by Michael Tae

Broadridge

Modernizing Through Mutualization: A New Model for Fintech Service Delivery in a Post-Pandemic World

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Over the last decade, several trends in the global financial services industry have spurred firms to work together with fintech providers in order to modernize their operations and optimize their front, middle, and back-office functions. Financial services firms have faced increased margin pressures, heightened regulatory and compliance burdens, unexpected infrastructure shocks and technology-driven changes in consumer behavior. These trends only accelerated during the pandemic, as the sudden shift to remote work and a massive spike in trade activity expedited firms' needs to digitize their operations and strengthen resiliency.

Now, as the financial services industry confronts the new realities of the post-pandemic era, it is clear that these forces are taking permanent hold. As a result, many financial services firms are beginning to recognize that the most strategic and expedient way to prepare for the future is through mutualization, where participants share in the benefits of an industry solution provided by a reliable, trusted and independent third party. Mutualization enables firms to reduce costs and overall transformation risks, accelerating time-to-market while freeing up management attention and other critical resources that can be devoted to other core needs. Mutualization also affords firms more timely access to next-generation technology and new insights that can drive revenue growth. Successfully leveraging fintech solutions to mutualize technology functions will be a hallmark of firms that have emerged successfully from the pandemic.

Although the concept of mutualization has been around for years, this white paper aims to re-examine it in the context of the post-pandemic world. In it, we will review the forces driving mutualized solutions and the benefits they provide. But more importantly, we provide an overview of what this new delivery model should entail – and a roadmap for global financial services firms embarking on this journey.

First, we highlight the three main pillars of this approach:

- **Flexible Architecture** – Open architecture, driven by application programming interfaces (APIs) and modular solutions, enables financial services firms to scale their systems as needed and be connected to other existing or future platforms.
- **Cloud-Based Applications** – Technology built on the cloud allows firms to enable faster access to new products and deliver improved business continuity and system scalability.
- **Data-Driven Insights** – Aggregating and analyzing large amounts of data enables firms to derive the actionable insights necessary to leverage artificial intelligence, automate processes and create new revenue opportunities.

Second, we outline three key considerations that financial services firms should confront as they proceed down the path toward mutualization:

- **Can you access a better technology roadmap through a partner?** Financial services firms need to understand and prioritize the major levers that will drive the maximum strategic benefit in their technology investments. They should determine if the capability should be built in-house, acquired through a merger or acquisition, or provided through a partner.
- **Have you identified potential risks and taken steps to mitigate them?** Financial services firms must balance the tradeoffs between the benefits of a strong partnership with concerns over visibility, execution, and the need to keep up with ever-evolving market conditions.
- **Have you chosen the right solution provider?** Financial services firms should look for one that has a strong reputation, the right skills, a consistent track record, and a commitment to continuous improvement to meet future challenges and opportunities.

As financial services firms enter the post-pandemic era, the trends that we have seen unfold gradually over the past decade will accelerate. The case is clear. The time is now. We believe the best way to capitalize on market trends, reduce costs and increase revenue – all while modernizing a firm's technology functions – is through mutualization.

IDENTIFYING FORCES DRIVING MUTUALIZATION

MARGIN AND COST PRESSURES

Ever since the global financial crisis erupted over a dozen years ago, financial services firms have faced pressures on return-on-equity, which have continued to intensify due to a few industry-wide trends. Some have impacted revenue. The shift from active to passive investing and the proliferation of no-commission trading, for example, has squeezed once-lucrative asset management and broker-dealer fees. Others have affected the bottom line. Additional pressures due to heightened regulation have led financial services firms to invest heavily in strengthening their regulatory and compliance infrastructure. The advent of newer fintech competitors has only intensified the need to review existing economic models.

Taken together, all of these pressures have forced financial services firms to rein in operating costs. For instance, between 2014 and 2020, banks have eliminated about a half-million jobs globally,[1] mostly in the front-office. As banks have exhausted many cost-reduction opportunities, the search for continued savings throughout the organization has continued.

The COVID-19 pandemic has only exacerbated these trends. According to a recent McKinsey survey of financial executives: in the most likely COVID-19 scenario, a muted recovery, most do not expect global banking return-on-equity rates to return to pre-crisis levels for at least five years.[2] (Figure 1 illustrates margin pressures impacting financial services firms, and how they are driving increased focus on operational costs.)

