



# COVID-19: Emerging perspectives for the post-trade industry





# Introduction



Preparing for a crisis is no longer a matter of “if” or “when.” It has become an integral part of every business, be it small or large. The impact of the COVID-19 pandemic is unprecedented.

Apart from the severe social impact, the pandemic has plunged the world deep into recession, with the IMF forecasting a 4.4% decline in global GDP in October 2020.<sup>1</sup> Especially in a world that is rapidly changing, our post-COVID reality will accentuate some existing trends. More importantly, however, it will pave the way for new ones. While strong leadership will play an important role, the need for business models to evolve will no longer be a choice but a necessity – striking a balance between adaptability, resilience, and prediction will be key for leaders to drive sustainable growth.

As we embrace a new financial decade, the post-trade industry is also experiencing an aberrant impact in diverse areas: operations, client relationships, data and information transparency, regulatory compliance, etc.

Securities industry value chain can be broadly viewed as sell-side and buy-side or pre-trade, trade and post-trade. The post-trade sector comprises of financial market infrastructures (FMIs) as well as intermediating banks (including custodians) and brokers, providing core and auxiliary services such as clearing, settlement, custody and asset servicing, account management, and collateral management. This point of view will focus on the post-trade sector primarily.

FMIs in particular, such as exchanges, clearing houses, central securities depositories and custodians, data and technology providers, have succeeded in navigating through the crisis to date. They have provided stable platforms and operations, and enforced operative business continuity plans. The workforce has adapted to the new ways of working.

However, the strategic perspective for financial markets is likely to become even more challenging, due to emerging risks of credit issues and weak demand. As a result, both the sell-side and buy-side may have dramatic bearing. Against this backdrop, market infrastructures will play a pivotal role in maintaining and supporting a resilient financial ecosystem in the longer run. The perspective provided here will explore how business and technology propensities will evolve and shape the future of this industry.

---

1. [International Monetary Fund](#), accessed October 2020.

## Trend 01

# Cost pressures and low-interest regime drivers for fee-based income model

Cost pressures and reduced margins during COVID-19 have accelerated the move towards digital low-cost models. Incumbents in the BFSI sector who do not embrace digital low-cost models may be displaced by non-traditional competitors who are typically better able to calculate risks and offer low-cost digital channels to better price and service their products. Also, the new entrants will not be constrained by historical commitments and can take advantage of incumbents' weakness to launch financial services. With the emergence of digital currencies and assets, the role of brick-and-mortar players will be questioned further.

COVID-19 has led to demand and supply contraction across geographies, supply-chain disruptions, and volatility in financial markets.

Central banks took fiscal and monetary measures, provided credit relief, and pumped in liquidity. Post-trade industry is faced with lower interest income and is exploring new business models and service offerings, focusing more on high-value, fee-based products with pay-per-use variable pricing.

The shift from active to passive asset management has caused consolidation and outsourcing of front and middle office functions within the buy-side community. This has also led to the consolidation of trading desks across asset classes and geographies. "Trading Desk-as-a-Service" has grown in popularity as asset managers have outsourced trading to both custodians and prime brokers.



