How *Collaborative Technologies* are Transforming Financial Services

Sitescape Strategic White Paper

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Collaboration in financial services

Money is information. As the fastest adopters of new information technologies, the financial sector has helped to drive multiple waves of change across all industries. Information dissemination has always been at its most advanced in financial applications, with market data screens making their way into both institutions and clients from the 1970s. The commercial implementation of many other new technologies, from the Internet to grid computing to biometrics and beyond, is being driven by the financial industry.

The current vanguard of change in business technology is centred on collaboration. The architecture of business technologies has fundamentally changed over the last five years. This has been epitomized by the development of XML (eXtensible Markup Language) and web services. XML has provided a foundation for easy exchange of formatted information between systems. Web services build on XML to enable applications running on different systems to be integrated. These twin standard technologies, along with numerous related developments, have created an environment in which any systems, applications, or workflow can be integrated into a seamless whole. The latest Internet technologies allow browser-based applications to embody the same functionality as software run on local PCs or corporate servers.

At the same time, the deeper knowledge specialization required in an intensely competitive business environment means that professionals must work with others to achieve outcomes. These pressures not only change how work is done inside organizations, but increasingly means that collaboration outside company boundaries is essential. This collaboration can be with financial market counterparts, clients, and even competitors.

For financial institutions, the rise of collaborative technologies poses both opportunities and challenges. The promise is one of bringing together the expertise found in large, distributed organizations to create highly efficient yet differentiated outcomes and processes. Firms can effectively lock-in their clients by creating high-value collaborative outcomes that cannot be copied by competitors. Risks can be assessed and managed more effectively, helping to optimize capital allocation across the firm.

However these rewards are not easily gleaned. Regulation and compliance issues block initiatives, security concerns are paramount, and the reality is that collaborative behaviors are needed to complement the enabling technologies. This does not mean that financial institutions can ignore the potential of collaboration. Rather it means that the ability to overcome these challenges, and implement and participate effectively in collaboration initiatives, will become increasingly central to gaining competitive advantage and maximizing profitability.

Markets and real-time collaboration

There were two groups that stood out as the first to use instant messaging (IM) to communicate faster and more effectively with their peers: teenage girls and bond traders. For traders and salespeople in fast-moving markets, in which enhanced information flows could result in better timing and more profitable trades, there was no question about immediately taking up this useful tool. Soon traders across most US financial markets were using IM to exchange information with their peers and clients, with many having multiple IM windows open on their desktops in order to keep information flowing swiftly in all directions.

However what was good for individual traders was not necessarily implemented in a way that worked well for organizations. Regulation requiring audit trails on all communication meant that the public IM platforms such as AOL, Yahoo!, and MSN that were adopted by traders were not acceptable in their raw form. US regulators have led the way in requiring all external communication to be captured and stored. Other jurisdictions are following suit, and most institutions globally see it is imperative to manage IM usage closely. However the technologies and processes are now in place so that IM can be considered robust and secure in a financial industry environment. Interoperability issues remain, though recent progress on this front is promising.

The real power of real-time collaboration is still to unfold. The distinguishing and most valuable aspect of IM as a communication medium is its presence functionality. This enables users to know whether other people, including colleagues, clients, and counterparts, are currently available to communicate. This presence function is now becoming embedded into richer communication forms such as videoconferencing, webconferencing, collaborative analytics, and other emerging communication tools.

In the next phase, currently unfolding, the presence function of IM will become embedded across all software applications and business processes. This has the potential to transform how work is done. When people are accessing research, information, reports, and internal workflow, they will be able to identify who was involved in these activities, who has the most relevant expertise across the firm, see whether they are currently available, and if so immediately communicate directly with them. In a world of massive information overload, people’s response to email is far from instaneous. Embedding presence into all software and work activities, while giving staff full control over how they wish to communicate, will enable far more effective and timely processes and decisions. There are likely to be significant shifts in how complex work is performed, in environments ranging from fast-moving markets through to less time-sensitive, though equally critical, business functions.

Deals and collaborative workflow

Major financial transactions such as mergers & acquisitions, initial public offerings, and capital restructurings are the most document-intensive tasks in business. For example, M&A deals involve an average of 15,000 documents. To compound the challenge, these highly complex deals always involve multiple parties, including at least the client corporation, an investment bank, and a law firm, often other professional services providers, or even multiple representatives from each sector. The issue is how to get effective collaboration when complex workflow across organizational boundaries is required.

The reality is that these complex tasks are still largely executed by email. The legion of problems with versioning, copy lists, leakage of confidential information, and more do not seem to put off bankers and lawyers whose primary interface to the world is their email inbox. The potential is for systems that enable faster due diligence processes, more efficient document and prospectus generation, lower risks, greater security, better distribution and pricing, and many other benefits for all participants.

Other sectors, such as insurance, encounter related issues. While the transactions are sometimes less glamorous than the cut and thrust of M&A, a similar workflow is at the heart of the industry. Workflow used to be thought of as largely process automation, however the focus today is largely on how knowledge workers are connected to create business results. This is not usually about making people redundant, but about leveraging the collective capacity of specialists. As such, being able to reconfigure workflow to adapt to changing market demands or organizational structure is critical. Whether driven by a unique deal structure, the launch of a new product, or other developments, new work processes need to be implemented quickly and easily.