FIGURE 1: TRENDS DRIVING MARGIN PRESSURES BY FIRM TYPE

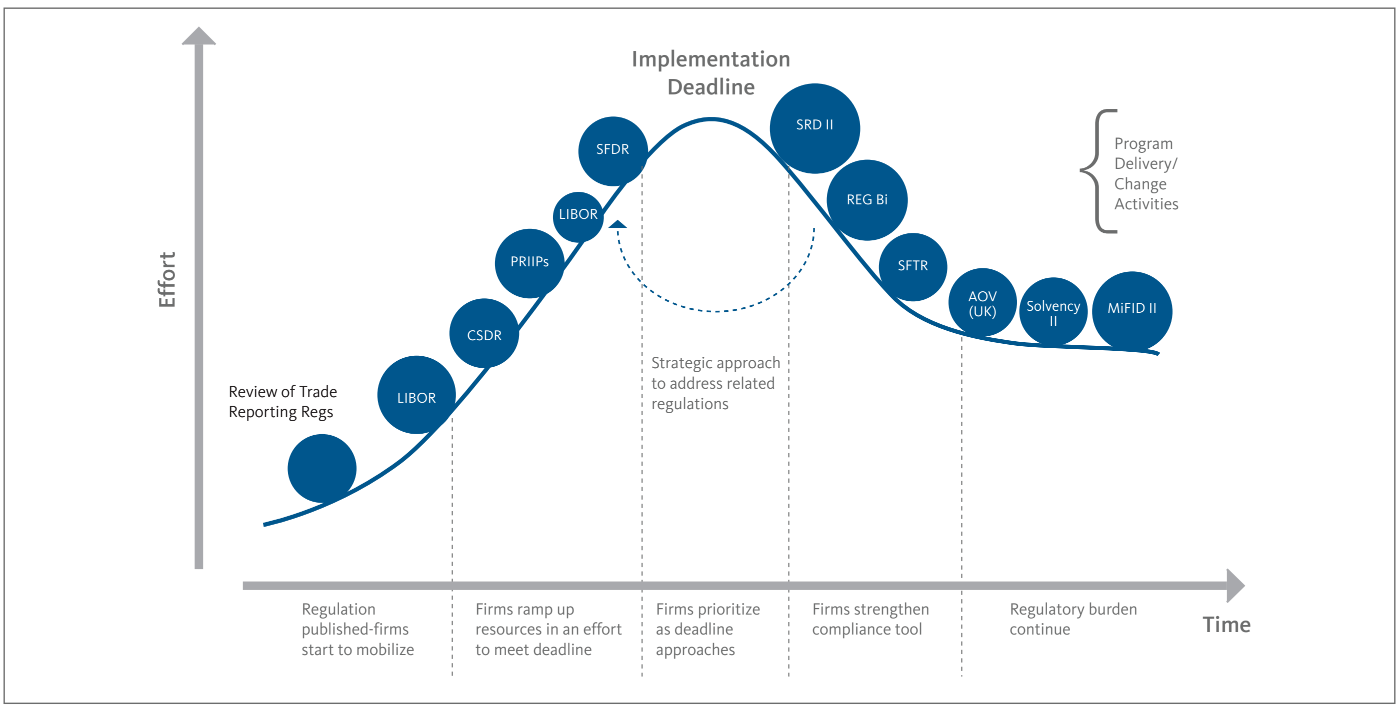
TRENDS CAUSING FIRMS TO REEVALUATE ECONOMIC MODEL	**MANAGEMENT FEE COMPRESSION**	**LOW TO NO COMMISSION TRADING**	**INCREASING COSTS**	**PRICING PRESSURE AND LOSS OF MARKET SHARE**
Force Driving Trends	Switch to Low Cost Products	New Entrants/	Various Macro Factors	New Entrants/Competition
Firm Type Impacted	Asset Managers and Securities Services Firms	Broker-Dealers	Banks/Depositories	Insurance
Further Detail	Total global assets under management grew by 8.6% between the second quarter of 2018 and the second quarter of 2020.[3] Yet, the challenges brought by fee compression resulted in a decrease in profitability. Profit from 2014-2019 had a CAGR of -1.7%.[4] Securities services firms have faced similar forces.	The progression to barely there fees has been cascading across brokerages for decades. As of October 2019, the price of trading at the largest brokerages dropped to zero. While commission-free trading has opened investing to the masses, it has applied direct return-on-equity pressure.	A 2020 report by KPMG[5] estimates that the cost base of banks are going to rise in the coming years from a higher level of arrears and collections requiring additional staff, increased on-shoring, investments in increased resiliency, reduced demand for traditional products, and higher fraud and insurance costs.	Over the last decade, agile upstarts in the insurance space have gained market share through more transparent pricing and lower-cost offerings driven by advanced technologies and cost-saving digitization efforts. This has forced incumbents to cut prices while also investing in new technology.

REGULATORY CHANGE

The financial crisis spawned a raft of new banking regulations in its immediate aftermath, and financial services firms have been forced to grapple with an onslaught of new ones in recent years. One noteworthy trend is global regulators' focus on driving investor engagement and transparency by taking advantage of advances in technology. Examples of recent regulation include SEC Rule 30e-3 in the US and the Shareholder Rights Directive II in the EU. Additionally, growing concern around areas of data and privacy are fueling further regulatory pressure. To deliver on new regulatory requirements, many financial services firms are undergoing or will need to undergo a radical transformation of their legacy infrastructure.

Simply keeping up with the ever-evolving rules continues to be a mammoth undertaking. The associated compliance costs have skyrocketed as well. In fact, a report from Rice University found that compliance costs for Dodd-Frank regulation alone cost U.S. banks $50 billion a year.[6] Generally, firms tend to develop in-house solutions to meet regulatory deadlines in the near-term. But over the longer-term, they undertake a more strategic approach to strengthen compliance. As shown in Figure 2, their efforts intensify – and compliance costs increase – as new rule deadlines approach.