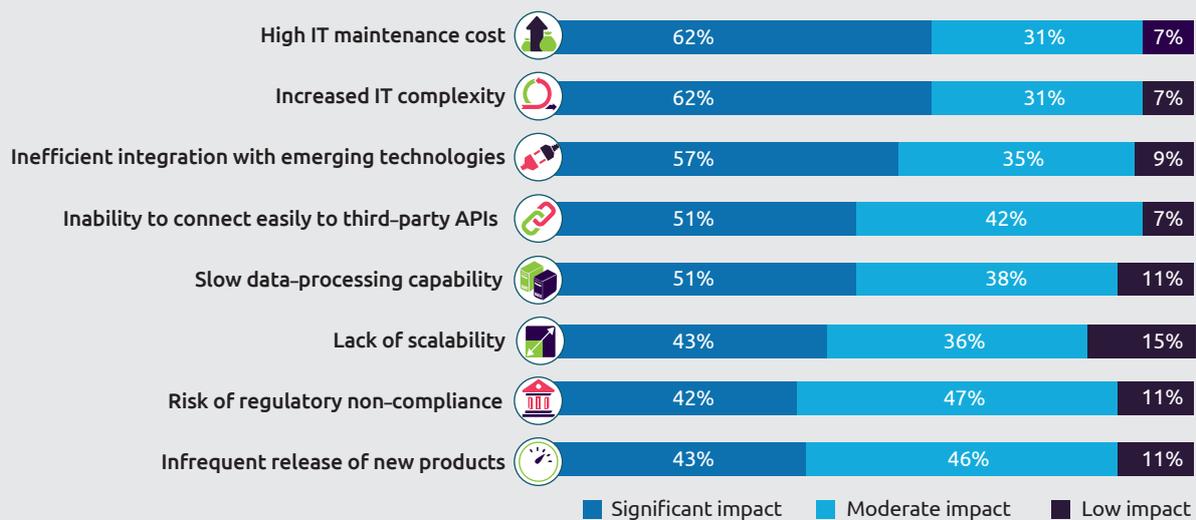
## Trend 02

# As the battleground shifts to digital platforms, technology modernization and ecosystem collaboration will be critical to stay ahead of the game

Time and again, technology has proven to be the key disruptor and has helped organizations distinguish themselves from the competition. Henceforth, a robust technology strategy will be instrumental in shaping the resilient enterprise of the future and evolving business models will rely even more on technology and digitalization.

According to a recent World Report<sup>2</sup> published by Capgemini, 6 out of 10 respondents emphasized that legacy leads to a more complex IT landscape and higher total costs of ownership for IT. Poor flexibility and integration capabilities can limit the potential to take advantage of external systems, partners, and innovation.

### Impact and issues of legacy core banking systems



Source: World Retail Banking Report 2020, Capgemini.

2. Capgemini, "[World Retail Banking Report 2020](#)", published June 11, 2020

Financial services players are at a crucial inflection point, where board-level priorities to enhance the core systems' agility, flexibility, and scalability for a sustainable future have been fast tracked due to the pandemic. Nonetheless, getting the modernization strategy right from the beginning is the key to successful modernization programs – be it full core replacement, progressive modernization, or re-factoring.

The onset of 2020 marked an important breakthrough in the post-trade industry, with Depository Trust & Clearing Corporation, one of the premier financial market infrastructures globally, launching their online API Marketplace. This initiative aims to provide easier access to services and information, creating a seamless experience for their customers and partners.

As we shift from providing near-term continuity to refocusing on the changing business environment, it is equally imperative to leverage the power of open ecosystem,<sup>3</sup> innovation, and collaboration with FinTechs to stay ahead of the game.

Fueled by the need for new digital offerings to expand beyond traditional services into ancillary services and digital utilities, the current market players will join forces with FinTechs to redefine the future of this industry. The impact of FinTech and RegTech is visible in digital payments (e.g., digital wallets and virtual currencies), wealth management (e.g., robo-advisors), retail loans (e.g., ML-based real-time credit assessments and peer-to-peer loans), insurance policy administration, and is likely to percolate down to more traditional bastions of BFSI sector.

**Remain Relevant - collaborate at scale with FinTechs**



**Once disruptors, non-traditional players have matured now!  
Banks need to quickly capitalize on this opportunity with FinTechs as catalysts**

Source: World FinTech Report 2020, Capgemini.

3. Capgemini, [Inventive Banking](#)

## Trend 03

# Embrace regulations to explore new products and business models

Every player in the post-trade, and especially buy-side firms, faces an unprecedented wave of financial and operational challenges in 2020 and beyond as they prepare for the go live of multiple new regulations. Over the next couple of years, Uncleared Margin Rules (UMR), along with the Securities Financing Transactions Regulation (SFTR), IBOR replacement, and key provisions of the Central Securities Depositories Regulation (CSDR) will take effect. This regulatory tsunami is straining traditional operating models and introducing new costs and regulatory reporting requirements, especially due to overlaps and synergies in their compliance strategies.

