



FORTUNE FAVORS THE BRAVE

EMPOWERING THE FRONT OFFICE

INSIGHT REPORT

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Technology in the front office

The front office has long been viewed as the dynamic and glamorous part of a broker-dealer, dependent upon the interpersonal skills of telephone-based sales traders. Despite a reputation for being reluctant to change and adopt new technologies and concepts, there has been a recent upsurge in front-office support for innovation.

This short report examines the potential impacts of technology on the front office of broker-dealers, the results of which are based on the views of 41 respondents working in the front offices of broker-dealers across 15 countries. The study was undertaken in July and August 2016 on behalf of FIS, by Lantern Insights.

Tech trends

Many next-generation technologies and their implementations are now being explored by the front office, including fintech start-ups, outsourcing, blockchain, cybersecurity and mobile services. Each of these areas of innovation serves to illustrate how front offices could change with adoption of the latest technologies.

Regulatory challenge

The front office is primarily responsible for generating sales and executing orders on a daily basis. Risk assessments and post-deal compliance used to be largely left to the middle and back offices, but since the financial crisis in 2008 the front office has had to play a more active role in remaining compliant with stricter regulations and preserving precious capital reserves. This emphasis on remaining compliant has become a major concern of the front office and has accelerated the introduction of new automation technologies which enable data to be shared by all of the offices more accurately and quickly.

The future of the front office

The front office of the future is likely to be quite different to the one we know today. Repetitive tasks are likely to be automated in ways that give time back to expensive staff and augment analytical decision making. Electronification is expected to reshape and support existing roles within the front office, but the human touch is likely to remain critically important to selling for the foreseeable future.

Tech trends

When we asked our survey respondents which three new technologies they thought would be most important to their sell-side business, and to rank them in order of their importance, we found that a broad array of technologies is of interest to the front office.

Embracing technology

In terms of future trends identified as being most important to the front office, fintech start-ups (71 percent), outsourcing (47 percent) and blockchain (40 percent) came top and seem to have the most excitement around them, while cybersecurity (n=24), and mobile services (n=19) were selected by more people, indicating relatively high levels of awareness but with lower levels of excitement.

Fabrice Berge, a sell-side consultant now based in Japan, is unsurprised by these findings, “If we look at new technologies like blockchain, everybody has them on the radar now; this wasn’t the case five years ago. I think tech innovation is a very interesting area that is trending very strongly.”