FIGURE 2: THE JOURNEY TO REGULATORY COMPLIANCE



DIGITIZATION

Two distinct trends are driving greater digitization. First, are evolving customer expectations where they expect interactions with their financial services firm will be as easy as making a purchase on Amazon, taking a Peloton fitness class, or streaming Netflix content. Initially, several fintechs broke through by delivering an improved, gamified user interface and sleek new apps – in other words, a superior digital experience that traditional financial services firms could not match. Today, however, many established players are quickly catching up as they evolve to meet these heightened customer demands. And even more sophisticated innovations – especially those powered by artificial intelligence and blockchain technologies – are gaining traction every day.

Second, many financial services firms have embarked on comprehensive digital transformation plans in recent years as they seek to transition from historically manual, back-, middle- and front-office functions to more modern, digital processes. This trend has only accelerated amid the pandemic-era requirements of remote work, where financial firms scrambled to find digital alternatives to once-routine, paper-based tasks – from opening accounts to signing documents.

All told, the need for technological innovation has never been greater and industry response is expected to happen overnight. At the same time, the investment costs required to commercialize these game-changing ideas is increasing.

INFRASTRUCTURE DISRUPTION

Over the last decade, events like Superstorm Sandy have illustrated how unpredictable shocks to both physical and digital infrastructure can test even the most well-prepared financial services firms. However, the current pandemic created perhaps the ultimate stress test, given how suddenly companies needed to transform their operations and processes to sustain them in a remote environment over a protracted period of time. What's more, the unexpected and extreme market volatility and increased trading activity resulted in many institutions experiencing execution issues, including several broker-dealers whose websites crashed in 2020 due to rapid fluctuations in trading volume. According to a 2020 Brown Brothers Harriman survey, 20% of executives at leading asset management firms said their top concern related to the current environment was "operational resiliency."[7] These disruptions have emphasized the need for rapid scalability and built-in flexibility. Nobody knows where or when the next shock will occur – only that it will. So, organizations must prepare accordingly.

LEVERAGING THE BENEFITS OF MUTUALIZATION

Traditionally, most financial services firms tackled each of these trends separately. For example, they might have established an internal task force to address a change in regulation or a firmwide initiative focused on trimming costs. However, mutualization represents a far more holistic and strategic approach. Rather than one firm creating a single solution for its own use, in a mutualized model, the solution is created for many, with the vendor distributing the benefits to all involved. Among them are increased cost savings, improved reliability of operational productivity, more efficient regulatory compliance, and access to greater innovation through network effects. These benefits are highlighted in greater detail below.

COST SAVINGS

Mutualization generates significant cost savings. Sharing the upfront costs of new technology development among peers can create strong economies of scale, allowing the modernization of both legacy and innovative functions to occur at a lower price. Accomplishing this on a global scale captures even more scale, as global financial institutions can bridge duplicative functions and infrastructure across regions and lines of business. All of this frees up management's time, attention and resources to drive value through the business's other core functions. This is especially true for non-differentiated functions; independently, most financial services firms spend very little on innovation and other cost-saving initiatives on these activities. Take, for example, post-trade processing. According to Broadridge research, banks spend, in aggregate, between $6 billion and $9 billion annually processing trades in highly standardized asset classes.[8] Mutualizing these functions could reduce expenses for the industry by between $2 billion and $4 billion annually.[9]

REGULATORY COMPLIANCE

Mutualization helps speed, strengthen and simplify regulatory compliance. When individual firms collect and store data, each typically does it in their own unique way. This lack of uniformity leads to reduced compliance, heightened scrutiny from regulators and a higher chance of regulatory fines. A mutualized model has the opposite effect. When regulations change, utilities can work with industry stakeholders to discuss execution and development in order to expedite compliance and minimize regulatory penalties. What's more, mutualized utilities may deliver so-called "regulatory cover," meaning that authorities are more likely to accept standards that have been adopted by the industry than those pursued by an individual firm on its own path toward compliance.[10]

SWIFT: MUTUALIZING THE KNOW YOUR CUSTOMER PROTOCOL

A recent example of mutualization is Swift's Know Your Customer (KYC) protocol designed to help banks meet compliance challenges. The platform was created in response to laws passed in 2012 to protect the financial system from fraud, corruption and money laundering. KYC regulations are complex, vary by geography, and rely on the sharing of information between banks. Compliance with KYC regulations becomes more time-consuming and costly in proportion to the number of standards and protocols that exist. For example, large financial institutions have reported spending more than $100 million per year on KYC compliance.[11] The risk related to compliance failures is also potentially costly: several notable fines of more than $200 million have been levied for failure to comply with KYC regulations.[12]

To overcome the problem of numerous standards and protocols, Swift created a mutualized platform with standardized data collection that allows information to be easily shared between financial firms and regulators. With the protocol, instead of each bank reaching out to counterparties individually to gather information, banks can access all the information they need in one place. Currently, more than 5,500 financial firms use the protocol, solving what would otherwise be a manual, time-consuming and disconnected process. Since Swift's KYC protocol is a global solution, it has been able to pass on many benefits to clients. For example, as regional KYC protocols have been established, instead of individual banks reacting to the many individual protocols, Swift has been able to partner with these smaller banks to create a seamless integration. Swift also recently expanded the offering to corporations that previously had to provide information to banks in non-standardized, manual processes.