COVID-19 has led to regulatory push back to provide increased operational capacity to firms. Regulators have consented to several extensions to regulatory submissions and consultation guidelines e.g., CSDR (September 20–February 2022),<sup>4</sup> T2S-T2 consolidation (November 2021–end of 2022),<sup>5</sup> SFTR (April 2020–July 2020, along with phase II),<sup>6</sup> UMR phase V/VI (one-year delay to September 2022),<sup>7</sup> etc. Industry participants are clamoring for changes in scope and approach of penalties regime (e.g., delinking fails reporting, penalties and

buy-ins; have different dates and approaches e.g., make buy-ins optional for all/some asset classes, have different approaches for domestic vs cross-border fails). Post-trade players must use this time to better assess their operational and business model and adapt in ways best suited to their situation. These regulations, while increasing market harmonization, will offer opportunities to incumbents as well as new players to experiment new business and operating models, and offer new products to existing and new client base.

However, the competition in the niche post-trade industry is going to become fierce with market harmonization initiatives such as the T2S, ISO standardization, and the CSDR. We will soon start witnessing disaggregation of traditional post-trade functions, e.g., custody, collateral, account management – register services, etc. diluting the monopoly of existing market players. The pandemic is going to further accelerate the dawn of new operating models and redefined roles to transcend competition. In hindsight, the need to achieve higher transparency, lower risks, and operational efficiency will further deepen.

4. CSDR delay – European Securities and Markets Authority (ESMA), "[ESMA proposes to further postpone CSDR settlement discipline](#)," August 28, 2020

5. European Central Bank (ECB), "[Financial industry calls for one-year extension to T2-T2S consolidation project timeline](#)," June 22, 2020

6. SFTR delay – [European Securities and Markets Authority \(ESMA\)](#), Public statement published March 26, 2020

7. UMR delay - Global Custodian, "[Regulators delay uncleared margin rules for one year \(by BCBS/IOSCO\)](#)", published April 6, 2020

## Trend 04

# Data-driven resilience will be an indispensable element of future competitive advantage

Amidst the rapidly evolving global market, the importance of data has become more pronounced in every aspect of crisis response. The need for real-time oversight has become mission-critical and has made increased data management indispensable.

As we move towards a post-COVID era, the post-trade players will be judged on their value-added services across all areas. Whether we talk about asset servicing, issuer services, or the increased focus on risk management, nimble and innovative use of data will pave the way for new revenue channels and provide clear opportunities.

Post-trade firms can benefit from data aggregation and the transformation of the fragmented data landscape to information. Dictated by transparency, regulations such as CSDR, MiFID, SFTR, and SRD-II, will both consume and generate significant volumes of enhanced data. Data related to transactions, settlements, execution, and collateral is

further enhanced and formalized due to regulatory needs. This data can be mined to provide anonymized insights and derive “what-if” scenarios for several actors in this ecosystem.

The way data is currently accessed and leveraged will further transform the push towards real-time decisioning, viewability, and better predictability. Services and products underpinned by reference data and advanced analytical techniques, such as artificial intelligence (AI), machine learning (ML), and big-data analytics, will enhance risk mitigation, regulatory compliance, and reporting at lower operational costs. This will help organizations make informed investment and strategic decisions. Keeping an eye on possible future disruptions, having the right data strategy and roadmap is no longer just a technology discussion – rather, it drives attention towards “data-driven resilience” at the CxO level.