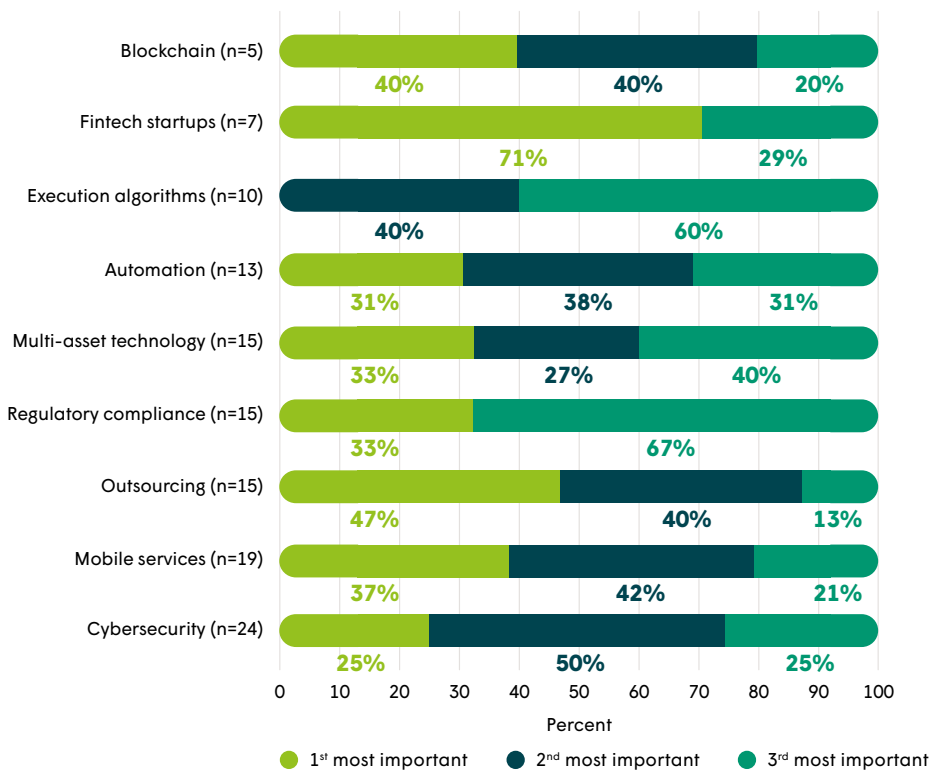


Figure 1: Which of the following trends do you think will be most important to your self-side business over the next five years?

Technology adoption

Respondents of the survey were asked which areas of their business had been the best at adopting new technologies, with 34 percent saying sales and 24 percent saying operations. This result reflects a need for strong technological support in order to close sales and beat the competition, as well as a necessity for business operations to run smoothly as much as possible.

By contrast, it is noticeable that from the front-office perspective risk (2 percent) and compliance (5 percent) are areas of business that seem to be much less effective adopters of technology, reflecting the experience of the post-financial crisis world where a lot has been said about compliance, but it has taken a long time for new regulations to come into force and new attitudes to take root.

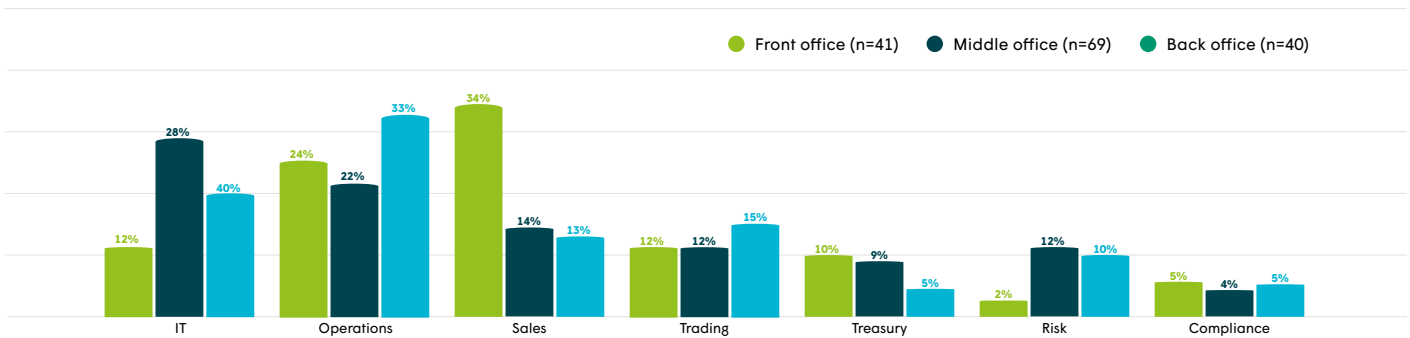


Figure 2: Which area of your business has adopted new technology most effectively?

New technology is always going to appeal to IT departments but these results shine a spotlight on sales and operations, signifying these areas are also keen to adopt innovation; for better fluidity or the accessibility to extra data. Mike Schutt, senior vice president, head of equity execution and connectivity at FIS, says, "I think there will be another generation of technology coming that combines OMS and EMS (order and execution management systems) plus a set of compliance tools, probably with market data and everything in it."

The emphasis on sales and operations could again be indicative of the fast-paced digital age that we live in. Adopting new technology may orchestrate an improvement in the way front office services interact with clients, making the process a lot easier for all parties involved, but as Mike Schutt alludes to, there is still some way to go, "I think we're still three to five years away from somebody coming out with unified technology, but when they do, that will really change how the whole front office functions."

Regulatory challenge

Data privacy

Every trading business or service has to adhere to legislation and follow regulatory guidelines. Although many regulations are put in place to improve security and support external plans, sometimes new guidelines can impede and alter established proceedings. Fabrice Berge agrees with the concern, saying, "With data privacy, there are different regulations in each of the jurisdictions. Typically, that does create some complications."

