

Partnering with trusted experts when investing in capital markets-as-a-service solutions can deliver value through lower costs, greater stability, and improved resilience.

Strategic Leverage Within Digital Platforms and Capital Markets as a Service

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Introduction

Capital markets are rapidly adopting digital platforms and as-a-service (aaS) delivery models where clear benefits, including cost efficiency, scalability, flexibility, rapid deployment, enhanced connectivity, global accessibility, and ready access to the latest technological innovations, exist.

The technology ecosystem behind these digital platforms and as-a-service models drives competitive differentiation across capital markets and associated professional areas, such as trading, treasury, investment, and client life-cycle management. The technology vendor demographic of this ecosystem is actively working to develop best practices for operationalizing digital solutions within many facets of the capital markets. Some of the most successful and best-implemented systems migrations have been born out of a collaborative partnership between the client, the technology vendor ecosystem, and trusted, agnostic third-party advisors, namely, systems integrators.

Partnering with a systems integrator typically delivers specialized expertise, seamless integration, customization, risk mitigation, change management, and ongoing support — improving system migration outcomes. Systems integrators frequently have an advantage over internal teams, thanks to their experience with cost estimation and planning (resource allocation), knowledge of and experience negotiating with vendors, and capacity to efficiently transfer ecosystem know-how through tailored training for capital market stakeholders.

AT A GLANCE

KEY STAT

Financial services companies report implementation costs as one of their top barriers to digital platform adoption, second only to the challenges of legacy infrastructure (source: IDC's *Future Enterprise Resiliency and Spending Survey*, Wave 4, May 2023).

WHAT'S IMPORTANT

Capital market firms must balance their capacity to optimally integrate third-party services with the cost of compensating an experienced partner to manage integration.

KEY TAKEAWAY

Partner ecosystems can predictably deliver value. Systems integrators help make platform migration an opportunity for a broader reimagination of service provision.

This document highlights the benefits of capital markets as a service and explores the trends that give momentum to as-a-service and digital platform adoption.

Definitions

- » **Platform as a service (PaaS):** PaaS is flexible, scalable cloud-based computing infrastructure and applications provisioned, managed, and secured by a third-party solutions provider, including technology compliance, support for delivery, and customizations based on client requirements.
- » **Software as a service (SaaS):** SaaS is a fully integrated cloud infrastructure, application, and software licensing model, typically with streamlined functionality and restricted customization.
- » **Utility:** A utility is a multitenanted and integrated application, including business or IT processes, that serves a specific market need for multiple participants and mutualizes high cost and operational risk.

The Benefits of Capital Markets as a Service

The rise of partner-supported platform services within the capital markets has pushed or pulled many organizations into considering their digital strategy more closely. IDC research has found that financial services digital platforms have yielded or are expected to yield multiple complementary benefits, including reduced costs, improved security and organizational efficiency, better data management and, overall, better access to the best available technology. Each of these benefits is a coefficient of enterprise resiliency and serves as a valuable reminder to ensure that experienced teams optimally implement these digital platforms. Table 1 highlights the benefits of digital platforms.

TABLE 1: *The Benefits of Digital Platforms*

Q What are the top 3 expected or realized benefits your financial services organization expects from the adoption of digital platforms?

Expected or Realized Benefits	Financial Services (%)
Reduced costs	41.9
Improved security	36.9
Improved organizational efficiency	33.5
Better data management	30.9
Best available technology	30.7

n = 113

Source: IDC's Future Enterprise Resiliency and Spending Survey, Wave 4, May 2023

Reduced Costs

The ability to pay as you go or access capital markets as a service through a subscription-based pricing structure eliminates the need for significant up-front capital investments. This approach frees up working capital for the subsequent best use. Achieving a cost-effective scale and permanently reducing maintenance costs permit capital market firms to better predict their future costs and focus on value-added, differentiated activities.

Improved Security

As-a-service models can provide capital market firms with an improved security posture. Providers of these models typically have dedicated, specialized security experts on staff who put their experience to work, staying up to date with the latest threats, vulnerabilities, and best practices. Continuous monitoring and threat detection help ensure the best possible response times and the rapid implementation of security measures in the face of an emerging threat. Perhaps even more importantly, critical, as-a-service delivery models offer redundancy and business continuity features. Disaster recovery plans, backup systems, and redundant infrastructure permit improved uptime — an essential quality in systems performance for many facets of capital markets.

