4th Annual Impact of Technology on Capital Markets – has Covid changed the narrative?

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Events Radar's 4th annual event on technology developments in the debt capital markets discussed the impact of the ongoing Covid-19 pandemic on the challenges and opportunities for banks and fintech service providers and participants in the primary bond market.

KM Capital Markets founder **Keith Mullin** chaired the discussion with panellists**:**

Charlie Berman, Chief Executive, agora Digital Capital markets
Avtar Sehra, Chief Executive, Nivaura
Armin Peter, Global Head of Debt Syndicate, UBS; Chair, FinTech Advisory Committee, ICMA

- What is their summation of market activity over the past six months?
- How has the tech debate evolved during the pandemic?
- What are some of the missing pieces of the tech puzzle that are critical for digitisation?
- What's the tech vision for primary bond markets?

Debt capital markets have performed remarkably well in 2020 in times of global crisis. The Covid-19 pandemic has thrown economies into turmoil and forced governments to take extraordinary measures with significant stimulus packages launched in a number of countries.

The primary bond markets roared into action following central bank interventions, with records broken in the US investment grade and in emerging markets. Indeed, the US dollar primary market outstripped records from the past 10 years with USD347.77bn issued by corporates and financials combined in Q3.

"Some issuers have been issuing twice as much as they usually do, and yet the market has absorbed it," noted Armin Peter, Global Head of Debt Syndicate and Head of Sustainable Banking EMEA at UBS.

During one of the busiest periods in the market's history, participants made do using existing technology despite disruption as they switched away from the office to working from home.

Peter said he was encouraged by the successful response to the challenges of the pandemic, and that it showed the industry could cope with change and was ready for further digitisation.

"I think the pandemic situation has clearly [inspired a] rethink within companies and the industry in how to tackle technology, how to implement it. We keep on encouraging that trend," he said.

So how should we understand the current relationship between technology and the debt capital markets?

Charlie Berman, CEO of Digital Debt Capital Markets at fintech company agora, said that while the market had responded well during the past six months, the pandemic had highlighted problems that already existed in the industry.

"It's about how you can introduce technology which can help the existing market to some improvement. It's not that the market was broken - and we've seen in spades how resilient our markets are," he added.

Berman said that institutions had swiftly and efficiently transitioned to remote working at the start of the pandemic, and were increasingly aware of the necessity of embracing technological change.

"We've seen an acceleration in the pace of the dialogue with many of the people we are engaged with, who've said 'OK we're getting through this but actually we need to move faster now.'"

The crisis highlighted the role technology can play in dealing with regulators and other authorities, and managing practicalities like wet-ink signatures.

"Compliance departments have had to change their procedures in order to account for people not being in the same building, in the secure safe bubble," Berman noted.

"Those organisations who wanted to be followers, who were a little reluctant to be at the vanguard, have said 'maybe we can't wait.'"

Peter emphasised that the pandemic had created compliance challenges for which digitisation could provide solutions.

"We definitely had trust in our own IT system to work from home - but it was actually the compliance, monitoring and regulatory angle that was more complicated," he said.

Covid shows the need to improve digital communication

Avtar Sehra, CEO at Nivaura, a company which automates legal documentation, said the necessity to improve communication and the sharing of documentation had been clearly shown by the crisis.

"The primary markets haven't been driven by [changes in] technology, apart from email - that's probably been the biggest innovation in the past 30 years," Sehra emphasised.

"Over the past six months, we've had a number of calls asking how [we] see the industry changing, communication changing, the documentation exchanges, data dissemination changing - because everyone is now interested in what digitisation actually means."

Sehra noted that institutions were keen to adapt and prepare for the next crisis, reducing reliance on phone calls, emails and virtual desktops that are not particularly efficient to use.

But what could improve or replace the old system? Acknowledging that it was very unlikely email would completely disappear, Sehra said its key limitation is that information bounces from person-to-person successively - its weakness is an inability to share information in a synchronous way.

"The process is about how you can connect people up, and help them share data in real time. That will be a complement to email, I believe," he said.

So what do terms like "digitisation" actually mean?

As the conversation around the future relationship between the debt capital markets and technology accelerates, clarity on the meaning of technical terms is becoming ever more important.

Armin Peter said there can be some ambiguity around words like "digitisation", which often mean different things to different people.

