introduced in the front office.

Alignment of an investment bank’s risk management/control functions

Figure 2: A framework for aligning the front office with risk management/control

<table>
<thead>
<tr>
<th>Fixed Income</th>
<th>Treasury</th>
<th>Foreign Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Risk Management</td>
<td>Trading Risk Management</td>
<td>Trading Risk Management</td>
</tr>
<tr>
<td>Portfolio Return &amp; Informing Business Strategy</td>
<td></td>
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<tr>
<td>Portfolio Management</td>
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<td></td>
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<tr>
<td>Capital Allocation</td>
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<td></td>
</tr>
<tr>
<td>Stress Testing / Liquidity Planning</td>
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<tr>
<td>RBCV Customer</td>
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<tr>
<td>RBPP Product</td>
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<tr>
<td>Performance Assessment Planning</td>
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<tr>
<td>MI / Performance</td>
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<tr>
<td>Business Planning</td>
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<td></td>
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<tr>
<td>Control &amp; Comply</td>
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<tr>
<td>Product Control</td>
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<tr>
<td>Risk Control</td>
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<tr>
<td>Account Control</td>
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<td></td>
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<tr>
<td>Treasury</td>
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</tbody>
</table>

Portfolio view of risk and return closely aligned to the business

Portfolio return function performs product and customer productivity analysis

Siloed control functions integrated to allow for portfolio view of risk
Accenture’s Risk and Control Alignment Toolkit enables the front office to ensure risk alignment across operational, market, credit and compliance.

Front office solution highlight

Risk and Control Alignment Toolkit

Client snapshot

Risk transformation roadmap

To respond to a combination of regulatory change, business expansion, and the need to boost operational efficiency and client service, this international investment bank needed a clear plan for transforming its management of front office risk. It asked Accenture to help.

The Accenture team began by providing an overview of the front office’s current operating model and of key areas requiring management focus. The analysis also highlighted the industry-wide business drivers and strategic direction relating to risk. Accenture then discussed the recommended principles relating to the target operating model, and described the impact of these principles on the target roadmap.

As a result of Accenture’s involvement, the client bank now has a comprehensive target operating model for managing credit and market risk in its front office, a gap analysis of the current against target operating model, an analysis of the issues and proposed solution, and a clear and executable roadmap for its migration to the new model.
“High performing investment banks outperform their industry peers over the long-term, through a deep understanding of how they create and sustain value; the cost incurred in creating that value; and the optimal execution strategy to deliver that value.”

Accenture Research
Background

Because of poor information, value is destroyed - every day

Accenture’s industry experience and research have consistently demonstrated the value-destroying impact of poor information in the front office. In general, just 20% of clients can destroy 80% of net profits (see Figure 1) – and at one bank that Accenture worked with recently, just seven clients were responsible for wiping out 35% of profits. Despite this bank using more than 2,000 metrics on a quarterly basis to manage its business, executives within it said they found it hard to identify the key financial or non-financial metrics for their business area.

In front offices where this type of problem arises, the lack of meaningful and relevant performance information often comes down to four main factors:

- Budgets have traditionally been set top-down, based on past performance, and targets are often missed because of poor bottom-up and top-down reconciliation.
- Performance is generally measured – and compensated – on revenues alone. Given the inaccuracy of many budgets, the net result is perverse behaviours such as excessive risk taking and poor cost management.
- Performance is not measured on a risk-adjusted (economic capital) basis at the trading desk level, making it difficult to manage earnings volatility.
- Trading desks find it difficult to prioritise opportunities and actions across a portfolio, because they rarely have directly-comparable information on a value basis using cash flows or NPV calculations.

Client Profitability Analysis

Figure 1: Unprofitable clients’ destruction of net profits
The information gap described above means investment bank front offices do not know many of the critical facts they need to drive out value. These include:

- The identity of the handful of key measures critical to running and growing the business — and how to use these to assess the performance of business activities or business units.

- The factors driving the true performance of products, clients, channels and regions, and the actual level of profit and margin for individual clients, products and desks.

- The return being achieved from strategic change investments, and how far these go towards meeting their overall financial objectives.

- Leading and long-term performance indicators such as numbers of client interactions, which enable the front office, for example, to realise opportunities to extract further value from employees outside their own job or function through cross or up selling.
Our perspective

Set up a feedback loop to support better decision-making

In Accenture’s view, the solution to closing the information gap in the front office is Enterprise Performance Management (EPM), which creates a continuous feedback loop to improve decision-making and business performance across all dimensions (see Figure 4). EPM achieves this through several activities:

- At the operational level, EPM helps to identify and evaluate the bank’s performance-driving (high-value) activities and transactions, translating these into tangible actions.