OPERATIONAL PRODUCTIVITY AND RESILIENCY

Mutualization simultaneously drives operational productivity and strengthens operational resiliency. When a fintech provider develops solutions for multiple parties, it standardizes processes and brings forth best practices so that firms can take advantage of those collective insights. For example, fintech providers have mutualized trade processing activities in the buy-side, including for reference data and regulatory reporting. By addressing the many inefficiencies and redundancies in these areas, productivity gains have created capacity for ongoing investment and innovation.

What's more, the expertise that develops under mutualization and the ability to share infrastructure also creates more resilient systems. Building redundant systems is costly and, by its very nature, suppresses investment returns. But as the COVID-19 business environment has made clear, it is often necessary. Indeed, the pandemic has raised the bar in terms of both client and investor expectations of what it means to be resilient. Today, simply having a business continuity plan will no longer suffice. Resiliency means that business technical systems and processing must have redundancy, scale and dependability so they can run with little or no on-site resources. Given the mission-critical nature of the activities provided by financial services companies, firms must manage concentration risk with redundancy and perform continuous, end-to-end testing in collaboration with clients and regulators.

Mutualization can similarly strengthen cyber resiliency. To stay ahead of cyber criminals, financial services firms must ensure that their computer networks are constantly updated and invest heavily in their cyber defenses. This can be both an expensive and operationally challenging endeavor. A mutualized service provider can reap benefits of scale, spreading the cost of a large cyber investment across multiple firms while deploying shared defenses that might be stronger than anything a single firm could provide on its own.

INNOVATION AT SCALE

Mutualization creates opportunities for new innovative technology solutions. It achieves this by creating network effects, which accelerate the adoption of next-generation technologies and innovation at scale. For example, some technologies, such as blockchain, when used for trade reconciliation, are impractical for a single firm to experiment with because they require multiple parties using the platform in order to reap the benefits. Other technologies, such as artificial intelligence and machine learning, thrive on network effects because they rely on access to wide-reaching datasets. The more data input into their model, the more accurate and useful are the predictions and insights.

Mutualization also facilitates innovation at scale by creating a collaborative ecosystem. Innovating in concert with the industry – and with a trusted fintech provider — creates a safety blanket, spreading the risk over multiple firms. Implementing innovative solutions with other firms increases the probability of widespread adoption while lessening failure risk of an entirely new solution. It also enables expert technology and solution providers – who are better positioned than individual financial services firms – to experiment with, assess the risk, and test the resiliency of new and potentially unproven technologies. What's more, sharing expertise and learnings through coordinated efforts can expedite innovation. Even in cases of failures, critical lessons can be transmitted to other firms within the ecosystem so that each does not have to experience the same failure themselves.

WHAT FINANCIAL SERVICES FIRMS CAN LEARN FROM THE PHARMACEUTICAL INDUSTRY'S MUTUALIZATION EXPERIENCE

The pharmaceutical industry has experienced pressures necessitating that non-differentiated functions traditionally performed in-house be transferred to trusted vendors. Like the financial services industry, pharmaceutical companies faced regulatory changes that increased the time, cost and risk of bringing a product to market. They also faced technological advances that not only empowered competitors, but also increased the complexity of research and development as well as the manufacturing of pharmaceutical products. With the numerous specialties and sub-fields that have developed, it is now impractical to house them all within a single company.

These pressures led pharmaceutical companies to engage outside vendors to fulfill their non-core functions. Specifically, three types of organizations have emerged to fill gaps:

Contract Research Organizations (CROs), which provide drug discovery, clinical and post approval research

Contract Development and Manufacturing Organizations (CDMOs), which provide drug development and manufacturing

Contract Sales Organization (CSOs), which provide sales, marketing and other commercialization services

By working with multiple pharmaceutical companies, these firms have accumulated significant know-how and created economies of scale, which benefit pharmaceutical companies that use their services. In the case of CROs, their experience working with multiple clients translates into a heightened ability to guide products through clinical trials, which is the most expensive, time-consuming and risky portion of bringing a product to market. By using CDMOs, pharmaceutical companies have access to an array of specialized producers who benefit from economies of scale. Their value became all the more critical during the COVID-19 pandemic, when partnerships with Pfizer and AstraZeneca demonstrated their ability to quickly scale the manufacturing of vaccines and therapeutics. Since CSOs have access to aggregated data from multiple clients, they can better direct clients to the highest-value commercialization strategies.

The benefits that these firms bring to pharmaceutical companies is evident in their evolution of increased importance and value to the overall industry over time. For example, in 2020, 50% of research and development was expected to be outsourced compared to only 34% in 2011. Similarly, in 2020, about 60% of products were manufactured by outside vendors. All three vendor types are expected to grow[13] quicker than the pharmaceutical market as a whole, and the market size for CDMOs alone is expected[14] to increase from $150 billion in 2019 to $246 billion in 2025.

BUILDING A FOUNDATION FOR MUTUALIZED SERVICE DELIVERY

Even though the benefits of mutualization are clear, many financial services firms never pursue them. Some are concerned that leveraging shared infrastructure might lock them into legacy solutions and hinder their ability to adapt to changing needs. Others never stop to consider whether the technology solutions they need are non-differentiated and commoditized, where the value of mutualization is quite clear.

