IBM Global Business Services

IBM Institute for Business Value

Financial Markets

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Unexpected lessons in global financial markets

Financial markets firms have historically avoided the commoditization trap by innovating to create new products and services. The bulk of their impressive growth has typically come from mature markets. Yet today, growth opportunities in those geographies are evaporating, and meaningful future expansion will come from new markets. Indeed, the worldwide industry opportunity is expected to double by 2015. But which firms will seize these emerging profit pools? We believe it will be those that specialize in the areas their clients value while optimizing their global reach…and do both in ways that aren't expected.

Despite a steady stream of innovative products and services, financial markets firms are finding it increasingly difficult to grow revenue in satiated markets – such as the United States, the United Kingdom and Japan – where rivals are competing for a shrinking pool of opportunity. Firms need to look elsewhere. But where?

As we considered how best to answer that global question, we decided that customary forecasting techniques based on past performance would be too shortsighted and simplistic to assess the impact of globalization on the financial markets. We needed a better model – one that projected with higher precision, examined a longer time horizon, and was based on factors that demonstrated the greatest influence over financial markets growth. In collaboration with the Economist Intelligence Unit, we developed such a model and have used it to trace the effect of globalization across 35 of the world's largest economies. We also surveyed 848 financial markets executives from around the globe and 107 of their corporate clients.

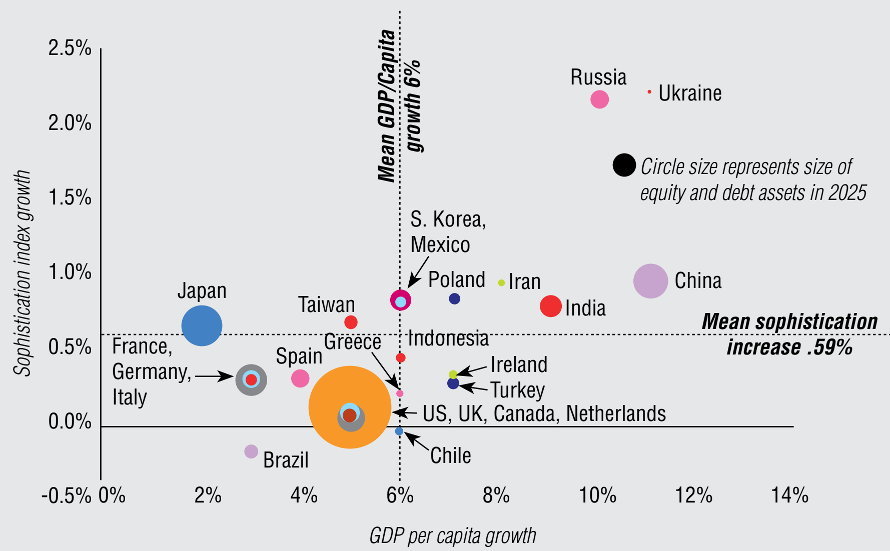
Our analysis resulted in some unexpected lessons for the financial markets industry:

- *The worldwide opportunity is large – but it won't necessarily be found in the same old places.* Worldwide investable assets are expected to double by 2015 to almost US$300 trillion. However, 60 percent of this future growth is coming from nontraditional places.
- *Firms are not prepared to capture this emerging opportunity.* More than 93 percent of the executives interviewed acknowledge that their firms are not operating in a globally integrated fashion.
- *The business model executives generally believe is best may actually be the wrong bet.* The general gut reaction was that large diversified universal banks are best positioned to compete globally. However, executives rated specialists higher than universals on critically important global capabilities.
- *The people side of financial markets firms may be getting short shrift.* Executives pointed out a number of barriers to becoming globally integrated, and most are related to culture and associated intangible assets.

Collectively, these lessons suggest that financial markets firms may literally be moving into unfamiliar territory. Globalization is changing the nature of the financial markets industry. We believe firms must:

- *Align portfolio with emerging profit pools.* Timing of market entry is critical. Firms must monitor sophistication levels around the world in order to launch local and global products at precise times.
- *Reconsider role in industry.* We believe financial markets firms of all stripes – particularly universal banks – should be looking for ways to focus and specialize.
- *Eradicate client disconnects.* We found a fair amount of disparity between *what clients say* they will pay for as they become more global and *what service providers think* clients will value. To specialize effectively, firms need a better understanding of client priorities.
- *Recalibrate operating model.* To be in a position to capture global opportunities, firms must be able to leverage global resources, dynamically assemble/disassemble core capabilities and collaborate openly with key alliances.

Growth in sophistication and GDP are leading indicators for financial asset growth.



Source: IBM Institute for Business Value/EIU 2007 macroeconomic financial markets globalization model.

- *Win minds.* To manage the inherent tensions of going global, firms will have to adjust attitudes and management practices, employee biases and incentives. Cultural constraints like organizational fiefdoms, resistance to change and lack of global management can derail global integration.

In less than ten years, financial markets firms could be looking at twice the amount of investable assets available in the world today. We believe the future leaders of the industry will be those firms that can successfully specialize around what clients value most and become fluid, adaptable, globally integrated enterprises.

How can IBM help?

- ***Strategy and Change:*** Works with your organization to envision future strategies, operationalize those strategies, and transform businesses.
- ***Component Business Modeling (CBM) tools and Service Oriented Architecture (SOA):*** Helps you determine where to focus your organization, and how to build flexible IT infrastructures.
- ***Financial Markets Solutions:*** Customizes industry-specific solutions in the areas of data intelligence, risk management, compliance, M&A integration and trade processing.

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