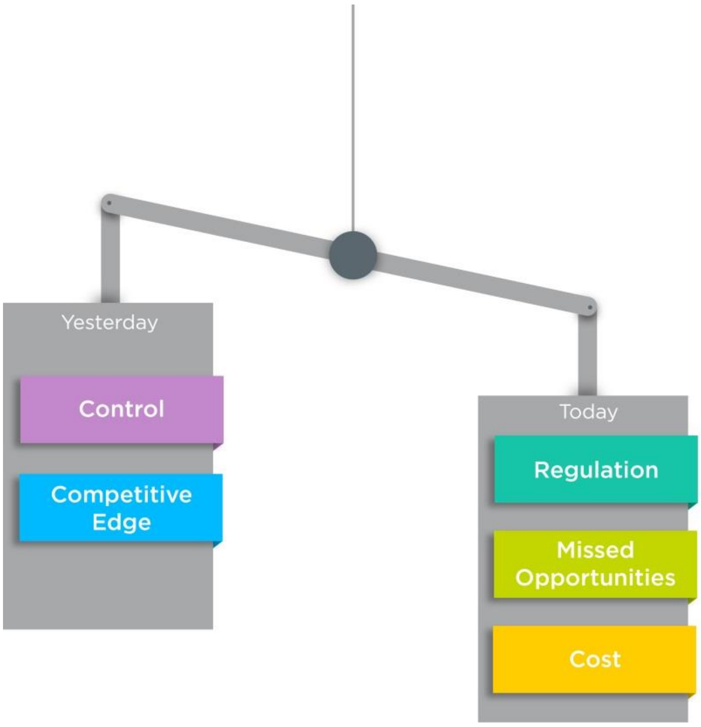
Buy versus Build

Part 1: Rebalancing the Paradigm for Global Equities Technology

Steve Grob, Director of Group Strategy, Fidessa

It's time for a re-think if banks are to get the best out of the technology that underpins their global equities trading.

Despite the billions of dollars involved, many top tier equities trading businesses are having something of an identity crisis. Trading volumes have been flattening since the global financial crisis and the correlation between risk and volatility seems to be breaking down. The global preference for less profitable passive investment and the growing array of regulatory requirements do little to improve the picture either. Yet, for these same banks, equities trading is a marquee business that acts as a pathway to other more profitable activities, including prime brokerage, M&A and other advisory services. This means that global and super-regional banks have no choice but to maintain and even try to grow their equities footprint despite the challenges involved.



But just when tier one banks want to step on the gas, they find that the machinery underpinning the business isn't there to support them. This is because the investment required to keep trading platforms compliant is huge, and many firms have found that there is little resource (or senior management commitment) left over to do anything truly new. And, even when resource is available, the ROI tends to disappoint as the objectives get compromised by the risk of breaking what is already there, or because of the sheer complexity and operational interdependencies involved.

The reality of equities trading today, however, means that it has become a zero sum game and the only way to drive marginal revenue is to differentiate and grow at the expense of your neighbour. So how can firms win in the struggle to dominate global trading and who is likely to be the first to bring a gun to the knife fight?

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Not surprisingly technology is the key, but rather than focus on sheer weight of effort, it is about adopting a more nuanced approach. One that recognises that it is all about getting the optimum blend between building in-house and buying from 3rd party ISVs. This has always been hard as conflicts and compromises between the two domains inevitably appear. The simple truth is, however, that while technology is important, it is not always about competitive edge. Often the role of technology is as a means to an end, a way to deliver and maintain other sorts of IP to customers, rather than to be its sole source. Naturally, this part of the process needs to be effective, scalable and robust but, ultimately, it is non-differentiating.

Recognition of this fact is the only way to provide the agility, speed to market and certainty required in today’s environment.

A crucial element to getting this blend right lies in the intersection between the two domains of build and buy, especially in terms of systems integration, change control and, most important of all, creating differentiating and sustainable IP. This is where we are seeing the greatest change. Up until now, the preference has been to build in-house in the belief that this is the only way to provide the level of control and flexibility required by the business. This mantra can become self-fulfilling as additional layers of complexity are continually tacked on to meet new business needs or in response to the latest regulations. But the result is often the opposite of that intended, an ever-tightening straightjacket that impedes the business rather than empowers it.

What is needed is a new approach that recalibrates the build v buy paradigm and allows these banks to dial in just the right blend of in-house created IP and 3rd party heavy lifting.

Part 2 in this series looks at why the traditional approach to managing buy and build has failed.

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