For front-office broker-dealers, regulations pose a precarious threat, with data privacy (29 percent) coming out on top as one of their biggest concerns.

A breach in data privacy can land any business in very hot water, so it's essential to secure a trusted database and to work within a process that protects company contacts, client details and confidential information. Because the front office has a responsibility to communicate with external parties, it comes as no surprise that they view data privacy as a leading concern (29 percent).

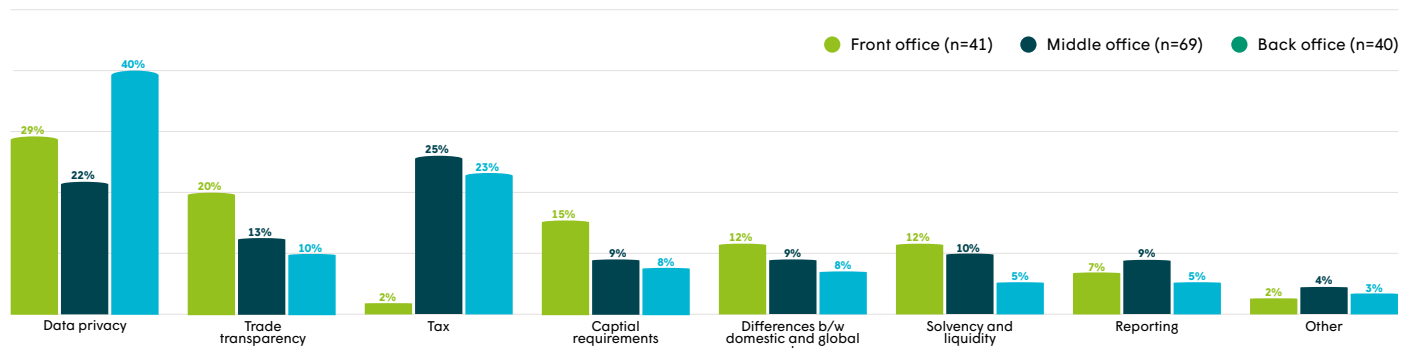


Figure 3: Which area of regulation concerns you the most?

Trade transparency

After data privacy, trade transparency (20 percent) also features as a concern. Demands for improved trade transparency are expected from clients who want more information on brokerage fees and how order are being undertaken.

Front-office services predict that regulation changes are sure to have an impact on business going forward, but it does raise the question about competence, understanding and application of new regulation. Mike Schutt expresses his concern, "A lot of people are having trouble now on the sell side adapting to all these new regulations." When asked whether they expected increasing regulations to severely impact business in the next 24 months, it is unsurprising that 83 percent of our respondents said "yes". Fabrice Berge reinforces the concerns, "It's the reason why some of the regulatory requirements are really hard to meet – because you also have to meet the constraints at the receiving end of those requirements."

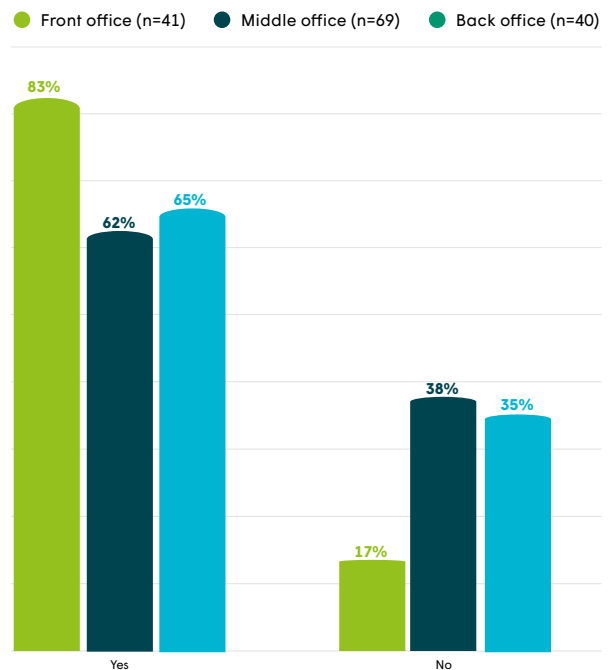


Figure 4: Do you expect increased regulation to severely impact your business in the next 24 months?

