



Systems consolidation for Capital Markets

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Adverse market conditions and rising costs are reducing investment banks' profitability. And due to the complexity of their systems, some banks spend more on running legacy applications than the same systems deliver in revenue. Consequently, banks are actively searching for ways to improve the situation.

Many investment banks plan to follow the path of an earlier wave of consolidation programs launched in 2015–16, but with smarter methods and learnings from previous projects.

Key drivers for improving systems

1. Reduce the number of platforms

By reducing the number of platforms they operate, banks cut the underlying operating costs. They might be running different front-office systems for equities, interest rate derivatives and FX, another for the back office and so on, working with several different system vendors and paying a license fee for each. They will also be maintaining separate infrastructures, as each software package needs its own servers, production, backup, testing and development environment. Plus, each system needs a separate production support team. All in all, a massive overhead that just won't quit.

Systems grow organically to enable global development. Teams in different regions could need different systems to suit asset classes or the regional trading activity. The local team might simply buy the system they're familiar with using in a particular location. It all adds up.

2. Accelerate time-to-market

Just think. Each time a new regulatory or market change happens (e.g., MIFID, LIBOR, FRTB) a bank has to build it into every one of their systems to maintain system interaction and inter-dependency. Therefore, an implementation that you would expect to take 2 months could take as long as a year. And as a result, every project becomes a major program.

3. Improve skills management

Banks want better-focused IT teams with streamlined skill sets and lower personnel costs. Currently, they allocate different teams to different projects in different territories, working with multiple platforms. This means they have to recruit a host of niche skill sets in a high-churn IT scenario.

Typical approaches

Moving platform operations offshore

Banks try to keep the same applications but look for an offshore location with lower costs. Cost savings are likely to be a lot less than originally planned.

Applying a DevOps or CI/CD process

Again, the bank tries to retain its legacy systems but with a single delivery pipeline. So, while there are still five or ten applications in the background, it seems like less of a problem because there are layers of people, processes and tools to drive the end-to-end delivery across different banking platforms. However, not all software packages have the same maturity or readiness to work in a DevOps or CI/CD mode. Some more modern systems may be ready, slotting easily into a DevOps pipeline, whereas older legacy systems won't be ready at all. Bottlenecks in the end-to-end process undermine any benefits that might otherwise accrue.

Migrating applications to the cloud

This might reduce the cost of the bank's IT infrastructure, but it can also create new issues. As we've seen, not all applications will be cloud-ready. In that case, different system components cannot be scaled independently. When you scale an entire system, you lose most of the cloud-based cost benefits. Also, there's no simple, consolidated approach to running multiple systems in the cloud. One application may be certified only on AWS (Amazon Web Services), another only on Microsoft Azure, Google Cloud, Oracle Cloud or whatever. Deploying multiple legacy applications in the cloud can be complicated.

Taking a more consolidated approach

Each approach will deliver some benefit to the bank. That said, we believe the best way forward is to take a more strategic and integrated approach. In terms of system consolidation, how can you simplify your applications stack?

Rather than trying to resolve an issue for 10 complex legacy systems, imagine how much simpler it would

be to resolve that issue for just a couple of sleek, modern systems.

Simplifying your applications stack will enable you to get more benefits from the various solutions above like outsourcing, DevOps and cloud. So that's what really drives the case for system consolidation.

Challenges

Agreeing which existing systems to decommission

There will be territorial disagreements. Each current system will represent a major investment by the bank in terms of sunk costs, but decommissioning inefficient legacy applications can bring significant future savings too.

Avoiding any negative impact on the business

Change comes with pros and cons. The business might get overloaded managing the project delivery on top of the daily BAU. Stakeholders could be concerned that legacy functionalities will be regressed or disappear altogether. While trying to solve the profitability equation and simplify platforms, CIOs need to ensure the business is not negatively affected and can leverage incremental business value from the consolidation program.

