

Digital Disruption in Capital Markets -Considerations

Vikash Kumar

In our blog [Digital Disruption in Capital Markets - The Drivers](#), we discussed factors that drive capital markets firms to embark on their [Digital Transformation](#) Journey. In this blog, we discuss key considerations they need to take into account in order to be successful in their journey.

Speed of application transformation: Different applications evolve at a different pace because of various factors; this aspect should be evaluated properly before defining a strategy for digital transformation. Core applications, such as trade processing systems, clearing and settlement systems, and core banking evolve slowly during digital transformation, as most of these are legacy applications and work in silos. On the other hand, customer-facing applications, such as self-service, customer trading, and investment applications, evolve fast in order to meet the digital transformation requirements

Outside-in approach: During digital transformation, there should be an emphasis on collaboration with external ecosystems, such as information technology players and fintech companies, to deliver cutting edge experience to customers through co-creation and co-innovation. This will help in conceptualizing, developing, and delivering a digital ecosystem that is customer focused.

Inside-out approach: Firms should focus on enhancing their existing IT systems to meet the demand for new technologies while supporting new business initiatives. There should also be a focus on enabling their employees to meet the demand for the rapidly evolving digital ecosystem.

Digitization - Key Considerations

For digital transformation to succeed, there has to be a holistic approach covering both its physical (e.g., branches) and digital (e.g., devices, applications, etc.) aspects including social, mobile, analytics, and cloud. Further, while defining the strategy, it has to be evaluated properly through five core lenses: customer, business, process, employee, and regulator. The focus should be on the following five key considerations.

Data hygiene: Capital markets involve the use of voluminous data during various business processes in [investment banking](#) and investment research. Currently, this data is extracted manually from multiple sources, or multiple users extract similar data. This leads to issues such as data errors and delays in processes, and since most of these activities are manual, this reduces the efficiency of the analyst. These drawbacks can be managed if there is a single version of truth or golden copy of the data. This issue can be resolved by automating the process, right from extraction and massaging

to storing and consumption in order to make the data readily available to users. For example, the process of financial and operational [data extraction](#) from annual reports of companies can be automated and the data made readily available to an analyst in the investment banking division for further analysis rather than the analyst's manually inputting the data in an Excel file for analysis. This will not only reduce the turnaround time of the task, but also help the firm leverage the analyst for other more productive assignments. New-age technologies, such as machine learning and [blockchain](#), should also be leveraged during these processes to make them more efficient and productive.

Process optimization: Many business processes run sequentially (finish to start principle), meaning the next user would wait for the process to be handed over for him/her to act upon it. If the process is automated, a lot of these sequential tasks can be executed simultaneously. Thus, the next user can start working on a task at a certain stage of the process while the previous user is still working on the task assigned to him. The ultimate goal should be to minimize human intervention during the process. The task should be automatically initiated/moved to the next level in the queue, as and when the system detects the readiness of the task based on preconfigured rules and the availability of required data. Once the processes are optimized, the system should be able to prevent the mistakes even before they occur, as correction is always costlier than prevention. For example, a senior banker can review some sections of a pitchbook created by a junior banker while the latter is working on the remaining sections of the [pitchbook](#). This will help in reducing the overall time taken for the creation of the pitchbook. Even while the review is ongoing, the junior banker can incorporate his/her senior's comments and finalize the draft.

User experience: This can be both from the internal and external perspectives. As part of the digitization journey, it is important to ensure that the transition of a user from the current way of accessing information to the one post digitization is hassle free, as user experience is very important. Similarly, user experience/customer experience while they access various applications post digitization from their multiple devices is paramount. Customers expect unified customer experience across various digital touch points. The applications should be able to provide the required user experience based on contextual intelligence. This is very important in order to increase the adoptability of customers for various digital channels. For example, it should be easier for an analyst/junior banker to navigate through the applications, find the required data, and generate the required report (e.g., pitchbook) at minimal clicks.

Personalization: Personalization should be considered while embarking on the digitization journey in order to meet the unique needs of each user (internal and external). Users should be able to personalize the application as per their preferences without losing its core functionality/performance. Some important aspects to be considered in providing true personalized experience are omnichannel, anytime anywhere access, and proper insights and recommendations for the user, based on his/her preferences

Operating model: Lots of firms have kicked off digitization, but many of them are yet to achieve the

desired results. The main reason behind this failure/partial success is that there are not enough buyers of the digitization idea in the entire organization. Firms need to prioritize their digital needs, considering aspects like need of the hour, [technology](#) impact that it creates, and possible quick fixes/low hanging fruits. Further, the process is done in silos and in an ad hoc manner by different departments and there is very limited interdepartmental collaboration. Different departments in the organization are at different levels of digital maturity. For digitization to deliver the desired results, it is important that the entire organization undertakes the journey through collaboration, with all the required support from management. Only then will an organization realize the true potential of digitization and reap the benefits.

For a [capital markets](#) firm to succeed in digitization, it is important that the above points are factored in in their strategy and road map. A robust plan should be prepared, considering the above points, before embarking on the digitization journey. If an organization applies the above key considerations in the true sense, it would be able to offer a lot of benefits, such as opening up new revenue streams through innovative offerings to customers, improved efficiency, and reduced operating costs.

About Acuity Knowledge Partners

Acuity Knowledge Partners is a leading provider of high-value research, analytics and business intelligence to the financial services sector. The company supports over 350+ financial institutions and consulting companies through a team of over 3,000+ subject matter experts who work as an extension of the clients' teams based out of various global delivery centres.

We empower our clients to drive revenues higher. We innovate using our proprietary technology and automation solutions. We enable our clients to transform their operating model and cost base.