Improved Organizational Efficiency

The ability of capital market firms to rapidly access advanced technologies (e.g., generative AI) and deploy technical functionality improves the time to value. Achieving scalability and flexibility while optimizing resources is instrumental to realizing enhanced organizational efficiency. As-a-service and managed service providers often take responsibility for infrastructure and software updates, security patches, performance optimization, and troubleshooting — freeing organizations to focus on the efficiency of core business functions.

Better Data Management

As-a-service models provide capital market firms with secure, centralized, integrated, and scalable data management capabilities, which are typically difficult to achieve and sustain on a standalone basis. Managed service providers specializing in financial services can ensure that data and its storage or transfer comply with applicable regulations while providing business continuity with robust backup services. As-a-service and managed service providers also have expertise in integrating data sources using APIs, providing end users with access to relevant and timely data.

Trends

The capital markets operate in a uniquely challenging business environment. Firms burdened by legacy technology are simultaneously challenged to meet the financial cost of wholesale digital transformation.

Trend 1: Legacy Technical Architecture Challenges Modernization Efforts

Legacy technology systems and supporting infrastructure continue to frustrate modernization efforts by capital market firms. Relative to born-in-the-cloud applications, legacy technologies are inefficient and lack the agility that today's quickly evolving market environment requires. Limited processing power and storage capacity, security vulnerabilities, integration challenges, and high maintenance costs collectively challenge capital market firms to formulate and perpetuate strategic leverage.

Trend 2: The Cost of Implementing Complex Systems Is Rising

Capital market firms have experienced an appreciable increase in the cost of implementing and maintaining technical solutions. As technology continues to redefine the basis for competition, firms need to evaluate their capacity to address complexity with or without the assistance of a managed services provider. Growing regulatory requirements, expanding product offerings, higher transactional volumes, shorter settlement times, increasing data velocity, increasingly capable bad actors, and elevated connectivity requirements all have a high cost of execution. Digital platforms and as-a-service offerings empower firms to compete at an optimal operating cost.

Trend 3: Security Issues Are Frustrating Operational Resilience

A variety of security issues within capital markets inhibit operational resilience. Capital market firms face reputational damage and regulatory enforcement actions (resulting from cybersecurity lapses) that can have oversized financial impacts. For securities trading groups, as-a-service models can support some of the lowest downtimes available — a high-value system attribute in that area of capital markets. Capital market organizations can meaningfully elevate their operational resilience by prioritizing robust cybersecurity strategies and practices using as-a-service models. Experienced implementation experts can help formulate a robust security posture.

Trend 4: Regulatory Requirements Are Increasing the Technical Complexity of Compliance

Capital market regulations worldwide have increasingly focused on data (e.g., WORM storage) and privacy (e.g., the European Union's General Data Protection Regulation), elevating the technical complexity of compliant operations. Complex requirements with an expanded scope covering trade reporting, risk management, market transparency, and client protection — all require rigorous data reporting and record-keeping capabilities. Regulators are increasingly looking for immediate insights, requiring firms to provide real-time reporting and transparency. Advanced technical infrastructure is up to the task, but capital market firms must ensure that operational processes are reconfigured to support regulatory requirement delivery.

Luxoft's Capital Markets as a Service Solutions

Luxoft, a DXC technology company, is a global services and solutions provider, with more than 17,500 employees who support over 430 active clients across capital markets, banking, insurance, automotive, telecom, retail, manufacturing, and healthcare. Luxoft's expertise lies in developing and implementing bespoke technology solutions in collaboration with the company's network of premier financial services partners, allowing financial services clients to meet their goals. The company prides itself on bringing talent together to create a diverse and highly skilled team of engineers, designers, and domain experts. Luxoft's teams work closely with clients to understand their unique needs and develop innovative strategies to overcome challenges while realizing opportunities.

Market participants and the independent software vendors that support them have historically taken a conservative approach to technology implementation. Their relative hesitancy stems from complex and evolving global regulations, the drag of highly integrated systems, and the many acute risks associated with outages. New market entrants are pushing the broader industry to a tipping point through their rapid adoption of digital-first, born-in-the-cloud technology solutions, which position them to act with agility, lowering their cost-to-income ratio and supporting innovative client solutions. In response to this evolving marketplace dynamic, Luxoft has developed a suite of partner-enabled as-a-service solutions called Luxoft Beyond. This ecosystem of independent software vendors, hosting services, and innovation partners collaborates to help accelerate clients' realization of as-a-service benefits. From PaaS to SaaS and utility models,

Luxoft Beyond offers a full spectrum of integrated services to clients, including bespoke engineering, cloud hosting and migration, systems integrations, and run and change services. Luxoft developed the Luxoft Beyond as-a-service ecosystem to solve clients' current cost and service challenges while anticipating their future need for interconnected functionality.