Phasing the program to spread costs

Delivering business benefits only after the entire program is completed would be unacceptable. On a multiyear program, how do you spend money in an incremental way and derive business benefits in the first year? Can the bank hope to achieve continuous business benefits after 2, 4, or 6 weeks and then on a regular CI/CD basis?

Transitioning the workforce to a new consolidated approach

A bank may have several hundred personnel working on a particular legacy system. Doubtless, most of these people will need retraining or upskilling for a new banking platform.

Three steps to execution



1. Define a target operating model

A target operating model is not just an architectural map for replacing 10 systems with one or two new systems. It's about business, IT and people benefits. It's about governance and the end-to-end business process. It's about meeting banking objectives for cost saving and reducing time-to-market. And making sure all decisions made during the program align with the overarching strategy.



2. Identify high-level milestones

A consolidation program needs big milestones with both internal and external visibility to maintain positive momentum. A phased approach with continuous integration and incremental benefits still needs visible and measurable milestones.



1. Build a more granular process based on DevOps or CI/CD

Make sure that every day, and with every sprint, the consolidation program creates incremental value for the business.

Success factors

Accelerating and decelerating the transition process

You need sufficient program flexibility to be able to adjust transition speed to match the evolving bank strategy. We operate in a dynamic marketplace and strategies have to adapt quickly. Taking an incremental approach means that, whether the program has to speed up or slow down, there's always some new value being delivered to the business.

Choosing the right platforms

Selection could involve software packages or open APIs. Certain banks work very well with software packages because of the firm's culture. Others are more comfortable with open APIs, particularly those with a very strong development culture. Some are happy with either or both.

Matching cloud and CI/CD

Ideally, every platform in your new consolidated stack will be cloud native and fully scalable. And all target systems CI/CD process compliant.

Developing close API and software partnerships

Your systems integrator will need strong and resilient partnerships to ensure that the program is executed as agreed.

Building strong pillars

CI/CD needs a solid base as a starting point, with the right infrastructure and the right process to execute.

Agreeing the location strategy

Your strategy must align with the target operating model, including a mix of onshore, offshore, nearshore or localshore locations. Many banks are looking at the same offshore and nearshore locations such as India or Poland. Competing for the same shallow pool of resources can create bottlenecks, encouraging banks to consider locations closer to home; leveraging talent in regional cities in their own countries.

Choosing the right partner

Luxoft has delivered many consolidation programs for major global banks. A comprehensive range of skill sets and solid partnerships with over 40 leading systems organizations across Banking and Capital Markets, complement our extensive cloud capabilities with all the major platforms. We've also developed the perfect location strategy with expert and reliable teams in

India, Eastern Europe, North Africa, South America and many other placements the world over.

Our innovative financial modeling for the consolidation program means you don't have to pay all of the required investment at the very start. In addition, you can amortize it over the various phases of the program.

What's next?

We see consolidation as enabling a bank to take more control of fewer applications. Banks will become more focused on business and better equipped to face market challenges and regulatory changes.

In the future, banking technology will become more of a commodity, based on a shared multi-tenant platform-as-a-service approach — the next big step for cost reduction.

Luxoft is already delivering consolidation benefits for our clients. Get in touch with **financialservices@luxoft.com** to discuss how we can help you simplify for greater profitability.

About the author



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Ihyeeddine joined Luxoft in 2016 and was part of the transformation journey, first leading the EMEA and then the global systems integration business. Prior to joining Luxoft, Ihyeeddine worked for numerous banks where he developed project methodologies, new practices and solutions for major Capital Markets software packages.

About Luxoft

Luxoft is the design, data and development arm of DXC Technology, providing bespoke, end-to-end technology solutions for mission-critical systems, products and services. We help create data-fueled organizations, solving complex operational, technological and strategic challenges. Our passion is building resilient businesses, while generating new business channels and revenue streams, exceptional user experiences and modernized operations at scale.

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