In Financial Markets, Is Every Firm Now a Fintech?

The Realization Group

In association with BT

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In the financial markets sector, regardless of whether firms are market participants, technology vendors, or service providers, and regardless of whether they are well-established players or new entrants, they are all looking for ways to differentiate themselves in order to stay ahead of their competitors.

For investment firms, this means not only providing greater returns, but also responding to the changing needs and demands of a younger, more digital-savvy generation. Customers today are looking for greater transparency, easier access to data, and an improved user experience.

With every firm striving to be unique, will the winners be those able to understand and embrace new technologies, and to use them in innovative ways to boost customer retention, reduce costs and optimise their human resources?

Today, under the relentless advance of electronic trading, digitalisation, the cloud, artificial intelligence, digital assets, decentralised finance (DeFi), open systems and APIs, will every firm now need to be a 'fintech' – or at least have a fintech mindset and culture – in order to compete and succeed?

In this Financial Markets Insights report from The Realization Group, we ask **Roland Anderson** of Parameta Solutions, **Matt Eddy** and **Jason West** of Refinitiv, **Alasdair Haynes** of Aquis, **Nicola Anderson** of Fintech Scotland, **Steve Moreton** of CJC, **Tim Richards** of Hoptroff, fintech investor and entrepreneur **Mark Whitcroft**, and **Yousaf Hafeez** of BT, to share their insights into the meaning and the role of fintech in today's financial markets.

How larger firms are taking a fintech approach

"There's a change in mindset amongst large financial institutions, but it's primarily being driven by market pressures because the world around us is becoming more technology focused" says **Tim Richards**, CEO of Hoptroff, a technology company that delivers software-based timing solutions. "Customers are now technology savvy, and they expect the same from everybody that they interact with, whether it's banks, trading platforms, wealth managers or anybody else in the financial services community. They look for a more progressive approach, which requires a nimbler perspective. All those banks and financial services businesses need to move more quickly in order to respond to the customer."

For many large organisations however, moving quickly and taking a progressive, nimble approach when deploying new products and services, is not something that they are traditionally geared up for.

"You can't just turn around overnight and say, right, we're going to be a fintech-type business. Because the culture won't be there and the people won't be there," says **Alasdair Haynes**, CEO of Aquis, the pan-European equities exchange. "You can hire those people in, but if you're not giving them the necessary authority, autonomy and accountability, then it won't work. You have to make people accountable and provide them with the authority and the autonomy to do what they need to do in order to change things. That's a risk and that's not in the culture of many incumbents, because of their vested interests. They've often got shareholders to worry about, who get their dividend every year and are very happy with the status quo."

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Alasdair Haynes, Aquis

Adopting an entrepreneurial mindset

Nicola Anderson, CEO of Fintech Scotland, an organisation that facilitates collaboration between fintech entrepreneurs, financial institutions and other interested parties, suggests that a collaborative approach can help accelerate learning and enable financial incumbents to pick up and adopt more of a fintech-type culture. "More and more of our conversations are around connecting financial institutions with fintechs, to support ways to adopt and learn about an innovative mindset," she says. "Technology is moving at such a pace that the agile, entrepreneurial-type mindset is useful to consider how that technology could be applied in a way that would help advance the business. And it's a balance. Because equally, those large institutions also have an eye on risk and compliance and how that all works together."

Haynes agrees on the importance of the entrepreneurial approach. "You can be large or small and act like an incumbent or you can be large or small and act like an entrepreneurial business," he says. "But the whole thing starts at the top. Then you need to have the right people, the right structure and the right framework to do what you want to do.

"Apple is one of the largest and most innovative companies in the world," continues **Haynes**. "And it's not just innovative, it creates innovation that's scalable too. This is more a question of the culture of the business rather than necessarily the size. We tend to think that a 10-person company can be agile and quick, but that doesn't prevent a larger business from creating agility, if that is its culture. Google has done the same thing. But do we see that type of culture within financial services? Not to the same degree," he contends.

Is this changing? **Mark Whitcroft**, a fintech investor and entrepreneur who was a Founding Partner of venture capital firm Illuminate Financial, thinks so. "It's becoming more common now for larger firms to adopt a fintech mindset now that there are more quantitative benchmarks out there," he says. "Financial institutions tend to be fast followers, and there are now successful examples that others can follow. But it's not just about innovation selection, it's about innovation integration, which is something that is very underappreciated in financial services."

