Five Steps Financial Services Firms Can Take To Innovate

By Robert Schifellite

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Too often, there's a disconnect between acknowledging the importance of information technology (IT) advances and taking appropriate action. For example, a PwC survey reveals that 56 percent of people in financial services understand the importance of blockchain, but 83 percent are only "moderately" familiar with the distributed ledger technology, best known as the technology underpinning bitcoin. Wall Street needs to bridge that disconnect and incorporate the best new technology or risk the type of disruption Amazon brought to retail and Uber to taxis.

Consider the possible gains that can be enjoyed from technology. Blockchain can speed up all transaction processing, from fund transfers to proxy voting. That could save investment banks 30 percent of their infrastructure costs by 2025, according to *Accenture and McLagan*. Artificial intelligence/machine learning can help banks know what customers want. It can also transform wealth management by helping advisors create more personalized advice to appeal to the Millennials who will inherit $30 trillion from their Baby Boomer parents in the coming decades. And, cloud computing can streamline back- and middle-office functions, saving money and improving customer communications and engagement.

Executives that want to get the most out of all this technology should follow five steps:

1. **Build a service-delivery capability within your IT organization.** That starts by setting methodical standards for how different technologies and projects will be evaluated so that outcomes don't reflect internal biases and assumptions. Companies must define a rigorous methodology for how to conduct test case experiments (in weeks and months rather than in years) and then how to measure outcomes. That's especially important when a variety of competing projects are being conducted to find the best solution.

2. **Get internal support.** Investing in transformative technology is expensive, so getting a commitment from senior management on *additional* budgets, staffing, process, and on the governance that will oversee projects, is essential. These projects will not be extra tasks that existing staff can incorporate into their day-to-day jobs. At Broadridge, for example, we are making strategic acquisitions and building from within the organization' staffing a blockchain lab of more than 30 associates, while also buying assets of Inveshare Inc. Getting internal support is buoyed by showing the benefits of investment.

3. **Create proof of concept pilots.** Working on proof of concept pilots moves technology from ideation to real life. At Broadridge, since we manage 85 percent of North American proxy voting and over 50 percent of international proxy voting, we set a high priority on proving that blockchain can revolutionize voting by increasing efficiency, enhancing security via encryption and increasing transparency around vote confirmation. Working with J.P. Morgan and Northern Trust, we successfully completed a pilot test using blockchain at an issuer agent‚Äôs annual general meeting to produce a "shadow" digital register of the proxy voting taking place in the traditional way. Now that we have proven it works, we can develop a proxy platform incorporat-

ing blockchain. Elsewhere, we identified six blockchain prototypes to focus on across the business where we can significantly improve processes and lower costs for our customers. For most companies, identifying where your technology most needs an upgrade is a great place to start.

4. Be iterative. One crucial lesson Wall Street can learn from Silicon Valley is that failure is OK. Most failures have aspects that can be salvaged elsewhere. The traditional Software Development Life Cycle waterfall model is being replaced by an agile approach. That iterative approach has four steps—creating simple wireframes, making full color mockups, building a functioning HTML prototype and seeking customer feedback throughout the process.

5. Manage costs. Using an agile process that leverages the cloud as a laboratory for prototyping and for building applications saves money. Nevertheless, a stringent set of financial guidelines is essential to manage any IT upgrade. Costs are best managed by setting specific financial guardrails—an overrun percentage, say 10 percent, that triggers a review from senior management before additional costs are incurred.

Wall Street will make huge strides by incorporating new technology in the next few years. Getting there, however requires learning how technology can enable stronger business models. Technology is evolving so quickly that it's hard to keep up, never mind to get ahead, so following the right process is a great first step on the path to innovation.

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