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Managing Operations to Thrive in 2021

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The word unprecedented may have been overused in 2020, but there is no doubt that financial institutions and their operational systems were not prepared for the ructions caused by the coronavirus. Most firms would have expected their operational infrastructure to withstand the extreme bouts of volatility experienced in March and April when Covid- 19 spread across the world and lockdowns ensued. The experience has forced the industry to reimagine their technological modus operandi in order to mitigate further risks but also to leverage new opportunities and sharpen their competitive edge.

Managing the Spikes

Crises are not new in the financial world, but Covid- 19 is different in that very few would have foreseen this as a black swan event. The majority of companies had their employees working from a remote location in case of an emergency and not their dining room table or a makeshift home office regularly. However, this is exactly the scenario that played out when simultaneously markets were plumbing new depths. In the first three months of 2020, the S&P 500 plunged into a bear market in record time, taking just 16 days to slump from all- time highs while the UK's FTSE 100 recorded its worst quarter during the timeframe since the late 1980s.

Evidence from Linedata shows that during the March and April period, our average portfolio management systems client recorded a two and a half times spike in transaction volumes, measured over a two-week period. This means that on any one day within that period, transaction volumes could have been as high as sixteen times the average. Although markets have calmed, volatility persists with further data from Linedata showing that between March and August clients experienced a 40% spike in order volumes and 57% hike in execution volume across equities, funds, indices, futures and options.

Future Proofing

The initial response was to move into survival mode as organizations navigated the turmoil. When the dust settled, the pandemic revealed many asset managers were not as efficient as they had thought. Operational cracks were exposed with manual processes laid bare. Workflows that seemed seamless in the office were in fact shown as cumbersome and time-consuming functions in a remote working environment. Putting out fires is only ever a temporary solution. Firms now need to develop a long-term game plan that not only provides future weatherproofing but also enhances their resiliency and value proposition. In other words, the working backdrop might have changed, but the ongoing regulatory, cost and margin pressures will continue and only intensify going forward.

This is why digitization, the cloud, data analytics and automation should be much higher on priority agendas in 2021. They are already firmly on the list, but the pandemic has been the incentive to quicken the pace. Sourcing the right technology and tools though is only one part of the equation. Implementation is only effective if the requisite structures and frameworks are in place to integrate them into business operations.

Regardless of size or strategy, the end game is the same – to utilize the technology to reduce manual processes, improve workflows and bolster operational efficiencies to allow companies to become more successful, nimble, efficient, innovative and client focused.

Cloud Journey

Take the public cloud. It is important to understand that the cloud is not a piece of technology but part of a firms' continuum. The cloud's potential is only realized if the software implemented can take advantage of its intrinsic elasticity to add new capabilities or functionality as well as provide extensibility. Managers should not have to choose between leveraging existing systems, customizations and applications or enhancing business and operations with cloud capabilities. They need an adaptable solution that can run third-party applications with the APIs and custom integrations developed over the years migrated to a cloud environment.

Adoption of the public cloud was already growing but the trend has accelerated due to the disruption caused by the pandemic and switch to remote working. There is a much greater appreciation of the benefits of distributed connectivity, greater flexibility and improved security that the cloud can provide. While a return to office life is likely once the dangers of the virus abates and a vaccination is rolled out, analysts and consultants believe patterns of working may be permanently altered. It is too early to predict the outcome, but financial service institutions are exploring a more flexible hybrid model which splits the week between home and office for employees.

The advantages of the public cloud have not only come into sharper focus due to remote working but also on a wider organizational level.

Its scalability can lower the total cost of ownership as well as generate a higher return on investment. Firms only pay for what they use and can source services they would not be able to find elsewhere at no additional cost. In-depth functionality is not sacrificed with cloud as financial firms themselves as well as their customers gain from regular, automatic upgrades and new features continuously added without changing or testing the entire system.

The result is that firms can swiftly take advantage of new opportunities, move into new geographic markets, launch new products and add new types of funds and accounts. In addition, it allows them to respond to unexpected events. For example, having on-demand cloud scalability helps firms cope better with volumes skyrocketing 15 times normal 'average' volume, than relying on traditional procurement, setup, and implementation cycles.

The importance of having a robust data management framework cannot be underestimated. Manual processes only go so far, Especially in a remote working environment. Tasks may seem like they are smoothly being executed but in fact downloading data to a file and then uploading the new prices, reference data and, economic indicators onto another system involves many steps. This is burdensome and unwieldy in the best of times but particularly in a home office setting. One reason is the difficulty in accessing a specific file or external data source that is only available directly on networks. Operational errors may be repaired in time, but the compliance and reputational damage could take much longer to fix.

As with the cloud, data infrastructure and implementation frameworks have a significant role to play in a thriving operational model. In this case, attention needs to be paid to the quality, timeliness and accuracy of the data and analytics. Data is often referred to as the "new oil" because, like the commodity, raw data is not significant in and of itself, but, rather, the value is created when it is successfully connected to other relevant data sets that can be easily accessed and analyzed. When properly refined, usable data becomes a significant decision-making tool, ready to fit a company's particular requirements and client base. Further leveraging data in machine learning models can produce actionable insights that improve day-to-day processes but also enhance competitiveness, foster innovation and fundamentally lower firms' total cost of ownership.

This requires systems that can deploy internal and third-party data to create a comprehensive view of a company's front, middle and back office operations. Data sets can be mined to identify patterns and signals to help an organization mitigate risks before they happen but also identify opportunities, such as improving client retention. Just as significant, the right datasets can adapt to changing market conditions and trends to ensure firms remain one step ahead of their rivals. The information required will vary according to a company's targeted objectives, which is why a flexible and extensible offering with full context and visualization is recommended.

360 View

Although a customized, modular approach to business operations has become increasingly popular and significant, a holistic view is crucial. This is particularly true today, but whether employees are in the office or home, organizations need the latest analytics and business intelligence to spot the main sticking points across the business. Greater emphasis should be placed on the technological glitches and bottlenecks that can hinder a business' development and growth.

Conclusion

There is no doubt that the pandemic has disrupted the professional and personal lives of organizations across the board. However, in many cases, the problems already existed, and the pandemic has served to amplify them. Firms were already under pressure from increasing regulation, squeezed margins, greater competition and fast changing markets. The need to reduce manual processing and create flexible infrastructure has been the mantra for a long time; Covid-19 is providing an impetus to hasten the speed. Firms that do not invest in digitization, the cloud and data and analytics in 2021 will fall far behind their peers. These technologies not only generate greater efficiencies and cost savings, but equally as important create space to spend more time on value creation for each firm and its clients.

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