



## Capital Markets IT Annual Report Part 3 - Building Digital Market Infrastructures

Banking & Financial Services (BFS) - IT Services (ITS)

Annual Report – April 2018: Complimentary Abstract / Table of Contents

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- Benchmarking | Pricing, delivery model, skill portfolio
- Peer analysis | Scope, sourcing models, locations
- Locations | Cost, skills, sustainability, portfolio – plus a tracking tool
- Tracking services | Service providers, locations, risk
- Other | Market intelligence, service provider capabilities, technologies, contract assessment

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# Background and scope of the research

Evolving nature of consumer demands, complexity of regulatory landscape, sluggish growth, and the threat from next-generation financial technology firms (FinTechs) are the key challenges being faced by capital markets enterprises. These challenges have forced them to revisit their business models, launch innovative products, and redefine the way in which they individually interact with their customers.

Global capital markets firms are investing in digital technologies across data, platform, and experience, to offset the above-mentioned challenges. They are simultaneously achieving desired business outcomes such as cost containment, transparency, modernization, flexibility, and agility. In a bid to drive innovation and define

regulatory standards for emerging technologies, capital markets ecosystem players (capital markets enterprises, service providers, technology product vendors, FinTechs, RegTechs, regulators & governing bodies, and consortiums) are actively forming partnerships and alliances.

This report focuses on challenges and trends for market intermediaries. The market intermediaries are adopting next-generation digital technologies to facilitate real-time systems that process a very high volume of data with minimal delay. Market intermediaries are also experimenting with disruptive technologies like blockchain that are reinventing the industry value chain.



In this research, we look at the global trends in the market intermediaries and their implication for buyers and IT service providers. We focus on:



Business priorities



Technology investment themes



Implications for capital markets buyers and service providers

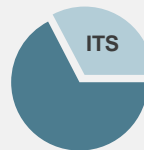
## Scope of this report



**Industry:**  
Capital markets



**Line of Business:**  
Intermediaries



**Market Segment:**  
IT Services



**Geography:**  
Global



**Sources:**  
Everest Group

# The disruptive potential of the themes driving immense changes in the capital markets industry is taking different shapes and form across the industry value chain

## Evolving customer demands

## Rise of non-traditional competitors

## Regulatory and security complexities

## The “ABCDE” of disruption



**Buy-side** (private equity, hedge funds, and asset management firms)

- The new breed of investors find digital services essential when choosing and dealing with buy-side firms, which is now becoming a key differentiator

- Rise of alternative lending and automated trading platforms are changing the way firms engage with investors

- Regulations, such as EU Benchmarks Regulation and Market Abuse Regulation (MAR), have increased reporting and market surveillance requirements

- Use of AI and automation of non-core functions will enable firms to free resources to work on core business



**Sell-side** (investment banks and brokerage houses)

- Diverse client needs are leading to proliferation of specialized products
- Since profitability is a key challenge, sell-side firms must optimize the “gives” and “gets” of their key relationships

- Partnerships with the ecosystem will become essential
- New distribution channels, competitive product offerings, and value-added non-traditional services are key demand themes

- Investments in data management initiatives, such as an enterprise-wide data lake, are becoming essential to manage complexities in regulatory reporting

- Digital technology-led disruption is creating new trading models, better cost structures, and analytics-based advisory models



**Intermediaries** (stock exchanges, custodians, and clearing houses)

- Changing investment behaviors with focus on data visualization & insights platforms
- Speed of access to services, data, and insights is a key driver