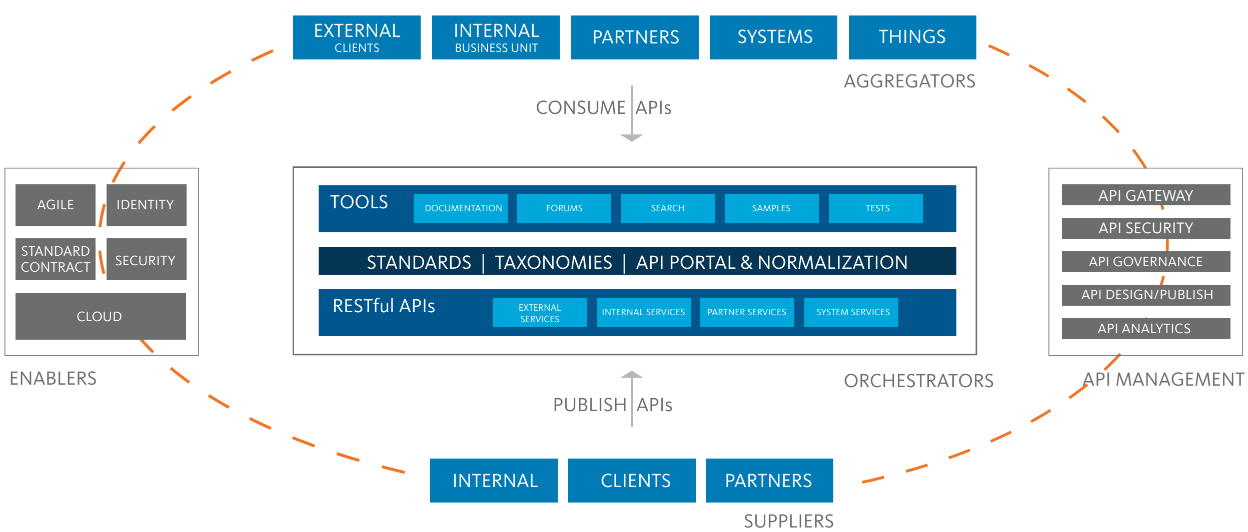
Whether or not to outsource different solutions is an ever-evolving question. However, advances in financial technology are ushering in new platforms that allow firms to freely assemble best-of-breed capabilities while taking advantage of a shared infrastructure. What does this new model of mutualized service delivery look like? It can take many different forms, but it is underpinned by three main elements: flexible architecture, a cloud-based platform and data-driven insights.

ARCHITECTURAL FLEXIBILITY

Architectural flexibility means establishing an open and modular platform that can seamlessly integrate third-party services using APIs. This allows financial services firms to achieve significant operational benefits while accelerating their ability to innovate.

Open platforms enable financial services firms to extend how they go to market by reducing monolithic products into individual capabilities organized around client needs. Using APIs, firms can easily integrate their services with outside parties, allowing them to access improved functionality from best-in-class data and technology vendors, and delivering a better customer experience overall. In the EU, regulators have pushed for open architecture. For example, in 2015, the Payment Service Provider Directive II required banks to open access to data and services for third parties to build upon. Most experts agree this will be achieved through APIs. Even though similar regulation does not exist in the U.S., most U.S. banks have followed suit. Figure 3 illustrates the future of the open ecosystem architecture.

FIGURE 3: FUTURE OF THE OPEN ARCHITECTURE ECOSYSTEM[15]



Modularity is also critical. Modular solutions allow firms to select services that best fit their business needs – whether it is multiple services from a single provider or a combination of services from multiple providers. While large clients may need more expansive services, smaller clients may prioritize a more simplistic and less costly version of the service. Modularity is especially important when resources are constrained.

According to a 2020 Brown Brothers Harriman survey, many asset management executives reported that "they are placing a greater focus on modular implementation, starting with one or two functions and adding more over time."[16]

ARCHITECTURAL FLEXIBILITY IN FOCUS: BROADRIDGE'S WEALTH PLATFORM

Wealth management firms have needed to radically rethink their service delivery model amid an unprecedented wave of change. Financial advisors' roles are evolving as the business moves beyond money management to cater to a much broader range of clients' needs. A new generation of financial services customers has expectations of "anytime, anywhere" service, just as they experience with retail and other consumer-oriented businesses. Meanwhile, more stringent regulatory oversight has meant a compliance burden like never before.

To meet these challenges, Broadridge has partnered with one of the leading global wealth management firms to create a totally open architecture platform that redefines technology in the space. Powered by a state-of-the-art API and micro services communication layer, the platform allows firms to quickly connect to existing apps, proprietary systems or integrate with hundreds of best-in-class U.S. and Canadian third-party applications. In this model, Broadridge is the platform provider, while the global wealth management firm has full control over which functions they elect to operate themselves and which they opt to rely on from a third-party provider. This flexibility creates a cutting-edge mutualized offering, which can support the broad array of business models used by wealth advisors. Regardless of how an advisor chooses to customize the platform, the outcome is the same: enhanced advisor productivity, a superior investor experience and a scalable and efficient back office.