Another prerequisite for collaborative workflow in financial services is having complete control over who can access specific information and processes. Once this is in place, it is easy to establish broad participation in workflow, including from people outside the organization, while maintaining absolute security. Each participant sees only the relevant aspect of the work. Financial institutions that have implemented effective collaborative workflow systems can achieve efficiencies and better market outcomes, while also increasing security.

Integrating collaboration and compliance

Compliance is one of the top issues on the minds of CEOs of financial institutions worldwide. Everything must be done with compliance in mind. However overemphasis on compliance will stymie the innovation that drives markets and economies, as former SEC Commissioner Steven Wallman and others have noted. Those firms that allow compliance concerns to stop rather than to shape their collaboration efforts are in danger of losing competitive ground that will be hard to make up.

Recently the *Financial Times* reported that banks are in risk of insider trading by sharing information inside the bank on credit derivatives. Trading in credit default swaps has always being done based on the privileged knowledge that banks have of their clients. Now banks are being told that if they want to trade these instruments, the parts of the bank that know their corporate debt clients well, cannot talk to the parts of the bank that trade the secondary debt of these clients. The Chinese walls originally implemented between investment banking, research, and trading are now being extended to other domains.

Every organization is experiencing the imperative of collaboration. To survive, they must enable rich information flows and collaborative work. At the same time, there are many ways in which they must control communication and information flows, inside and outside the company. This tension between encouraging and constraining information flow will be central to how financial institutions evolve over the next years and decades. This tension must be managed with great care, as stifling collaboration will dramatically erode value creation.

Good and bad behavior

Collaboration (from the Latin *co-laborare*) literally means “working together”. While collaborative technologies from the simple to the cutting edge enable many ways for individuals and organizations to work together, the reality is rarely so smooth and easy. A minority of financial institutions have a culture that could readily be described as “collaborative,” despite the rhetoric. In some sectors a “star culture” still holds strong, while in others, sharing knowledge is not in the self-interest of staff.

The path of culture change has no final destination. There is never a point at which organizations can declare they have a completely collaborative culture and can relax any efforts to improve further. Initiatives to develop greater collaboration must run over a number of years. That is the only timeframe over which substantive change is possible. One-shot efforts are usually a waste of money and resources. Despite the obvious challenges of making bankers and brokers shift to a more collaborative spirit, it is not a question of choice. Unless firms can improve how they bring together the talents of individuals and teams to create value for clients, they will find it increasingly difficult to compete against those that do this better.

Shifting buy-side/ sell-side relationships

One of the most obvious—and critical—aspects of the importance of collaboration is in the shifting relationship between buy-side and sell-side in financial markets. The availability of information and the concentration of analytic capabilities in the buy-side has shifted the balance of power, and made the value proposition of financial market sales activities ever more tenuous. In considering the future of the bank dealing room, some believe that much of the activity will shift to online trading, requiring far fewer traders and salespeople. However if salespeople can create value collaboratively with their clients, this can significantly change how this will evolve.

Collaborative trade and portfolio analytics, in which buy-side and sell-side collaborate in how they assess potential trades, is likely to be a significant aspect of changing relationships. Investment banks increasingly offer tools that allow clients to assess possible trades based on their own assumptions and market perspectives. Sometimes these allow the salesperson and client to simultaneously view trading strategies while adjusting trade parameters and discussing the implications, making the client decision-making process highly collaborative. The step beyond this is assessing the trade specifically within the context of the client’s portfolio, including impact on portfolio-wide risk measures. In some instances these calculations can be done on the bank side, requiring the client’s portfolios to be available on the bank’s systems or at a third-party application service provider (ASP). Another domain in which buy-side/ sell-side relationships are shifting is in the implementation of algorithmic trading. On the one hand, algorithmic trading, which automates market execution, takes away power from the sell-side, which no longer applies trader expertise and market access to provide better execution and lower trading costs. However the complexities of implementing algorithmic trading means that there is an opportunity for the sell-side to provide expertise to its clients in a different form. A high level of collaboration between sell-side and buy-side is critical in the complex task of optimizing execution outcomes.

If banks cannot clearly demonstrate that they can create superior value for their clients through close interaction, clients will not waste their time speaking with salespeople, and banks' key relationships will suffer. The rapidly shifting dynamics of buy-side/ sell-side relationships are closely mirrored in many of the other key relationships that drive the success of financial institutions. Banks have a choice between becoming commodities, or locking in their clients by creating value collaboratively.

The power of industry leadership

Those financial institutions that are more effective at implementing collaboration, both internally as well as with their clients and counterparts, will lead their industry. The extreme complexity and time-sensitivity of institutional financial services requires the best minds to work together on critical issues at a moment's notice. Technologies need to be in place to enable and support effective information flows and decision-making. Well-implemented collaborative workflow will ensure timely action and risk minimization. Institutions must continually develop internal cultures that support collaboration across and beyond the firm. Business strategies need to address the reality that collaboration will happen across organizational boundaries, particularly with financial institutions' most valued clients.

Leadership is required in order to put these fundamental building blocks in place. They will not happen of their own accord. Financial services leaders who provide direction and inspire action—not just within their institutions but also across the industry at large—will create massive value for themselves. The competences and capabilities they are developing will perfectly suit the emerging business environment. Clearly, the years ahead will offer many challenges to financial institutions. Yet there are also massive opportunities for those that can effectively apply collaborative technologies to create greater value, for both themselves and for their clients.