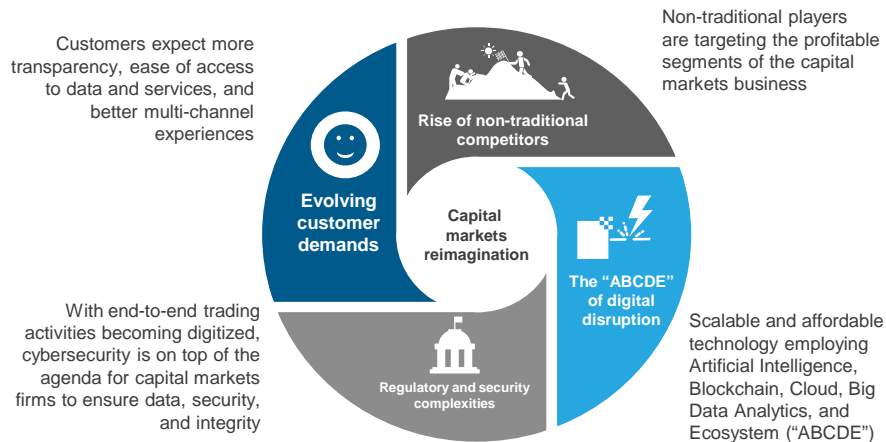
- Non-traditional competitors are looking to leverage digital-native platforms to fundamentally think how intermediaries can add value to the capital markets value chain

- Intermediaries look to leverage analytics and automation to reduce the costs of regulatory reporting

- Innovative technologies, such as quantum computing and AI, can change the way intermediaries operate
- With the proliferation of blockchain-based startups, the role of traditional intermediaries as a trusted party may diminish

# This study offers a deep dive into digital adoption trends of sell-side enterprises; below are four charts to illustrate the depth of this report

## Key trends in capital markets industry



## Leadership opinion on digital adoption among market intermediaries

"In the capital markets and in the financial markets, what we are seeing is the ability of technology to augment human judgment, not replace it, and I think that is a very good role for technology to play in the financial services space."

— Adena Friedman, CEO at Nasdaq

"Custody banks generate a bulk of their securities lending fees from finding the hardest-to-get stocks sought by the largest short sellers such as hedge funds. Identifying those stocks in a more efficient way could bring better profit to banks."

— Suresh Kumar, CIO at BNY Mellon

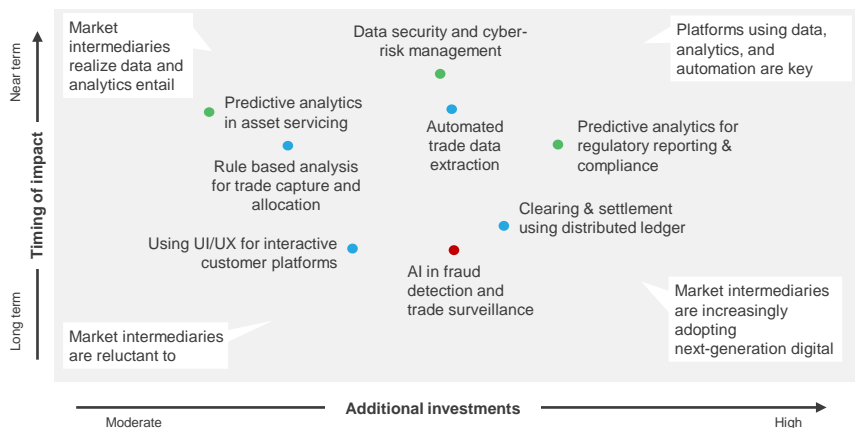
"Blockchain would reduce costs for its customers and put Australia at the forefront of innovation in financial markets."

— Dominic Stevens, CEO at ASX

"Blockchain could facilitate widespread disintermediation in the post-trade space. I firmly believe that tomorrow's custodian banks will be the cryptographers of investors' digital wallets safekeeping digital assets."

— Shrinath Bolloju, Regional Head, Institutional Cash & Securities Services

## Key investment themes and their timing of impact



## Key digital themes for market intermediaries



# Research calendar – BFS IT Services

■ Published   ■ Planned   ▭ Current release

## Flagship reports

Release date

Capital Markets IT Annual Report Part 1 - Platformification Wave Disrupting Buy-Side .....	April 2018
Capital Markets IT Annual Report Part 2 - Data and Intelligence Transforming Customer Experiences for Sell-Side.....	April 2018
<b>Capital Markets IT Annual Report Part 3 - Building Digital Market Infrastructures.....</b>	<b>April 2018</b>
Banking & Capital Markets – ITO Transaction Activity and Market Trends Annual Report .....	Q2 2018
Application Services in Banking PEAK™ Matrix Assessment 2018 .....	Q2 2018
Open Banking IT Services PEAK™ Matrix Assessment 2018 .....	Q2 2018
Digital Effectiveness for European Retail Banks   Pinnacle Model™ Assessment 2018 .....	Q2 2018
Application Services in Capital Markets PEAK™ Matrix Assessment 2018 .....	Q3 2018
Banking ITO Annual Report – Exploring adoption of Artificial Intelligence (AI) uses cases .....	Q3 2018