Data-driven decision making and actioning will be indispensable in becoming a data powered resilient enterprise



– Vivek Nanda, Account Manager,  
Capgemini Financial Services, Sweden

## Trend 05

# Industry 4.0 technologies will transform the post-trade industry

Across industries, the financial services sector is leading in Industry 4.0 adoption. Organizations are leveraging Industry 4.0 technologies such as the cloud, machine learning, artificial intelligence (AI), automation, and distributed ledger technologies (DLT) to drive hyper-personalization for increased predictability, transparency, and process efficiency at lower cost.

With the influx of central bank digital currencies (CBDCs), the future of global monetary policy and regulations is set to take a different turn. If we shift our focus towards the capital markets space, tokenization of assets and adoption of DLT, this could trigger a revolution – digital assets will set the stage for the future of capital markets.

It's time to embrace the change (rather than adapt), partner, and innovate to reap full benefits of the first-mover advantage!

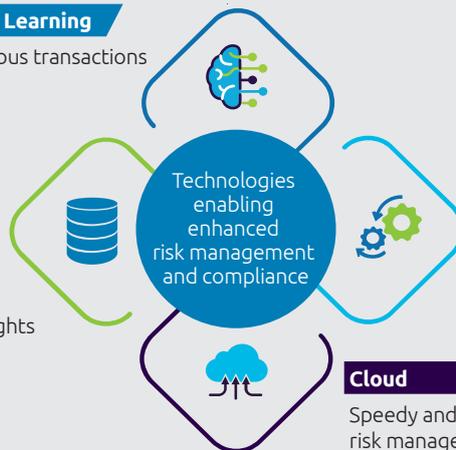
### Technologies enabling enhanced risk management and compliance

#### Artificial Intelligence/Machine Learning

Analysis of data to detect suspicious transactions

#### Big Data

Efficient management of large data volumes for deeper risk insights



#### Robotic Process Automation

Automating compliance processes to improve efficiency

#### Cloud

Speedy and scalable implementation of risk management solutions

Source: Top Trends in Retail Banking 2020, Capgemini



## Trend 06

# COVID-19 accelerates the shift towards passive investments and sustainable investing

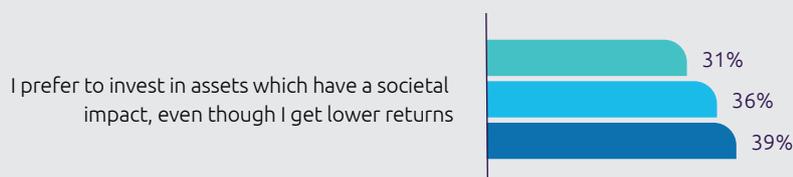
COVID-19 has led to major shifts in asset allocations across sectors and geographies and HNWI investors' preference for liquidity and safety. There is a marked preference for passive asset management/ETF over active asset management.

Green bonds and more generic ESG investments – assets having high environmental and societal impact – have seen major growth over the last three years. The World Wealth Report 2020 found that

41% of HNWIs under 40 are interested in sustainable investing products. The top two drivers of interest in sustainable investing for HNWIs surveyed overall were higher returns and lower risks.<sup>8</sup> ESG-based assets are seen as alignment of good business, with high risk-adjusted returns over longer term and responsible business that resonates with their target audience. Both these trends of increased preference for passive asset management and ESG investments have accelerated due to COVID-19.

### Consumers show a higher preference for assets with societal impact

Percentage of respondents agreeing with...



■ Before the COVID-19 outbreak    ■ In the current scenario    ■ In the next 6–9 months

Source: Capgemini Research Institute, Consumer Behavior Survey, April 4–8, 2020, N=11,281 consumers.

## Trend 07

# Cybersecurity and crisis resilience demand urgent attention in the post-COVID digital world

Globally, COVID-19 has accelerated the shift towards an “Era of All Digital.” In a way, the pandemic has proven to be a comprehensive stress test for organizations’ existing security controls and policies. With the pervasiveness of increased use of digital technologies in the financial markets, cybersecurity threats have also expanded. The medium to long-term view is likely to become even more critical with the new normal – remote working and digital workplace.

