

From Mainframe to Modern Financial Data Stack

Transitioning Capital Markets from
cost centre to value generation



Introduction

Global investment management is entering a rapidly-shifting phase, with disruption now par for the course. Heightened volatility, inflation uncertainty and geopolitical disruption are now dominating our headlines. As a result, investment managers are now balancing a tightrope of cost optimisation, as they continue to deliver alpha to their clients.

With profit margins under pressure, a tighter fee squeeze and the threat of drawdowns, efficiency is once again firmly in the spotlight. Harnessing trusted and timely investment data across positions, portfolio, risk and exposure is now proving more critical than ever. However, the cost of operating at a faster pace of change is now becoming challenging to sustain.

While, consumer technology has made rapid advances, changing the very way we live, the Financial Services industry has been far slower in its adoption of technology and transformation. As a consequence, a tangle of fragmented systems and duplicitous interfaces are leaving investment managers struggling to promptly respond to market events, to the needs of data hungry investors and to increasing scrutiny from regulators.

To understand why we are here today, we need to take a look under the hood. It's therefore timely that a new survey by the DTCC and Celent reveals as many as 60% of buy and sell side firms are still reliant on a mainframe.

While, the evolution of the mainframe has served global capital markets for over a century, it's important to understand that it was only ever intended to answer specific questions at a specific point in time. As markets and client needs evolved, this infrastructure has become quickly outdated, leaving a gap between the needs of the business users and what technologists could offer.

With the passing of time, that gap has significantly widened. To fill the void, organisations have accumulated a plethora of best of breed solutions and manual workarounds, forming the legacy technology and operational inefficiency that is besieging firms today. It is also the root cause of the many challenges the industry now faces in the wake of big data.

From our market engagement, including a recent roundtable with leading asset management and pension fund COO's, it is clear that there is a critical need for a data foundation that can deliver safer, better and faster data, to secure insights that will empower teams, boost performance and add value to clients. Achieving this, through safe operational change, will move firms from operating at cost, to driving value and operating at profit margins once again.

To help navigate the way forward, we capture some of the key peer insights from our discussions with the global investment community and deliver guidance on:

- The challenges, opportunities and considerations around digitalisation
- The common mistakes to avoid when considering operational change
- How Software as a Service delivers a safe path to technology innovation
- The first steps towards a digital future, including data ownership

Digitalisation and the client experience

Balancing cost optimisation while delivering clients with value-added solutions is one of the biggest conundrums to hit firms in recent years. Many firms have endured painstaking, manual and people-heavy workflows to deliver clients with the data they need at their fingertips, often during heightened conditions.

The thread that ties all the entities within the investment ecosystem, and a firm's operations is the data itself. From the firms we have spoken to, making investment data and the processes surrounding it low touch, translatable and scalable are the desired outcomes of digitalisation initiatives.

Granularity and visualisation of data, including user experience, are among the biggest priorities, in order to meet investor and regulator demands. While, building efficiencies in the delivery of data and maintaining a high gross-margin business, comes in closely after.

The area causing firms the most friction is the battle of customisation Vs standardisation. Many firms have customised processes, often with manual intervention, in order to meet high frequency, ad-hoc requests from clients and more granularity from regulators. However, meeting this level of reporting has added to already inefficient workflows, increasing overall operational complexity.

Today, firms are continuing to struggle with data silos, duplication of data and broken processes, making it difficult to swiftly respond to market events, investor due diligence and reporting. As recent examples, the war in Ukraine, and Bank of England intervention have caused a similar high-pressure macro environment, to the pandemic period.

Understanding performance, attribution and exposure promptly and confidently has relied on far too many manual workarounds. What firms are looking for is the flexibility to innovate and adapt in the long-term, and communicate investment data, the way their clients want, in the short term.

This is also a pressing concern for ESG reporting. While attempts have been made to help standardise this, such as the European ESG Template (EET) and recommendations from the Taskforce on Climate-related Disclosures (TCFD), there is still a lack of overall consensus. This has left many firms with the arduous and manual task of data collection for regulatory reporting.

In the interim, it is leaving firms between a rock and a hard place. On the one hand they are unable to wind back the level of service to overcome data intensity, particularly as many see communication as a differentiator in the current competitive climate. While on the other hand, increasing fees to cover the complexity is not an option either. Innovation is needed and it's needed fast.