Innovation and agility

Innovation is clearly an essential aspect of the fintech approach, so how can larger firms go about integrating new innovations into the enterprise?

"There's definitely a growing appetite amongst larger firms for the need to be agile, the need to be more respondent to the fintechs," says **Matt Eddy**, Head of Real-Time Customer Managed Services at Refinitiv, an LSEG company. "A lot of our customers are financial institutions looking at how they can now spin out their own development and innovation arms. They've seen these new startups coming in, being a lot more aggressive and taking industry share. So there's lots of lessons to be learned from how these smaller fintechs bring agility, nimbleness, and the ability to experiment."

"There's definitely a growing appetite amongst larger firms for the need to be agile, the need to be more respondent to the fintechs"

Matt Eddy, Refinitiv

Eddy's colleague at Refinitiv, **Jason West**, Head of the company's Real-Time Managed Distribution Services Business, expands on how this can be achieved. "You need the business COO, the development teams, DevOps groups and infrastructure people all working together as one," he says. "There's the old adage that these big banks are like oil tankers that take a while to turn and fintechs are like little speedboats. But that's changing. You're starting to see pockets of DevOps, with a business head running that DevOps group and taking that small, unique dynamic team into new markets, for example. But that means your processes and procedures have to be lighter, and you have to conform with the regulatory compliance teams and the risk groups in a way that's dynamic too, and appropriately tooled and automated."

"You need the business COO, the development teams, DevOps groups and infrastructure people all working together as one"

Jason West, Refinitiv

Creating such a dynamic, flexible environment can be made easier when working with a suitable partner, suggests **Yousaf Hafeez**, Head of Business Development, BT Radianz. “A lot of a large firms have a great infrastructure, but the challenge they’ve got is that it’s not flexible or dynamic enough, so some of them are setting up small projects, small units, to look at how to become more flexible by embracing cloud and other technologies,” he says. “For firms that need these new technologies, a partner such as BT Radianz can provide access, connectivity, storage, colocation and hosting services, enabling them to develop the dynamic, flexible services that their clients want. If they develop these services in-house, it can sometimes take two or three years, by which time the service is no longer relevant. So they need an environment where they can be a lot more flexible, be creative, test new services, bring them to market quickly, and move on.”

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Is there more to fintech than technology?

“The firms that are doing well are focused on business outcomes. It doesn’t start with the technology, but rather it’s about the clear outcome that they’re looking to achieve,” says **Nicola Anderson**. “And sometimes that starts with shaping the problem statement in such a way that there’s an openness to what the solution could be, as opposed to the problem statement being shaped in such a way that there’s a fairly closed-minded idea as to what the solution already is.

“You have to be open to different ways of addressing the problem,” she continues. “Being fairly agnostic about the technology approach is part of that openness. Sometimes it might not be a particular technology that will help a firm address its issues. Often there’s too much of a focus on the technology, and that can sometimes trip you up. It might provide the plumbing that’s needed, but data is the flow that helps build insights. It’s through having a good quality data strategy alongside the technology that will advance some of the big issues facing the market.”

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Nicola Anderson, Fintech Scotland

Roland Anderson, CIO, Data & Analytics at Parameta, the market data solutions division of TP ICAP, points out that there are dangers to adopting technology for technology’s sake. “You can quickly go down the rabbit hole and create a passion project and choose technology just from a fear of missing out,” he says. “The cloud has given us a lot of choice, which is both good and bad. My mantra to the data engineering, data science and market data technology teams here at Parameta, is use the right tool for the right job. Sometimes you’ve just got to back a horse and ensure that the team’s expertise is good enough to make it a success.”

Haynes stresses that technology doesn't drive change, it enables it. "Technology gives us the capability to do things that we could never do before, or to do things more efficiently," he says. "But the key thing is it's not the technology itself, it's the business model that it enables. Where people tend to fail is where the change they're making doesn't affect the industry enough, or doesn't address the vested interests in maintaining the status quo of what people have been doing and how they make their money. People who don't necessarily want that change to take place."

