



# The Spotlight

The Spotlight is a regular Q & A feature that showcases our people, their expertise, and trending topics that are on top of our clients' minds directly from the voices of our business leaders.



## Kate Cramer, Partner, Banking and Capital Markets Performance

Kate Cramer is part of the BCM Performance practice. In her role, Kate delivers market share and strategic advice to investment banking clients across the globe.

### Questions and Answers

#### **What is a major industry challenge equities firms are currently facing?**

The topic most of our equities clients are focused on right now is how MiFID II regulation is impacting business models and the buy-side and sell-side ecosystem. This wide-ranging legislation includes sections on best execution and payment for research, which forces buy-side firms to justify which sell-side firms they work with and how much to pay them. This requires both parties to place value on their content and services, while also focusing on profitability. This represents a significant opportunity for us to help our clients navigate those challenges – equities revenues across the sell-side have fallen 10% since 2012, while our BCM Performance revenues have grown 31% over that period.

#### **How has Brexit impacted firm performance in the UK?**

It's a little early to see the full implications, as the final deal is far from clear, but all of our clients are evaluating their location strategies to ensure that they can continue to operate effectively. We've been able to combine our performance, reward, and talent insights to help clients assess alternative locations for their operations based on cost effectiveness, talent availability, and competition for resources.

#### **If you could describe today's equities industry in three words, what would they be?**

Challenged, but changing.

#### **How are firms improving their return on equity?**

With respect to enhancing ROE, firms have two main levers – to grow revenue and reduce cost. Ultimately, it's important to answer the question what does good look like for my business model? And that answer is continually evolving. We address the revenue angle through our Revenue GPS practice, working with clients to understand their market share and identify growth opportunities.

On the cost side, our financial benchmark tool (Gauge) allows firms to effectively analyze costs, measure capital usage, and maximize organizational efficiency. We're also seeing firms look at their infrastructure models to assess the efficiency benefits of shared services versus aligning support functions to business units. For those who haven't already explored outsourcing or lower cost locations, this can be a powerful lever. However, compensation is arguably the biggest cost management lever, and an area where firms can combine our performance and reward insights to truly understand the impact compensation strategies can have on profitability.

#### **Where are the hot spots for spend in 2018?**

Regulation continues to absorb significant investment and affects every area of the bank, but most significantly impacts compliance, risk, and legal functions. We have seen a 10% increase in spend since 2012 in these areas. Changes in the way the buy-side pays banks for research as a result of MiFID II will shine a light on the real value of this division, leading some firms to double down on investment and others to consider exiting altogether. The maturation of blockchain and new technologies mean IT spend remains at the forefront, as firms shift their IT investment away from responding to regulation and towards innovation to compete with FinTech disruptors. In equities, a migration to electronic trading strategies has been a consistent theme for the past decade. This is accelerating in Europe and Asia, with electronic wallet increases of more than 15% over the last two years alone, causing banks to naturally direct investment to these growth areas. Finally, we envision a spike in relocation related expenses thanks to Brexit, whether through new hires or new premises as firms beef up their presence outside the UK.