The Trading-Systems-as-a-Service and Treasury-Systems-as-a-Service solutions offer advanced trading and treasury platforms, respectively, from Luxoft's independent software provider partners. These capital market solutions simplify the ownership of complex platforms, provide cost stability over each commitment period, and allow clients to focus their high-value internal resources on differentiating business activities. Luxoft maintains that these strategic activities attract and retain customers and support competitive business differentiation and revenue growth and that as-a-service solutions provide an opportunity to free up valuable resources to focus upon them.

In the banking segment, the EarlyResolution utility, which has been live in the market for 15 years, is the cornerstone of the audit, security, and compliance components of the Luxoft Beyond as-a-service offerings. EarlyResolution is a default management utility that services over 46% of the U.S. default market. With a focus on integrated core banking and lending, Luxoft provides clients with several aaS offerings and, notably, the industry experience to lead with the required complex transition programs.

Within the insurance segment, Luxoft Analytics (LXA) exemplifies the company's data and analytics strategy with its advanced analytics platform comprising ML-based fraud detection and claims management. With user-adaptable claim types, languages, and customizable fields — key to advanced fraud-detection models — LXA enables quick deployment to accelerate value realization for insurers.

Luxoft understands that migrating complex systems and applications to as-a-service solutions is challenging and requires the skill sets of trusted independent partners with deep subject matter expertise. Capitalizing on the cost and efficiency benefits of these solutions is now a top priority across capital markets, with market participants turning to experienced migration partners to help transition their technology estate and modernize their business processes. The trusted partner's role is to provide new solutions and share the investment and risk, requiring open minds to arrive at the optimal operating model.

Challenges

A client's context can challenge the perceived value of Luxoft's service delivery. Clients will often view the reconfiguration of processes as a purely technological translation instead of a catalytic moment for business process evolution. An organization's decision to engage with a technology ecosystem through an as-a-service delivery model requires a balance between adaptation and adoption, in which "business as usual" cannot typically afford to be compromised. Capital market firms considering the benefits and challenges of as-a-service implementation are generally well served by engaging with practiced systems integrators. Open channels of communication, shared responsibility, and strong project management practices can help eliminate misunderstandings and unintended outcomes.

Conclusion

IDC believes that outsourced as-a-service solutions have a relevant place in the transitioning digital landscape of the capital markets. A managed services platform environment can yield impressive benefits in terms of flexibility, costs, and risk, which are valuable to capital market firms coping with costly legacy architecture, growing regulatory burdens, and a dynamic cybersecurity risk environment. A vendor-agnostic managed services platform provider with a robust partner network is typically best positioned to assist with systems integration and can overcome many challenges inherent in DIY integrations. This can be especially true when the management of multiple SaaS providers is required. Working with technical professionals with hands-on experience in diverse operational, technical, and regulatory environments is an excellent policy for lowering the risks implicit in systems migrations and integrations. Experienced product and project managers can deliver predictable costs and, overall, a better value for money. Strategically leveraging an implementation partner and its network to streamline operating systems allows firms to focus on the competitive differentiation necessary for sustainable profitability.

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About the Analyst



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As an IDC Financial Insights team member, Mr. Shuster is responsible for covering capital markets. He joined IDC from the industry where he held sales, product development, and advisory roles. His experience spans financial technology, hedge funds, investment banking, advisory, and sovereign debt.

MESSAGE FROM THE SPONSOR

Luxoft is changing the way banks think about their capital markets technology, by challenging traditional operating models and enabling technology consumption as a service. With a cloud-based ecosystem built around partnerships with leading independent software vendors, Luxoft Beyond leverages the breadth and depth of Luxoft's capital markets expertise. Four core principles drive the Luxoft Beyond solution ethos to provide scalable, cost-effective solutions:

- » Advanced ecosystems
- » Business innovation
- » Integrated partnerships
- » Platform modernization

For more information, visit <https://www.luxoft.com/services/beyond>.



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