Building ecosystems

If changing the industry for the better is the goal and technology the enabler, can firms – fintechs, established vendors and market participants – work together in a more collaborative way to build solutions that might facilitate new business models to drive the industry forward? And do they want to?

"Larger vendors are looking at partnerships more than they have ever done before," says **Whitcroft**. "You need to have more of an ecosystem approach today. Connectivity and interoperability technologies are key to creating these ecosystems of vendors that work together in a 'one plus one equals three' approach. Startups often begin as point solutions or workflows that need to plug into each other to offer a more complete solution for clients. So we're certainly seeing more partnerships and alliances being formed now."

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Mark Whitcroft, fintech investor

This ability to connect all the different parties together and plug solutions into each other is a key aspect of building such ecosystems, suggests **Hafeez**. "A lot of banks and brokers don't want to develop these services themselves, they want to use services from fintechs and existing vendors, so it makes sense to work with a partner that can provide secure, resilient, fast connectivity to and between all of those parties," he says.

Fintechs are well-placed when it comes to collaborative solutions, particularly around data sharing, believes **Roland Anderson**. "When you're dealing with content at scale, petabytes in some cases, fintechs have a real opportunity in addressing the challenge of bringing multiple institutions together in a secure environment and securely sharing data in a in a way in which people are able to access and understand the content, without transferring the content," he says.

According to **Richards**, some firms remain wary about partnerships, although this is changing, he believes. "I wouldn't say there's complete openness around collaboration and everything's rosy," he says. "Quite the opposite, in fact. But there are the beginnings of a more open approach, with more engagement. Even as recently as over the last six months, some of the bigger players in the financial services world have started to change the way they interact with fintechs. Many of them historically might have been a little scared of what that might imply, whereas now more and more of them are actively engaging and collaborating."

Addressing procurement challenges

One area that remains problematic for smaller fintechs is navigating their way through the procurement cycles of larger banks. “Banks’ procurement processes are often highly bureaucratic, with committees needing to sign off on every stage of deployment,” says **Richards**. “Fintechs tend to be nimble, but banks tend to be quite the opposite, at the other extreme. From a fintech perspective, how do you get to talk to the people that you ultimately need to talk to? How do you work your way through the procurement process, which is now starting to involve sign off from an ESG perspective, alongside other requirements? Some startups and scale-ups don’t have the capacity to absorb that. And, frankly, they often don’t understand some of the questions, many of which just aren’t relevant.”

Again, working with an appropriate partner can alleviate some of these challenges, suggests **Hafeez**. “There are certain instances where a partner such as BT Radianz can white label a fintech’s service,” he says. “By doing that, it helps both the bank by getting the technology up and running quickly, and it helps the fintech because it gives them the ability to bypass that procurement process by going through an established supplier.”

Leveraging the Cloud

With the majority of fintech solutions now being delivered via the cloud, how is the financial markets sector adapting to this new paradigm?

“The financial markets have always been information, data, and technology-driven,” says **Steve Moreton**, Global Head of Product Management at CJC, the market data technology consultancy and service provider. “The adoption and leveraging of cloud-based enablement technologies is currently the primary driver at most firms, including exchanges, vendors, and sell-side institutions. Once their datasets are available in the cloud, firms can leverage enablement technologies like elastic scaling, compute, or artificial intelligence/machine learning. However, we have seen some technology and financial institutions unable to leverage the cloud because of co-location requirements with data vendors that have not yet integrated with the cloud. Despite this, the willingness to embrace new technologies varies from firm to firm. For instance, many new start-ups were born cloud-native, so firms that embraced them effectively migrated to the cloud with them.”

“The financial industry has specific purpose-built software, technological, and regulatory requirements that need prioritizing. Before any cloud transformation work, specialist knowledge of the cloud and back-end systems is needed.”

Steve Moreton, CJC

“The migration from on-premise and collocated services to cloud is accelerating, says **Whitcroft**. “A lot of the traditional incumbent vendors have over the last few years gone through a cloud migration strategy. Where their services were on-prem based before, they’ve had to continue those contracts but at the same time roll on to a cloud-native strategy, where they’re migrating clients over time. And that’s not easy to do, because you’re eating your own lunch a little bit. But that’s where the startups have benefited. Cloud, even three to five years ago, was often a sore spot for financial services firms, with most of them saying no, or yes in only specific areas. Whereas today, those saying no are definitely the outliers.”