Common mistakes when tackling digitalisation and operational change

In reality, the client experience is only one challenge in the race for digitalisation. Firms are facing far more hurdles in light of the increasing macro factors at play. It's not all doom and gloom though. Some of these present firms with new opportunities, like rapidly-growing ESG strategies and private assets. The difficulty lies in trying to deliver on these while keeping costs down and future-proofing the business to deliver more value, and competitive growth in the future.

Delivering more for less (Cost)

- Rapid response to market events
- Legacy architecture and technical debt
- ESG, Digital and Private assets growth
- Regulatory and client reporting – customisation Vs standardisation

Future-proofing the business (Capability)

- Moving to a cloud infrastructure
- Asset class diversification
- Digitalised client experience
- Tailored products for client base
- API strategy to connect to external innovation

As humans, we have become adept at adapting when under pressure but this often means finding short term solutions to fix something fast. All too quickly though, these short-term fixes stick and grow. Over time, this accumulated debt, the workarounds that come with it and the time and resources involved, have snowballed, increasing both operating cost and risk.

The mainframe legacy is a perfect example of this. As a result of its inefficiency in the present day, firms are spending far too much time, in some cases 50% or more of their day on manual reconciliation, locating data at source, or attempting to figure out positions and exposure from siloed data. Investment managers we've spoken to also highlight implications for firms operating in, or offering funds covering, emerging markets, where data is more challenging and costly to collate and analyse.

To address these inefficiencies and to make the transition from cost centre to value generation, we believe firms will need to start asking the uncomfortable questions, around the costs they bear and the capabilities they are missing, not at the operational level, but at the business level and with senior leadership buy-in.

Questions to consider

- What is the opportunity cost being missed today?
- Does the budget split between keeping the lights on Vs discretionary budget support the organisation's needs?
- Are the data and operations 'good enough' to survive today and deliver resiliency tomorrow?

Challenging competencies as a business priority, rather than as a siloed IT project addresses inadequacies at the root of the problem and avoids the disruption caused by short-term cost cutting measures such as job cuts, which the industry frequently turns to.

It also important to consider that when we talk about cost this not only refers to monetary cost of operations. Likewise, capabilities extend beyond obvious or immediate operational needs, such as automation or scale, and can include greater asset class diversification or the ability to tailor products to your client base.

Here are three types of additional 'costs' that firms need to consider when reviewing digitalisation and operational change:



Human cost

- Human cost refers to the cost associated with key person risk e.g. when burnt-out resources walk out the door, taking valuable knowledge with them.
- This is a particular danger when firms rely on legacy systems - whose workings are now limited to finite (and sought after) specialists in the industry.
- Enabling highly trained and talented individuals to get back to doing what will add the most value to clients and profit margins.
- This isn't an aspirational 'nice to have', behind it there is a very real threat to the business.



Reputational cost

- Poor data processes, including inadequate data lineage and governance are often fundamental reasons for being unable to reproduce data on demand.
- This has caused firms a great deal of concern, with many desiring more control and confidence in their data as a result.
- This also has a critical impact on regulatory reporting and can subsequently lead to greater risk of fines and breaches.



Opportunity cost

- While not as tangible as the other types of cost, opportunity cost has become increasingly topical, given the competitive climate firms find themselves in.
- This is the cost organisations pay for a lack of capabilities. Firms need to ask themselves what is the opportunity cost for not being able to innovate faster, and make decisions to react quicker today?



How Software as a Service delivers a safe path to technology innovation

Moving from mainframes and spreadsheet culture to a digitalised environment was never going to happen overnight, but now that we are 50+ years on from the birth of the mainframe it's certainly time to review where we are and make actionable change. This requires replacing all the sticking plasters, manual re-mapping of data and spaghetti workflows, with a trusted data foundation for the organisation.

Tackling the fundamental problem of understanding, accessing and controlling the data is something the industry needs now, not in five years' time. We need to stop the 'big bang' revolutionary thinking and start taking an evolutionary approach that is empathetic to the fact that the industry is not operating on a blank slate. It has baggage, lots of it too.

A SaaS-native path to operational change





A safer SaaS-native path to technology innovation enables businesses to focus on the core of their business rather than the distraction of a multi-year transformation. It means starting small with mission critical areas, realising the value quickly and building the business case for further change. It's operational change on your terms and it's what we believe will drive the process of improving efficiency and transparency in capital markets.