CLOUD-BASED APPLICATIONS

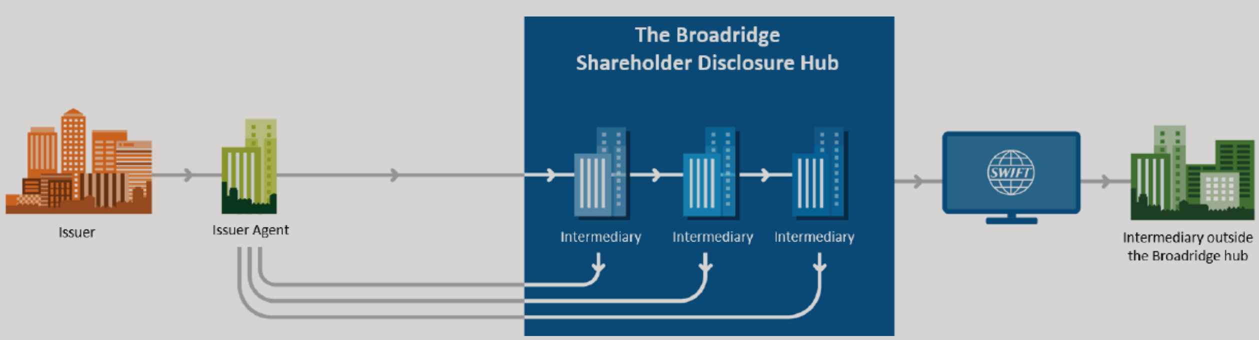
The cloud is truly the foundation that enables mutualization. The modular, API-powered platform discussed above is simply unfeasible without it. Today, the cloud has moved away from being only a data center, as was generally the case in previous delivery models, to acting as a business solution. Technology platforms built on the cloud allow technology providers to enable faster access to new products, increased speed in handling security and regulatory requirements, and improved resiliency through automated system scalability. Furthermore, aggregating data from across disparate systems into a cloud data warehouse enables the rapid deployment of new cloud-based services. Given its ease and flexibility, it's not surprising that a **2020 Broadridge survey** of more than 1,000 C-Suite leaders and other senior executives at financial services institutions found that the cloud was the technology that firms are putting the most investment in over the next two years.[17]

CLOUD-BASED SOLUTIONS IN FOCUS: BROADRIDGE'S SHAREHOLDER DISCLOSURE HUB

The Shareholder Rights Directive II (SRD II), which went into effect in September 2020, aimed to enhance the flow of information across the investment community while improving transparency of issuers and intermediaries. However, the regulations have been difficult to meet at the individual firm level because they require that requests, responses and authentications must pass through multiple parties.

Broadridge developed a blockchain-based Shareholder Disclosure Hub to help financial intermediaries manage shareholder identification requests, responses and filings. The Shareholder Disclosure Hub is deployed on a private cloud that facilitates the cascading of messages from the issuer through the chain of intermediaries (See Figure 4). Each intermediary then responds to the issuer or issuer agent using the market-defined message, or forwards the message to the next intermediary in the chain. By leveraging the cloud, this mutualized service allowed customers in multiple jurisdictions to easily access the solution without any investment in infrastructure. It also enabled the solution to instantly scale as demand grew.

FIGURE 4: BROADRIDGE SHAREHOLDER DISCLOSURE HUB



DATA-DRIVEN INSIGHTS

One knock-on effect of using cloud-based applications is the opportunity to gain deeper business insights using data. This can help financial services firms automate processes, improve scalability and lower costs. It also enables firms to better understand their customers' tendencies and needs, which opens new opportunities for revenue-generating solutions. As we look to the future, data is becoming both more pervasive and more usable. Mutualization can be a catalyst for an enhanced, insights-driven worldview based on a larger population of anonymized results that allows firms to harness fresh insights they would otherwise be unable to generate themselves. Consequently, solutions that not only aggregate large amounts of data, but also have the built-in analytic capabilities to generate actionable insights for decision-making are among the most promising. In Broadridge's recent study of 1,000 C-suite executives and direct reports from financial services firms, 61% of respondents said they are using digital technologies for strategic planning and decision-making.

DATA-DRIVEN INSIGHTS IN FOCUS: BROADRIDGE'S GLOBAL MARKET INTELLIGENCE PLATFORM

For years, cross-border assets and flows, institutional assets and flows, and true investment management fees have been opaque to asset managers. Any single manager's visibility extends only to their own trading data—they have little insight or ability to benchmark performance against their closest competitors, key market segments or the broader industry.

Global Market Intelligence (GMI) has the capability to change that. A modern data and analytics platform, GMI helps global asset managers to house and analyze distribution details for their retail and institutional business. That way, they can better understand and analyze the proprietary aspects of their own distribution while gaining full peripheral vision on the bigger industry picture.

Indeed, managers can see where they are gaining and losing market share within channels, product categories and geographies, enabling them to hone product and distribution strategies to marry their capabilities to a market opportunity.

Of course, this would not be possible without the collective intelligence derived from mutualization. It enables asset managers to gain access to novel, modern, cost-effective business solutions and powerful insights that are far more valuable when combined than the input of any individual asset manager.