Impact on revenue

Additional regulations not only have a habit of slowing down a process but they can also have an impact on revenue. Considering that front-office services are the revenue drivers, the introduction of new regulations is sure to inspire adjustments to revenue streams, with 76 percent of our respondents expressing a strong expectation that regulation will impact on existing revenue models.

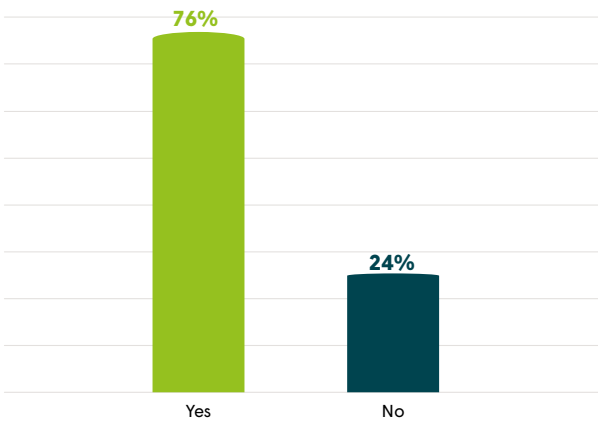


Figure 5a: Do you expect regulation to significantly change your revenue model?

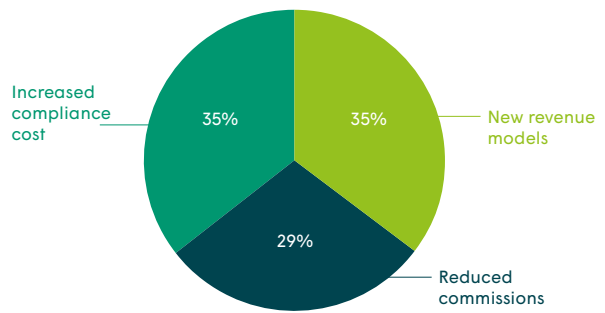


Figure 5b: If you answered yes, how?

The future of the front office

In a bid to tackle potential regulations and the added costs involved, front-office services may seek the assistance of external support or be completely replaced by something else. This may mean that certain front office tasks will end up being handed over to external parties, being recreated as automated features or even becoming a redundant part of the process.

Outsourcing

Perhaps surprisingly, our survey found that front office workers see their role as being dispensable, with 44 percent suggesting their own roles could be outsourced. Interestingly, the middle office is seen by the front office as almost irreplaceable (15 percent), perhaps due to the close role it plays in supporting the front office and the demand for its strategic and critical thinking.

Fabrice Berge again, "I think what we're seeing right now is that the biggest institutions are pooling resources to create utilities, so that everyone can then outsource certain functions, such as corporate actions processing."

Automation

Although our survey indicated the front office will be more receptive to automated processes (63 percent), it is unlikely to completely overhaul and replace manual work. That said, front-office respondents show that automation will have some sort of an impact on their business (73 percent). As Juerg Blattner, head of development trading platform for Zürcher Kantonalbank says, "Automation is definitely the higher topic for us. The percentage for automation increases each year in our processes, and it is becoming more important."

Mike Schutt says, "In the U.S., most organizations have the minimum number of people and everything else is automated already. It's about how to take all these individual disparate systems that have been created to replace people and make it into one – that's what it's come down to for most broker-dealers."