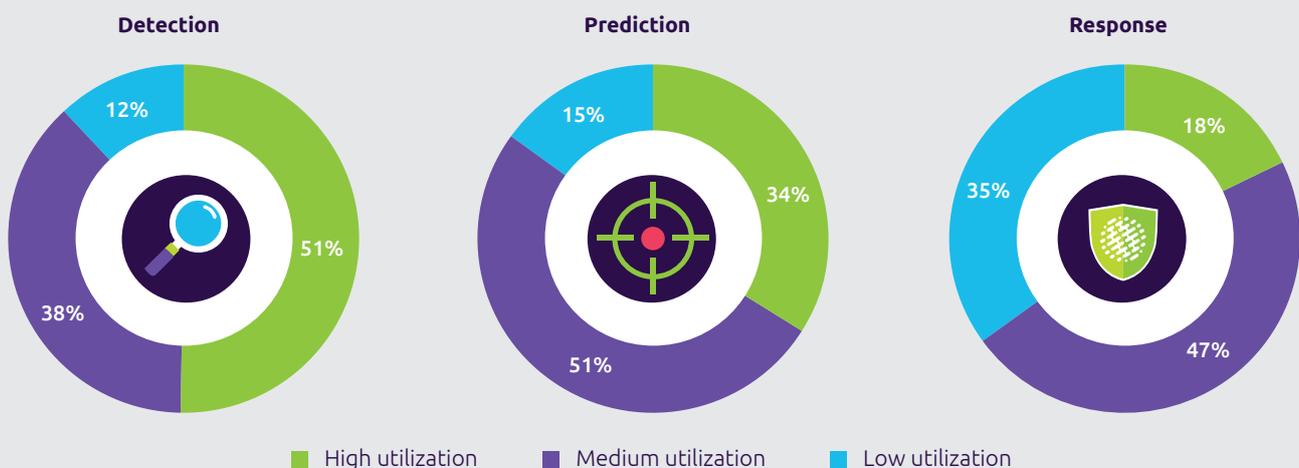
Cyber-attacks or security breaches at organizations such as central banks, CSDs, CCPs, and other systemically important market infrastructures, can also create a ripple effect, having a long-lasting financial and reputational impact. Cyber-attacks, such as ransomware, data theft, payment frauds, incidents through public cloud vulnerabilities, and IoT devices are becoming increasingly prevalent.

In 2014, the International Organization of Securities Commissions (IOSCO)<sup>9</sup> and the Committee on Payments and Market Infrastructures (CPMI) set up a joint working group on cyber resilience, which continues to monitor the implementation for the FMIs. However, due to the evolving nature of cyber threats, a more nimble response is required.

Adoption of emerging technologies such as AI, ML, and advanced analytics is gaining momentum. In a recent executive survey conducted by the Capgemini Research Institute,<sup>10</sup> 51% use AI in threat detection extensively, followed by 34% and 18% for prediction and response purposes. Hence, as we emerge from the current abeyance and to address the lessons from the past, leaders should prioritize revamping cyber-resilience and security in the post-pandemic world.

### Higher utilization of AI for detection than prediction or response

Please rate your organization's utilization of AI in cybersecurity for the following areas



Source: Capgemini Research Institute, AI in Cybersecurity executive survey, N = 850 executives

9. [International Organization of Securities Commissions \(IOSCO\)](#)

