

Capital Markets IT Transformation: Why Now?

In recent weeks, capital markets have been thrown into turmoil by the Covid-19 outbreak, turmoil that will likely continue to impact capital markets for the foreseeable future. We are entering a critical period for banks, as they need innovative solutions to control enhanced risk associated with a market relying on fiscal rather than monetary policy and navigating a shifting regulatory framework.

This new crisis comes as global banking institutions are still struggling to recover from the global financial panic of a decade ago. While average profitability for banks was on the rise, there were still laggards. Even before the markets were thrown into coronavirus-related turbulence, nearly a third of investment banks carried an unsustainable cost structure. These banks were running at a substantial loss; paying a high price for failing to restructure in a timely manner.

Technology is also transforming capital markets. Cloud, artificial intelligence, mobility, and blockchain have created new demands, new constraints, but also new opportunities to transform legacy IT landscapes. Fintech is challenging legacy players in both large and small areas. Technology is also allowing the industry to mutualize and standardize processes with utilities for affirmation, clearing, collateral and regulatory reporting.

But complex and tumultuous integration ecosystems can get in the way of simplification and cost reduction. In this context, a new target IT model is emerging as the solution – a unified, built for purpose capital markets technology platform. Banks are increasingly looking to incorporate asset classes, trading, middle office, operations, risk management and finance into one platform that is well connected with the market ecosystem. It is essential that their IT infrastructure can keep pace with the changing market conditions, evolving regulatory frameworks and enhanced risk profiles.

Why is this target model so appealing?

Having fewer systems drastically reduces unnecessary data duplication, reconciliation, operational risk and ultimately costs. It improves the capacity and velocity at which organizations can adapt to change, particularly when it comes to regulation – including the upcoming IBOR reform. Consolidation increases the level of automation and control, helping banks to see the full impact of trading decisions quicker, providing a competitive edge and operational efficiency. One flexible platform allows you to prepare for tomorrow's challenges and grow. Streamlining access to the capital markets value chain enriches the digital services that banks can develop and offer to their clients.



Concentrating activities, assets and functions on a single platform requires a robust, scalable and resilient architecture designed to combine computer-intensive calculations, in real-time or in batch, together with high-throughput processing and rich automation features. The latest technologies must be leveraged to enable better performance, resilience, openness, elasticity and a reduced total cost of ownership. Cloud deployment, agile and DevOps principle adoption make this a reality.

The target model allows banks to strike the right balance between both standardization across several areas eligible to streamlining, and flexibility driven by the need for differentiation and the singularity of the internal bank ecosystem. It should be developed and implemented in a way that enables financial institutions to maximize the opportunities to standardize, whilst leaving the necessary openness where required to retain a competitive edge.

Why is now the right moment?

Banks are already pursuing this new model, since only a handful of players can afford to build in-house, with the vast majority now turning to capital markets technology vendors to share the cost of investment required for successful IT transformation.

Banks are currently trying to deal with the burden of multiple legacy systems and turbulent market conditions. These are often challenging to untangle across numerous geographies, with silos across asset classes and calculation duplication from years of M&A, making the idea of replacing existing infrastructure appear overwhelming. The potential for significant cost reductions and strategic readiness for the future are tilting the balance in favour of transformation.

Now is the right time to turn the target model from a dream to a reality for three main reasons:

1. Firstly, the ecosystem for reference and transaction data has greatly been standardized, opening the gates for the development of efficient solutions that avoid data duplication, heavy migration and costly reconciliations.
2. Secondly, a new generation of API development and design best practices are accelerating integration in a scalable and sustainable way.
3. Finally, when it comes to technology delivery and project execution, DevOps marks a quantum leap. By embracing configuration as code, test as code, and infrastructure as code, the continuous deployment of innovation becomes possible. IT and business teams are brought closer together, increasing quality, predictability and enabling incremental value delivery.

On top of this, the automation of provisioning, and running on the cloud makes the deployment of test environments efficient and cost-effective while further reducing the time to market. It provides the flexibility for evolution, with “change” becoming the new “run”.



It takes two to tango

While the target platform exists and now is the moment to transform, such projects are not a walk in the park. It is essential to engage the support of an established software vendor with a long-term vision, strong teams that combine expert business and IT knowledge, as well as a proven track record of innovation and successful project delivery.

The importance of collaboration is critical to success and requires a multi-year investment approach. Commitment needs to come from the board level on both the bank and vendor side and a culture of risk-sharing needs to be cultivated.

Louis-Thomas Nessi, Head of Presales at Murex

About Murex

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