MOVING TO A NEW MODEL OF MUTUALIZED SERVICE DELIVERY

The elements of a modern, mutualized service delivery model are clear and the urgency to adopt them is greater than ever. Even before the pandemic, financial services firms were investing heavily in new technologies and the digital transformation of their operations. Roughly 40% of all information technology spending at North American financial services firms was projected to be allocated to new technology investment in 2020, according to Celent research. That was up 30% from the previous year.[18] (See Figure 5.)

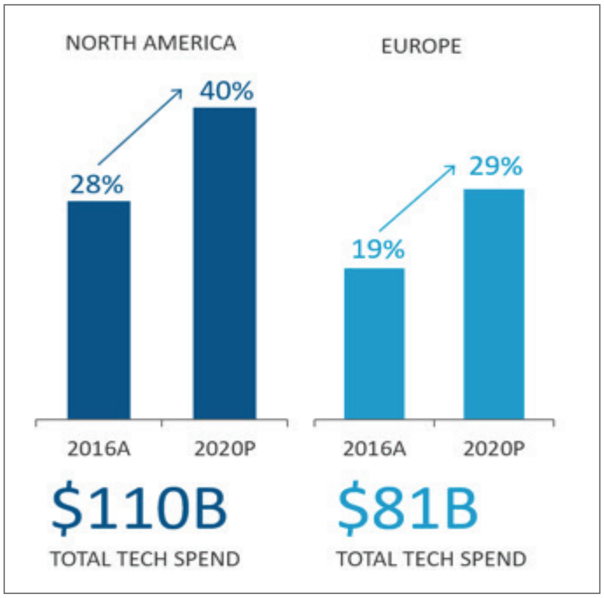
Given the operational demands of the pandemic environment, the surge in spending is likely to both accelerate and proliferate across the firm – extending from the back-office, to the middle-office and even front-office functions.

Mutualization can provide significant benefits for each of these areas. Of course, the real opportunity for financial firms lies with working with a fintech service provider that not only provides highly focused, mutualized solutions specific to one business niche but also cohesive mutualized solutions that integrate the back-office, middle-office and front-office functions. With a single provider, firms can achieve greater efficiency, increased opportunities for automation, and harness fresh insights arising from fully integrated data streams.

Consider a capital markets firm. It can benefit from front-to-back, mutualized solutions where the front-, middle- and back-office data and processes connect seamlessly to provide straight-through trade processing with improved execution quality at a lower cost. These solutions also provide better end-to-end transaction analytics, a significant reduction in reconciliations, improved market-making efficiency, and optimized regulation compliance reporting. Without such an operating approach that capitalizes on these benefits, it's simply too hard to compete.

So, how can a financial firm embark on this journey toward mutualizing – and modernizing – their operations? It starts with creating a plan that maximizes the benefits of mutualization while mitigating the key risks. Here are three important questions that financial services firms should consider as they navigate this transition.

FIGURE 5: NEW TECH INVESTMENT AS % OF IT SPEND FOR BANKS AND BROKER DEALERS[19]



CAN YOU ACCESS A BETTER TECHNOLOGY ROADMAP THROUGH A PARTNER?

A threshold question in evaluating a mutualized solution is whether its potential return on investment is greater than the financial returns of going at it alone or pursuing it in-house. All too often, when firms pursue technological investment, they can be wasteful, expend resources that show minimal returns, and invest in technologies that do not add direct value to the business. Instead of adopting technology for technology's sake, financial services firms should ask whether that potential investment aligns with their organization's business strategy and will allow them to prioritize the use of in-house resources on building other capabilities. Among the key questions that firms should consider are:

- What are the core technology functions that will help achieve the highest priority strategic objectives?
- What technical, financial and management skills are required to execute on these functions successfully?
- Does the organization have the appropriate operations, systems and culture to manage transformation or change?
- Should the solution be built in-house, provided through a partner, or acquired through a merger or acquisition?

In addition, it's important to consider the scope and inter-connectedness of various business functions as you assess these questions. As noted above, when firms look to partner with a mutualized service provider, they consider niche, point solutions for that solution provider to take over or develop. This generally makes the most sense in the short run. However, to derive the most benefit over the long-term, it also may be important to consider whether a much broader partnership – between the front-, middle- and back office – will allow the firm to reap even more value. It may also result in the firm selecting a different set of partners.

HAVE YOU IDENTIFIED POTENTIAL RISKS AND TAKEN STEPS TO MITIGATE THEM?

As with any strategic decision, there are risks to mutualization. However, experience suggests that most of these risks can be mitigated with a proactive approach. Some of these risks are outlined:

Visibility and Alignment

Taking worry and work off the client's plate is a key benefit of mutualization. But in transferring an in-house service to an outside partner, financial firms may perceive risks arising from a lack of visibility into the performance of the mutualized service provider or other factors that may not fully align with their vision. These risks can be mitigated by ensuring there are incentives around satisfying certain performance thresholds and establishing clear benchmarks with respect to service levels, information technology roadmap milestones, and more. Putting structure around the interactions between the financial firm and mutualized service provider personnel can help strengthen both transparency and alignment, enabling the two to work closely together in a seamless, integrated manner. The strongest mutualized service providers will assure their financial firms with whom they partner regular access to the information they need to properly monitor performance and ensure they are comfortable with the overarching approach. On the flip side, good financial services firm partners will resist the urge to micromanage.