10. Capgemini, [Reinventing Cybersecurity with Artificial Intelligence](#)

## Trend 08

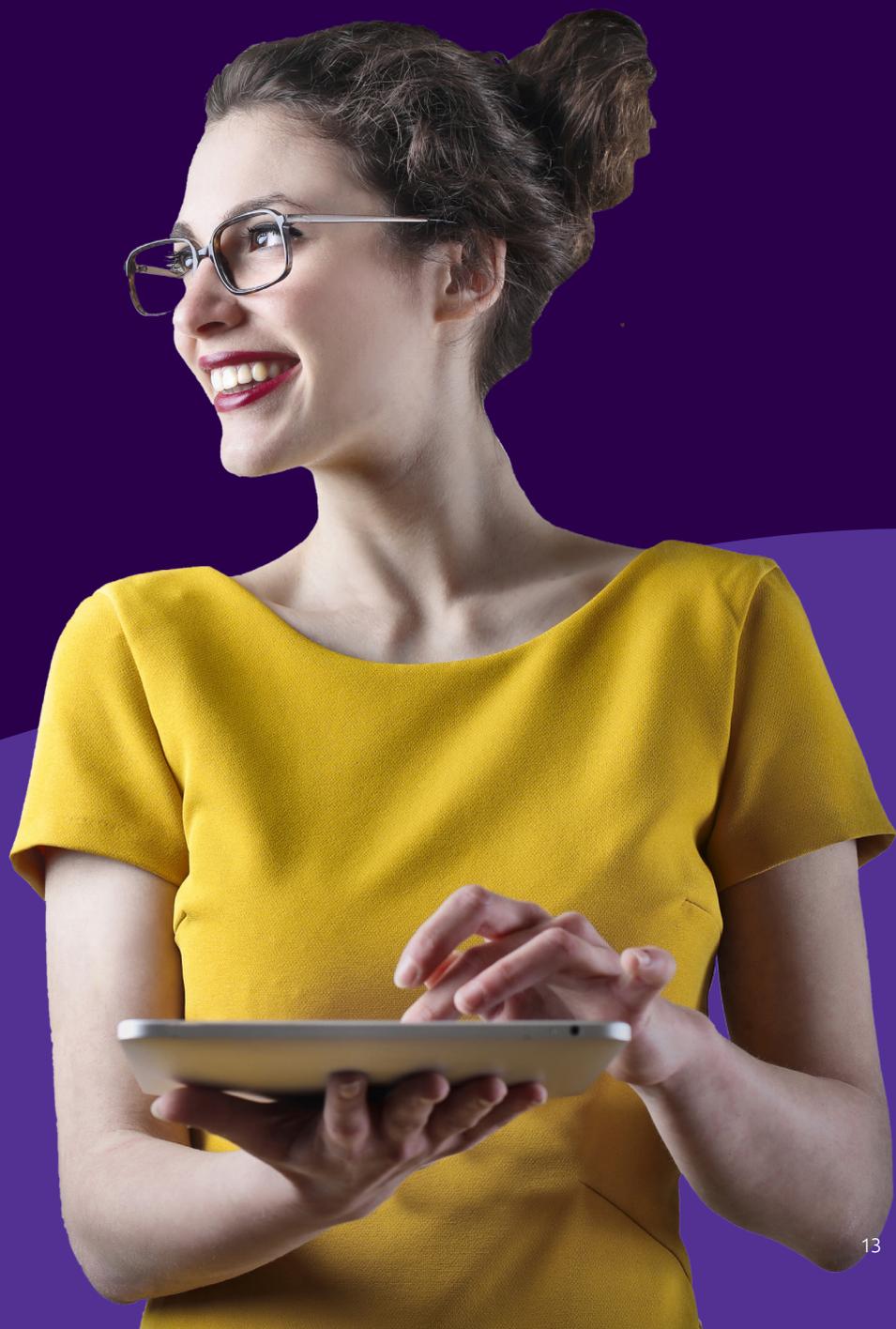
# Hyper-personalization of customer facing services will be key for successful execution

New regulations such as UMR and SFTR will embrace many new entities, both financial and non-financial, and expose them to new processes for the first time.

As the scope of new regulations and need for automation covers interorganizational

processes, hyper-personalization becomes a key to ensure successful execution. Technologies such as the API-fication of legacy applications, no-code/low-code solution providers such as Appian, Decisions, Taskize<sup>11</sup> hold promise in this space.