For some, it means tokenisation - trading a blockchain token that digitally represents a real tradable asset. For others it might mean the ability to "click-and-play" - for instance, an investor who wants to execute a deal digitally at speed.

In its broadest sense, the term refers to how the transition of processes from analogue to digital will affect people and work. The term can apply to a document that might have previously been stored in a physical file that is now digitised and stored on a computer, or how an in-person office meeting can be conducted in a video chatroom.

Is digitisation like automation? And why is "structured data" important?

Sehra said that there was confusion in the industry's conversation around the concepts of digitisation and automation.

Digitisation transfers data from analogue to digital so it can flow from one point to the other. But individuals still manually interact with that data. Human work can coexist with digitisation.

While digitisation has been happening for decades in the industry, Sehra stressed that the problem in the primary space is that the start of the digitisation process involves unstructured data contained in the documentation. "That hasn't changed for a long time - and will take a long time to change."

Why?

The unstructured data in this case refers to the legal framework sitting inside the legal documentation, and the rule of law governing financial instruments. Companies like Nivaura seek to take that data and put it into a structured form that can flow through the whole process – in Sehra's words, this is the key challenge to digitise the primary bond markets.

Once that process is repeated, you get structured data, which is "essentially saying that data is in rows and columns," he said.

If data is in rows and columns, various algorithmic and statistical techniques can be applied to it, allowing for pattern recognition. That leads to automation, which can over time remove the manual effort.

Is the market ready?

There is still a gap that the technology is yet to broach. Peter said when it comes to bond valuation, for instance, the tools that technology can provide do show promise - but advances need to be made in how information is accurately captured.

"I think in this regard the market is not necessarily there from a structured data perspective that you can purely rely on these machines. You [still] need to have a human," he said.

"In this transitional process we all need to work on the basis of ... the same data. If you're all talking about different data… we need to come to a common denominator to make the next moves. I think we're on the way," he added.

Towards a common language, and developing infrastructure

Unstructured data was not simply a problem for the primary market - but the secondary market too. "It's about the whole infrastructure for the capital markets," Peter noted.

Developing that new infrastructure and ushering in digitisation and automation will require market-wide standards.

Peter cautioned "we need to be incredibly conscious that the functioning market doesn't become dysfunctional" as new technology is introduced.

He said that different market stakeholders, from issuers to investors and underwriters, need to sit down and come to common agreement, with regulators to give it a final push if no agreement can be found.

Emphasising the need for standardisation, Charlie Berman pointed out that "everyone talks about the term sheet. Everybody's got a term sheet, and we don't have a single standard term sheet yet."

"We need a common framework, a common language," he added.

But the panel agreed that necessity for a standard framework need not mean a winner-takes-all competition between fintech service providers.

"I don't think any one of us will be the winner… I think what you will see next year and the year after, is that there will be a lot more cooperation between different service providers who will do their own thing but [also will] cooperate to build this new digital future," Berman said.

What comes next?

Part of the challenge of developing the infrastructure required to advance digitisation and automation can be tackled by fintech service providers, providing clarity to market participants on how the technology can be applied.

Berman said he sympathised with the difficulty of understanding the technical complexities, acknowledging that service providers "can still do a much better job" communicating with the industry.

"Part of the education will be sending a common message about aspects of what we are doing and how it all fits together," he added.

Sehra advised that the focus for fintech firms should be on connecting the right parties to exchange the data they need in a structured form; using that data to drive automation and the marginal cost of ongoing executions to zero, and ultimately developing applications on top of that for end users.

Peter meanwhile encouraged service providers to work together to provide a solution that "is not only a little piece of our process but more or less the whole chain."

He added that it would be necessary for the industry to advance its conversation on standardisation to efficiently incorporate the new technology with minimal risk.

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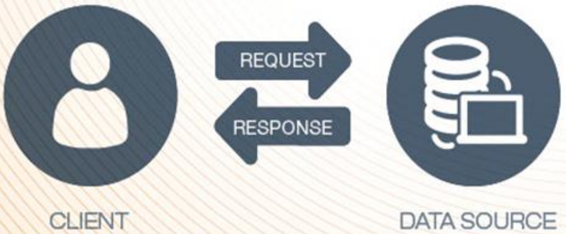
What is an API?

An application interface between a client and a data source intended to simplify the building of software applications.

Advantages

Client can automate workflows, customise content, delivery of services, information is more flexible and data is secure.



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