Challenging traditional constructs, we have designed a Modern Financial Data Stack, in the form of a cloud-native, interoperable data store, that offers exactly this; reducing the complexity within the existing operational estate and de-risking the process of change by opening up existing 'closed' systems.

The Modern Financial Data Stack is a trusted data fabric that makes sense of the technology investment made to date and fundamentally solves the final piece of the puzzle- understanding and deriving value from the data that sits in your organisation.

By delivering safer, better and faster data at the core, firms can remove the pain caused by operational inefficiencies, siloes and broken processes from day one. At the same time, the Modern Financial Data Stack builds a bridge to external innovation and emerging technologies, via open APIs, so firms can augment investment data processes and outsource non differentiating activities.



The first steps towards a digital future

The echoing themes around multiple sources of truth, the difficulty of achieving high-quality data, and how to interpret and gain value from complex data sets, resonate strongly with the mission FINBOURNE is on; to transition global Financial Services out of the past and make it future-fit. To do this in the quickest possible time, there are some first steps firms need to take in the journey to being future-ready:

Data-led operational change is a business priority

Leveraging clean interoperable data, is a clear business priority. In the past firms have approached operational change through siloed IT projects. Given the urgency, data-led change needs to be a business-wide objective, with leadership buy-in.

Unlocking data value starts with ownership

Owning and controlling your organisational data (and effectively your destiny) is the first and most vital step to unlocking value from the data you hold today. What firms don't always recognise is that the data models mandated by the vendor of their choice, often compound the issues they face around data.

We believe you should do business your way, in the language and format you choose. It is why we've chosen to deliver the means to migrate between data models, so you can understand what you own and how much it is worth, at any given point in time – the way you want to see it.



Slice and dice data in the format and language you choose e.g. garnering granular ESG insights and historical analysis, whether you are using mainstream providers or niche players.



Pull in additional data from external sources, through an extensible model, in order to augment analytics for decision-making.



Eliminate inefficiencies in the organisation, so you can interpret and speak the same language as the entities in your ecosystem. This removes the need to make manual, daily adjustments, to confidently strike the same shadow NAV as your custodian.



Achieve the flexibility and control needed to manage your response to markets and to stakeholders, including savvy investors. This is just not possible with certain incumbents, whose rigid 'black box' architecture make it difficult to push and pull data.



Bridging the gap

While the mainframe has underpinned the Financial Services industry for decades, the foundation it is built on can no longer support the data needs of investment managers in the present, or swiftly deliver the answers needed to the unknown questions of the future.

At this critical juncture, the industry needs to find a new way to bridge the gap that exists between what technologists can offer and what the business needs, and also between the current architecture and the future state desired.

In our market engagement, many of the comments concerning operational and business priorities, can be traced back to five important outcomes:

- Greater granularity and transparency across public and private assets
- Demonstrating more value to investors through a digitalised client experience
- Increasing flexibility, to promptly respond to economic and geopolitical shocks
- Regaining control of operational efficiencies to reduce costs and risk
- Liberating employees and leveraging available talent and skills to support growth

The outcomes above centre around transparency, flexibility, trust and control and common to them, is data. It is why we believe an interoperable Modern

Financial Data Stack, that addresses data at the foundational level will achieve these priorities in the shortest time, enabling firms to win back productivity and operating margins.

Leveraging a host of SaaS capabilities, it forms a data hub that can adapt and evolve as firms grow and markets change, delivering them into the future state they desire.

By successfully managing the data chaos from day one, we have designed and built a solution that tackles inadequate infrastructure, without ripping it all out and starting again, so you can gain a holistic view of your business. Empowered with instantaneous access to trusted data and the ability to interpret data on your own terms, you can future-proof the business while reducing operational, reputational and human cost.

More than anything, by improving access, control and understanding of data, firms stand the best chance at freeing talented individuals from burn out, so they can regain motivation and focus on the high value tasks that will generate the most value for clients, ultimately driving your business forward.

FINBOURNE

About

FINBOURNE's solutions deliver an interconnected network of functionality and data that enables the investment community to better serve clients in a constantly evolving market.

Its investment management solutions and cloud-native data management platform ensure that investment and operations teams can increase revenue, reduce costs, and better manage risk across the investment life cycle.

Get in touch

To discover more about FINBOURNE and learn how our solutions can drive growth, increase control and improve data access, contact us below

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