## Thematic reports

Enterprise Digital Adoption in Banking and Financial Services   Pinnacle Model™ Assessment 2018: Artificial Intelligence	
Enabled Transformation .....	March 2018
Maximizing Value From Open Banking.....	March 2018
Blockchain: Is It the Silver Bullet? .....	March 2018

Note: For a list of all BFS IT Services reports please visit the [BFS IT Services \(ITS\)](#)

# Additional BFS IT services research references

The following documents are recommended for additional insight into the topic covered in this report. The recommended documents either provide additional details on the topic or complementary content that may be of interest

- 1. Enterprise Digital Adoption in Banking and Financial Services | Pinnacle Model™ Assessment 2018: Harnessing Artificial Intelligence for Digital Leadership** ([EGR-2018-31-R-2562](#)); 2018. In this report, we understand enterprises' digital strategies, by conducting a study of 55 banking and capital markets organizations across North America, Europe, the United Kingdom, and Asia Pacific. We identified 18 key dimensions in which enterprises are making investments for digital transformation, and further identified five key dimensions where Digital Pinnacle Enterprises™ in BFS differentiate and reap higher returns
- 2. Digital Services in Wealth Management – Rise of Hybrid Advisory: Services PEAK Matrix™ Assessment and Market Trends 2018** ([EGR-2017-11-R-2492](#)); 2017. In this research, we present an assessment and detailed profiles of 18 service providers featured on the digital services in wealth management PEAK Matrix™. Each service provider profile provides a comprehensive picture of its service focus, key Intellectual Property (IP) / solutions, partnerships/alliances, and other digital and domain-specific investments
- 3. Simpler, Smarter, and Seamless Capital Markets – The Digital Revolution: Capital Markets ITO Annual Report 2017** ([EGR-2017-11-R-2336](#)); 2017. In this report, we look at the global trends in the capital markets industry and their implication for application services outsourcing. We focus on business priorities of capital markets firms and key investment themes, market trends and activity for large AO relationships in capital markets and implications for enterprises and service providers

For more information on this and other research published by Everest Group, please contact us:

<b>Michel Janssen</b> , Chief Research Guru:	<a href="mailto:michel.janssen@everestgrp.com">michel.janssen@everestgrp.com</a>
<b>Jimit Arora</b> , Partner:	<a href="mailto:jimit.arora@everestgrp.com">jimit.arora@everestgrp.com</a>
<b>Ronak Doshi</b> , Practice Director:	<a href="mailto:ronak.doshi@everestgrp.com">ronak.doshi@everestgrp.com</a>
<b>Aaditya Jain</b> , Senior Analyst:	<a href="mailto:aaditya.jain@everestgrp.com">aaditya.jain@everestgrp.com</a>
<b>Pranati Goswami</b> , Senior Analyst:	<a href="mailto:pranati.goswami@everestgrp.com">pranati.goswami@everestgrp.com</a>
<b>Supratim Nandi</b> , Senior Analyst:	<a href="mailto:supratim.nandi@everestgrp.com">supratim.nandi@everestgrp.com</a>
<b>Rahbare Nayyer</b> , Senior Analyst:	<a href="mailto:rahbare.nayyer@everestgrp.com">rahbare.nayyer@everestgrp.com</a>

Website: [www.everestgrp.com](http://www.everestgrp.com) | Phone: +1-214-451-3000 | Email: [info@everestgrp.com](mailto:info@everestgrp.com)





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### Dallas (Headquarters)

info@everestgrp.com  
+1-214-451-3000

### Bangalore

india@everestgrp.com  
+91 806-781-9999

### Delhi

india@everestgrp.com  
+91-124-496-1000

### London

unitedkingdom@everestgrp.com  
+44-207-129-1318

### New York

info@everestgrp.com  
+1-646-805-4000

### Toronto

canada@everestgrp.com  
+1-416-388-6765

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