- EPM helps the front office to execute and link the strategy to targets, enabling more optimal resource allocation, and supporting more accurate and more efficient decision-making.

- EPM monitors execution across the organisation through improved forecasting, reporting and analytics, and communicates the findings top-down, bottom-up, back-to-front and front-to-back.

- EPM promotes the ongoing management and improvement of business performance by identifying the true drivers of value front-to-back, and driving processes towards shared objectives and goals.

- EPM consistently defines and models the key drivers of both current and future value – financial and non-financial, tangible and intangible – and helps decision-makers understand how these drivers interrelate.

Enterprise Performance Management Framework

Figure 4: A decision support feedback loop
### Balanced/Operational Scorecards

These allow investment banks to gauge the ‘health of the business’ to manage front office performance on a consistent and frequent basis. As well as measuring how well the strategy is being executed, scorecards can also pinpoint problems early by highlighting emerging trends and potential areas of growth or decline. They also provide a way to hold executives accountable, and help the bank to cascade its strategic goals throughout the management levels and across all areas of the business front-to-back.

### Key performance indicator

<table>
<thead>
<tr>
<th>Financial</th>
<th>Operational</th>
<th>Customer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td><strong>Revenue per Transaction</strong></td>
<td><strong>Trade Area Lifetime Value</strong></td>
<td><strong>Employee Turnover</strong></td>
</tr>
<tr>
<td><strong>Services Revenue</strong></td>
<td><strong>Close Rate (%)</strong></td>
<td><strong>Market Share</strong></td>
<td><strong>Viewpoint</strong></td>
</tr>
<tr>
<td><strong>Gross Margin (%)</strong></td>
<td><strong>Labor Productivity</strong></td>
<td><strong>Customer Retention</strong></td>
<td><strong>%</strong></td>
</tr>
<tr>
<td><strong>Operating Expense</strong></td>
<td><strong>Operating Income (NUP)</strong></td>
<td><strong>Customer Loyalty</strong></td>
<td><strong>%</strong></td>
</tr>
<tr>
<td><strong>EVA</strong></td>
<td><strong>ROI</strong></td>
<td><strong>Employee Turnover</strong></td>
<td><strong>%</strong></td>
</tr>
</tbody>
</table>

### Client snapshot

**Operational scorecards across business units**

For this major investment bank, Accenture delivered a series of findings and recommendations tailored towards the equities division globally, focused on the implementation of scorecards across operational areas. As a result, the client has benefited from growing momentum in its management information and performance management, and is starting to reap significant rewards from focusing on the metrics that really matter to the business. The bank has also been able to reduce the cycle time required to produce profitability reports, and is now looking to build a strategic platform on which all operational groups will report their profitability.
"The big problem with compensation is how do you create a culture where people suffer jointly and win jointly? How do you align this interest into a group thinking?"

Josef Ackermann, CEO, Deutsche Bank
Background

The most important asset is the most disillusioned

There is mounting evidence that talented people may be the only sustainable source of differentiation and competitive advantage left for investment banks, especially in the client-facing front office. This makes it crucial for banks to attract, retain and develop top talent in the front office, and to deploy it in the right way. However, many organisations continue to experience high staff turnover, which in turn increases recruitment, induction and training costs.

Accenture Research suggests that this turnover is likely to continue. Almost four out of five front office employees regard a ‘poor’ bonus as a reason for quitting, yet the vast majority do not intend to retire for 10 years or more. This readiness to change jobs partly reflects the strong focus on financial rewards, and the rapid competitive inflation in trading-floor remuneration. In Accenture’s view, the organisations that address the areas of concern outside of bonuses will retain staff and their abilities for reasons other than money and will become the leading banks of the future.

Total Staff Performance across Top 20 Investment Banks

![Classic bell curve](image1)

Small minority of traders meeting top performance

![Talent-rich bell curve](image2)

Peak of curve is close to classification of top performing traders

Source: Accenture Research
Key challenges

Attracting, incentivising and retaining top talent

This background is creating major problems for front offices. Heavy spending on recruitment is being driven by high turnover of staff and wasted onboarding, orientation and training costs. These high unmanaged attrition rates especially around bonus time and during periods of strong business and revenue growth reflect minimal staff loyalty and low employee engagement.

Incentivising and rewarding value-creating behaviours is difficult amid cut-throat salary competition. With most objectives and bonus targets based on short-term revenues, there is little incentive for the front office to develop people, improve business operations, or interact effectively with the control and logistics functions.