For cloud-native fintechs, it is important to be able to connect with the banks, brokers and other financial institutions who wish to use their services, says **Hafeez**. "If you're a fintech, you want to attract institutional grade clients and you want institutional grade connectivity. An example of that is the crypto firms that are sitting on the cloud, but the clients they want to attract need to be able to access their services via a secure global network that they trust. That's why it's important to have both secure multi-cloud connectivity as well as access to existing financial network end points."

Moreton points out some of the pitfalls that firms can face when moving to a cloud-based environment. "Without the correct skill set and expertise, migrating to the cloud poses a costly learning curve. The financial industry has specific purpose-built software, technological, and regulatory requirements that need prioritizing. Before any cloud transformation work, specialist knowledge of the cloud and back-end systems is needed. A lack of knowledge can lead to catastrophic outages, potentially undermining efficiencies or savings," he says.

Moving towards the as-a-Service model

Many financial technology providers, even those that are not cloud-native, are now offering their solutions 'as-a-Service' as demand grows for this type of operating model, as Parameta's **Anderson** explains.

"We look at where we can use technology like a utility. For example, we can create a data lake or a data warehouse very quickly, and we can spin up compute extremely quickly, and store all of the outcomes, whether it's analytics or just moving content from one place to another. That all can be outsourced and taken care of by someone else," he says. "The real expertise within our division is our understanding of OTC markets. So that's where the line crosses. All of the other stuff is up for grabs, whether it's scheduling, whether it's content management, looking after the system's architectural approach, whatever. If someone has more expertise in that area, or 100 people versus my 20, I'll take that every day, because what we should be doing within Parameta is concentrating on the data around the OTC markets that we operate in. That's the view I always share with the team. Let's not try to rebuild the oven when we're the ones with the recipe for baking the cake. I will quite happily make that decision and partner with others, where they've built infrastructure, solutions, ETL, and data pipelines at scale, versus doing it ourselves. We've got enough on our plate already when delivering our product."

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Roland Anderson, Parameta Solutions

Richards outlines other benefits that a Software-as-a-Service model can offer to clients. "At Hoptroff, our main competition has historically been localised deployments of hardware, usually put in place by the big consulting firms on behalf of the banks. But that's capital intensive, expensive, and complicated to knit together, with lots of different component pieces, and the hardware starts to degrade over time, it's got a finite life. It's relatively complex to manage. And there are concerns with it being highly localised, and data centre-specific. Our approach is SaaS-based plug and play, no capex, and agnostic as to whether it's in the cloud or on-prem in a data centre, so it's very different. You can take those broad principles and expand them across the whole financial services landscape."

Working with the right partners can help when creating such services, says **Hafeez**. "For banks or technology firms developing new products, there's a real value proposition when they offer those as-a-Service," he says. "But they might need help with that, to put in place the right cloud or hybrid infrastructure, or to use the right deployment methodologies."

Open technology and DeFi

A key aspect of many fintech solutions is their open nature, allowing for API-based access and interoperability between platforms, which is now becoming increasingly common in the financial markets sector.

"From our perspective, open technology, open source software running in the cloud, quickly being able to move between platforms, and having an API strategy that helps us connect with clients and connect internally, is all part of the game that we have to play," says **Roland Anderson**. "We've got quite a plethora of different types of API, but we have a strategy around how we bring all of that together, essentially managing it as config as opposed to in the past, where we've had to do code changes. The world that we live in today is where a single point API drives a single unified messaging structure, which drives better data and better governance around that data. In terms of value to Parameta and also the wider TP ICAP organisation, whether for trading, back office, surveillance or whatever, you're not going to be able to achieve that unless you've got some discipline around APIs and an open-minded approach."