11. Appian, Decisions, Taskize



## Conclusion

COVID-19 has accelerated the pace of change and has forced post-trade players out of their comfort zone. In the new normal, especially when the focus shifts from regulatory compliance to topline growth, these organizations need to be prepared to strike a balance between adaptability, resilience, and prediction. Embracing open architecture and collaboration with all stakeholders will be the key for leaders to survive and drive sustainable growth.

For more insights on how Capgemini can help rapidly develop innovative propositions and revolutionize the post-trade industry, please feel free to contact Vivek Nanda at [vivek.nanda@capgemini.com](mailto:vivek.nanda@capgemini.com).

## Authors:



**Vivek Nanda**  
*Account Manager,  
Capgemini Financial  
Services, Sweden*  
[vivek.nanda@capgemini.com](mailto:vivek.nanda@capgemini.com)

 Connect with Vivek on LinkedIn



**Anil Agarwal**  
*SME, Capital Markets  
Practice, Capgemini  
Financial Services*  
[anil.a.agarwal@capgemini.com](mailto:anil.a.agarwal@capgemini.com)

 Connect with Anil on LinkedIn

## Acknowledgements:



**Peter Katsos**  
*Senior Director, Capital  
Markets Practice Head,  
Capgemini Financial Services,  
North America*  
[peter.katsos@capgemini.com](mailto:peter.katsos@capgemini.com)

 Connect with Peter on LinkedIn



**Sumita K. Chakrabarty**  
*Director, Head of Alliances &  
Marketing, Capgemini Financial  
Services, Sweden*  
[sumita.chakrabarty@capgemini.com](mailto:sumita.chakrabarty@capgemini.com)

 Connect with Sumita on LinkedIn



**Krithika Venkataraman**  
*Senior Manager, Market  
Intelligence, Capgemini  
Financial Services*  
[krithika.venkataraman@capgemini.com](mailto:krithika.venkataraman@capgemini.com)

 Connect with Krithika on LinkedIn



**Tanya Kishore**  
*Manager, Marketing and  
Communications, Capgemini  
Business Services*  
[tanya.kishore@capgemini.com](mailto:tanya.kishore@capgemini.com)

 Connect with Tanya on LinkedIn

## References

- [International Monetary Fund](#), accessed October 2020.
- Capgemini, "[World Retail Banking Report 2020](#)," published June 11, 2020.
- Capgemini, [Inventive Banking](#)
- [European Securities and Markets Authority \(ESMA\)](#), Public statement published March 26, 2020.
- [European Securities and Markets Authority \(ESMA\)](#), "[ESMA proposes to further postpone CSDR settlement discipline](#)," August 28, 2020.
- [European Central Bank \(ECB\)](#), "[Financial industry calls for one-year extension to T2-T2S consolidation project timeline](#)," June 22, 2020.
- [Global Custodian](#), "[Regulators delay uncleared margin rules for one year](#)," published April 6, 2020.
- Capgemini, "[World Wealth Report 2020](#)," July 9, 2020.
- Capgemini, "[Retail Banking Trends 2020](#)," November 20, 2019.
- Capgemini Research Institute (CRI), "[COVID-19 and the financial services consumer: Supporting customers and driving engagement through the pandemic and beyond](#)".
- [International Organization of Securities Commissions \(IOSCO\)](#).
- Capgemini, "[COVID-19 and the financial services consumer](#)".
- Capgemini, "[Reinventing Cybersecurity with Artificial Intelligence](#)".
- [Appian](#); [Decisions](#); [Taskize](#).



A smaller version of the Capgemini logo is placed on the boundary between the green and blue background sections. It consists of a blue water droplet icon with a white outline, partially overlapping the green area.

## About Capgemini

Capgemini is a global leader in consulting, digital transformation, technology, and engineering services. The Group is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. A responsible and multicultural company of 265,000 people in nearly 50 countries, Capgemini's purpose is to unleash human energy through technology for an inclusive and sustainable future. With Altran, the Group reported 2019 combined global revenues of €17 billion.

Visit us at

[www.capgemini.com](http://www.capgemini.com)