There is also a lack of succession planning to ensure future leaders have the right skills or that the high performers and rising stars are carefully nurtured. The resulting vague career structures and progression paths undermine employee engagement still further.

For many banks, the challenges are exacerbated by poor measurement and management approaches that fail to assess accurately the strategic value of internal trading franchises, or to recognise and reward key value-creating talent. These issues contribute to poor targeting of training investment and a failure to develop key skills to support the business’s strategy.
Our perspective

Right people in the right place, doing the right things

In Accenture’s view, capital markets organisations can take best practice from within and outside the investment banking industry to industrialise their talent management across the front office. The most effective approach is to forge a direct link between a job’s total pay opportunity (base and incentive) and two different variables: its impact on business strategy, and its value in the market. This provides the basis for rewarding employees based on their real strategic value contribution.

Up to now, investment banks have been deterred from moving to a value-based approach to reward by the risk of defections. However, this risk is managed and mitigated through the ability to reward the real value-creators in the workforce more highly.

Talent Management Framework

Resourcing & talent management
• Development of standard line manager (end-to-end) resourcing toolkit
• Definition of standard selection process (core trading roles)
• Build people management capability relating to resourcing, including workforce and succession planning
• Define a front office-wide talent management framework
• Develop approach to succession and pipeline management for critical skills/roles across the enterprise

Performance management
• Build people management capability relating to Performance Management capability i.e. confidence to act
• Perform diagnosis of current coaching capability
• Design and implement performance coaching solutions using solution-focused grow and simplified one-to-one forms
• Deliver role-specific training to address skills gaps and build on strengths

Developing your potential
• Review capability of individuals across the bank
• Deliver targeted individual development plans
• Identify capability gaps to address through RoP
• Align “right people” to “right place”
• Identify high potential individuals to inform Talent Management

Learning & knowledge
• Alignment of “Developing our Potential” capability gaps with Bank Curriculum
• Build people management capability relating to Learning
• Explore & develop learning delivery channels

Leadership
• Define high performance characteristics and leadership model (aligned with new Group model)
• Implement Leadership development programme for top leaders
• Roll-out phase 2 of bank leadership development programme

Employee engagement
• Design and implement questions and process for a consistent enterprise-wide engagement survey (working with Group solutions)
• Co-ordinate enterprise and drive local action planning
TPRA enables the front office to allocate rewards and incentives in a strategically targeted way. It blends internal and external values to focus higher reward on the specific traders, marketers and support functions who return the highest long-term value in the roles with the greatest value-creating potential. The benefits include increased motivation for key performers, better incentives to develop people, improved loyalty and employee engagement, and active talent deployment. Frequently the rebalancing of rewards away from lower-value creating roles and individuals, and towards the higher contributors of value, results in a decline in the overall remuneration bill.

Client snapshot

Transforming front office professional development

This leading private bank asked Accenture to help its sales people and marketers achieve higher business volume and earnings by managing client relationships more effectively, including both client acquisition and customer care. It also wanted to improve the front office’s focus on the client planning process and encourage closer integration between its asset management and investment banking operations.

Accenture helped the bank achieve all these objectives by leveraging Accenture’s Private & Investment Banking Academy. The project team began by defining the client’s strategic requirements, which provided the basis for the conceptual design for the academy, including curriculum and methods. The Accenture team also designed and developed high-quality simulations and all the necessary training materials. As a result of the project, the client realised benefits including enhanced performance, motivation and acceptance of training, and improved transfer of training learnings to the work environment.
In conclusion

In this paper, we have explored each of the Top 10 Challenges in detail. For each one, we have described the background and context and provided specific examples of the challenges faced by many of our clients today. We have also provided Accenture’s point of view based on our research, experience and insight in the market. We describe some of our services and solutions that have been developed, tried and tested to help our clients respond to the challenges.

These challenges will not disappear and many will endure for years to come. Accenture believes those that look to adapt and thrive in a volatile and evolving landscape by addressing these challenges can grow to become the market leaders of tomorrow.

If you would like to know more about how Accenture can help you plan and execute for success, please contact us.

Growth
Challenges to grow the business

1 Winning at electronic trading
2 Maximising client relationships
3 Embracing multi-asset class trading
4 Organising for innovation and growth

Efficiency
Challenges to drive efficiency across the Front Office

5 Achieving front office cost efficiencies
6 Making IT effective
7 Providing a front-to-back, full-service offering

Control
Challenges to drive appropriate control for the desired risk

8 Managing risk
9 Using information to drive the front office
10 Managing front office talent
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