Execution

Any time a business makes changes to its critical functions, there is execution and/or integration risk. Using an outside, mutualized service provider requires a significant initial investment – a commitment of personnel, financial resources, as well as management attention and oversight. The key to mitigating execution risk is defining the strategic and financial objectives up front, with clear key performance indicator metrics and adequate planning to support success. It's important to keep this North Star in mind while working through any transition-related hiccups.

Evolving Standards

Financial services firms must not only consider what they want the endgame to look like once implementation is complete, but also keep in mind that the business landscape is constantly changing. That's why the most forward-leaning financial services firms always look to the future and ask: Will my desired solution need to accommodate new standards? New technologies and business models? New modes of working? For financial services firms, one way to minimize this risk and future-proof their business is to pursue platforms that have open APIs and modular capabilities. That way, in a worst-case scenario, any offering can be exchanged for a more desirable one. Another way to mitigate this risk is choosing a provider that is dedicated to collaboration and continuously updates their products.

HAVE YOU CHOSEN THE RIGHT SOLUTION PROVIDER?

Selecting the right partner can not only help to mitigate these risks, but also can create an enduring relationship that may outlive immediate needs. Although every mutualized service partnership is unique, there are several essential characteristics that firms should keep in mind – and guide their approach to choosing a provider.

Ability to Foster Trust

Trust and mutual respect between the parties are critical elements of an effective mutualized service partnership. Finding a trusted provider can address the risks of visibility and alignment. It can assuage a financial firm's concern about its potential inability to influence the direction of a mutualized solution under a commercially driven model. A trusted provider will also put its clients' needs first, seeking the optimal solution for the problem at hand. Of course, the real test of whether a provider is trustworthy is to evaluate their track record, industry reputation and ability to consistently deliver.

Ability to Consistently Deliver

Financial services firms need to know their mutualized service provider will, above all else, get the job done – in good times and in bad. Selecting a mutualized fintech provider with a strong track record goes a long way when you most need them. The pandemic has been an excellent litmus test. Even amid the economic and social turmoil of the past year, the strongest service providers were able to perform day-in and day-out and keep their clients at ease.

Breadth of experience is also key. Much of being able to consistently deliver comes from a mutualized service provider having deep experience in not just the industry but in implementing similar solutions across their customer network. For example, an experienced service provider with a truly mutualized model will have taken on a variety of cases and clients, in different geographies, with varying execution paths and conclusions. These fintech providers should be able to leverage this knowledge and expertise to create a smoother, more predictable outcome for both implementation and ongoing service.

Capacity to Innovate

Financial services firms need to ensure their mutualized service provider is not just providing best-in-class solutions today, but will be able to invent the leading solutions of tomorrow. There are at least three dimensions on which to evaluate a partner on this front. First, from a financial perspective, a mutualized service provider should be making real investments in next-generation technologies on behalf of the entire industry.

Second, a mutualized service provider should be able to scale with talent that has specific, next-generation expertise. Lastly, a mutualized service provider should itself have the capability to leverage data in a way that protects the privacy of its clients but can provide insights to its clients in a way they could not see themselves. All of this relies on identifying a partner that is deeply interconnected within the network of the fintech ecosystem.

CONCLUSION

Given that financial service firms are likely to continue to face rising pressures from costs, regulation, digitization and infrastructure shocks, it is crucial that they begin to explore mutualization as they embark on modernizing their core, technology functions.

The benefits are very real: significant cost-savings, more efficient and effective regulatory solutions, the ability to innovate at scale, and increased operational productivity and resiliency. The key is establishing an enhanced model of service delivery built on three main pillars: open architecture, which can provide unprecedented flexibility and customization through a modular approach; a cloud-based platform, which can increase resiliency as well as enable scalability and faster delivery of new products and enhancements; data-driven insights, which allow you to make smarter, quicker decisions and operate your business more efficiently.

That's why choosing the right fintech service delivery partner is one of the most important decisions a financial services firm can make. The best ones are trustworthy, reliable, and have the capacity to innovate — allowing you to future-proof key functions while taking advantage of the benefits of being part of a broader network.

Mutualization is already gaining momentum across the financial services landscape, and many firms are aggressively moving towards next-generation technology solutions. This is only likely to accelerate as we emerge from the pandemic and begin to navigate the challenges of this brave new world. We believe the best way to do this is to share the cost and risk of ongoing change with an independent, trusted, third-party provider.

ABOUT THE AUTHOR

MICHAEL TAE
Corporate Vice President,
Chief Transformation Officer,
Investor Communication Solutions

Mike leads major transformational projects by driving revenue-generating initiatives that meet the business needs of our clients and align with Broadridge's leading capabilities. Previously, he served as Broadridge's Head of Corporate Strategy and was responsible for our strategy, acquisitions, partnerships, and other innovation-related activities. Prior to joining Broadridge in 2017, Mike was Senior Executive Vice President of Worldwide Services for Microstrategy. Prior to that role, he served as Director of Investments for the Troubled Asset Relief Program at the U.S. Department of Treasury and held positions at Merrill Lynch and McKinsey & Company.

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FOOTNOTES

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