Another 'open' technology that is gaining ground is decentralised finance (DeFi), a technology based on secure distributed ledgers (DLT) to manage financial transactions. "DeFi is an interesting and growing area with multiple strands to it. We're slightly in the trough of disillusionment around DLT or blockchain within traditional finance right now, where people have realised that it's only useful in certain use cases in financial markets from a euphoric starting point of a solution to solve many settlement problems," says **Whitcroft**. "Where it's starting to get trust and opportunities is in things like FX settlement, where there's high speed, high turnover and material costs that can be removed. You've also got DeFi components around alternative markets becoming more mainstream and more democratised. Share registers, democratised access to private equity and venture capital, that's pretty interesting. The crypto ecosystem is now busy with teams coming from traditional finance backgrounds and building institutional grade systems for crypto assets, ranging from trading systems, matching engines, settlement and custody, that's clearly a massive space. There is no doubt that there has been a sea change in the last three years, where traditional finance players are now saying their clients want access to these crypto assets, even despite the recent market downturns. Despite the principles of DeFi, this is still using these technology solutions within closed and permissioned networks."

What about the 'big tech' cloud service providers?

Should financial technology vendors and financial institutions feel threatened by the big tech vendors, such as Google Cloud Platform (GCP), Amazon Web Services (AWS) or Microsoft Azure, moving into the financial markets space? Or do the services they provide present more of an opportunity to specialist firms?

"The banks and the large financial institutions that are evolving and innovating, are recognising that they need to become more tech-aligned and need to move quicker," says **Nicola Anderson**. "That presents more opportunities for collaboration with the big cloud service providers (CSPs). At the moment, it seems as if those big tech firms are focused on the retail and payment space rather than investment banking and capital markets. But it will be interesting to see how they think about that in the future."

"The move to the cloud, assuming it's carefully thought through and planned, is a good thing. But then there is a danger that too many 800-pound gorillas can squash the innovation that comes from some of the smaller fintechs, so there needs to be a balance."

Tim Richards, Hoptroff

The big tech players present both an opportunity and a threat, suggests **Richards**. "To some extent, big tech firms are enablers because inevitably as financial services businesses move capabilities into the cloud, they're almost certainly going to be bound to Google, AWS, Azure or one of the other big CSPs," he says. "That's encouraging because the move to the cloud, assuming it's carefully thought through and planned, is a good thing. But then there is a danger that too many 800-pound gorillas can squash the innovation that comes from some of the smaller fintechs, so there needs to be a balance. There are pros and cons to it as far as financial services are concerned. There's a natural tension there and some fintechs are quite rightly concerned that they may have their lunch eaten by the big boys if they're not careful. That's why you have to make sure you protect your IP and gain enough scale before you engage."

Conclusion

It is clear that financial markets are evolving rapidly and that technology is playing an increasingly important role. Firms that are able to leverage new technologies, whether for developing new business models, addressing inefficiencies in the market, or providing better services to their customers, will be strongly placed for the future.

Smaller fintechs need to be able to attract and retain customers on a global basis. Large, established companies need to be flexible, nimble, dynamic and agile to compete with those fintechs. And firms across the spectrum will require the necessary infrastructure and connectivity, and be open to collaboration with partners who can complement their offerings, at every stage along the journey.

Is every firm now a fintech? If not, they will soon need to be.

Viewpoint of the technology vendor, BT

"BT Radianz has a strong legacy of delivering and enabling innovation. We recognise the challenges our customers face in this area, and we're proactively working with them to help address them.

Our experience and credibility in the fintech space is demonstrated by how we continue to add new providers across all asset classes and by supporting the distribution and consumption of innovative services too, since our beginnings over 22 years ago.

Regarding some of the specific challenges outlined in this paper:

- We can help large institutions reduce the effort and risk of onboarding new fintech partners by making their services available via the Radianz Cloud.
- We can also support fintechs reach new markets and customers with our global community of market participants.
- New asset classes, such as digital, can be easily supported by the Radianz Cloud. For example, through working with Kaiko recently, we can provide you access globally to their cryptocurrency market data.
- Even if a participant is on public cloud, Radianz can easily connect them to their business partners services.
- All of these services can be cost-effectively provided over a single set of infrastructure with short lead times.

We continue to look forward to facilitating the promise of fintech by enabling the innovators on all sides. If you'd like to find out how BT Radianz can help you with meeting the challenges of innovation, please contact your account manager."

Phil Swindle, Managing Director, BT Radianz

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