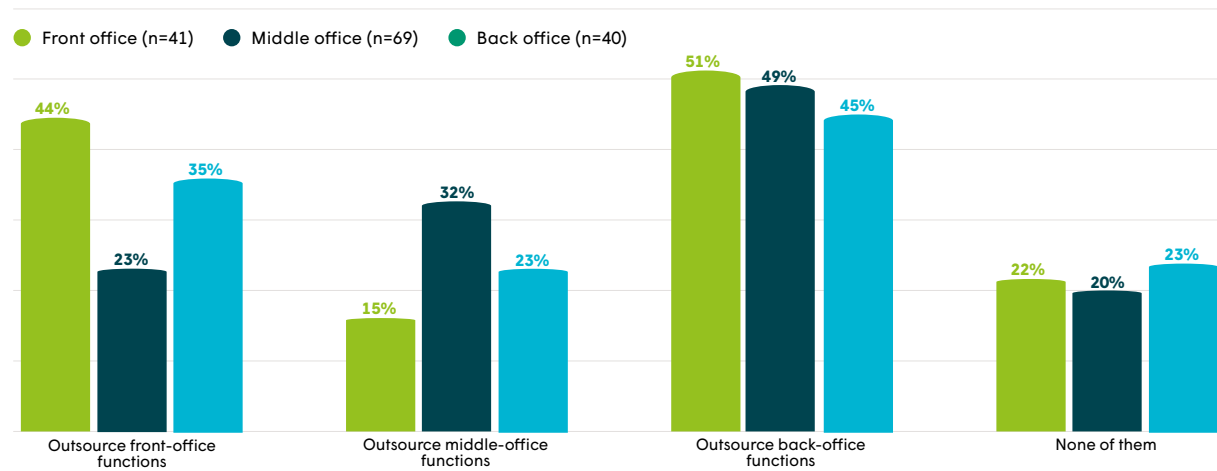


Figure 6: By 2020, my business is likely to:

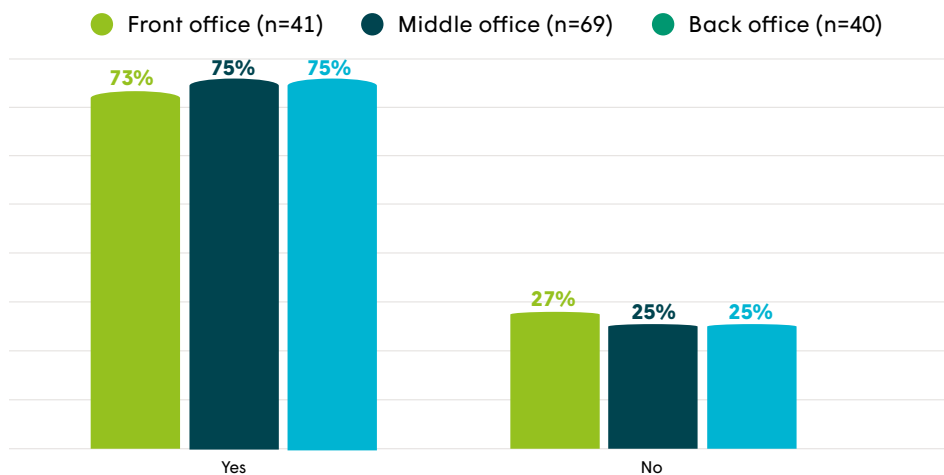


Figure 7: Do you expect increased automation to impact your business?

Conclusions

What next for the front office?

Front offices have a strong affiliation to new technology and with this comes the hope that technology and innovation can improve the services they offer. In particular the next generation of technologies and the electronification of services are set to transform the front office as core internal functions are increasingly automated and non-core functions are increasingly outsourced to trusted third parties.

Human future

Technology will certainly play its part as the front-office modernizes, but complete replacement of the front office broker-dealer seems most unlikely.

High-end technologies are only as clever and reliable as the people programming them, and the core function of people selling to other people will remain, augmented by an impressive array of next-generation technologies and services.

About this report

This report is based on research and analysis conducted in association with Lantern Insights. It focuses on a survey of 41 sell-side front-office broker-dealers in 15 countries.

The respondents included a broad spread of different sized organizations, with assets under management (AUM) as follows: Up to US\$99.99M 32%, \$100M to \$499.99M 17%, \$500M to \$999.99M 20%, \$1B to \$4.99B 12%, \$5B to \$9.99B 5%, \$10B to \$24.99B 10%, \$25B to \$99.99B 2%.

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