

Operational Friction: The Hidden Cost of Financial Services

A Perspective on Why the Next Competitive Advantage Isn't Faster Trading—It's Faster Operations

Executive Summary

Financial institutions have invested billions of dollars over the past two decades modernizing trading infrastructure, market connectivity, cloud computing, and risk management systems. Trading has become nearly instantaneous. Market data travels in microseconds. Settlement cycles continue to compress.

Yet one critical area remains largely unchanged: the operational workflows that move clients, agreements, approvals, collateral, and information through an institution.

Institutional client onboarding can still take weeks or months. Contract negotiations are coordinated through email. Risk approvals are manually tracked across spreadsheets. Operations teams spend countless hours chasing status updates rather than resolving exceptions.

The result is a hidden tax on financial institutions: **operational friction**.

Unlike market risk or credit risk, operational friction rarely appears on a balance sheet. It quietly delays revenue, increases costs, frustrates clients, and limits an institution's ability to scale.

As artificial intelligence transforms knowledge work, the greatest opportunity in financial services may not be replacing people—it may be eliminating the friction that prevents teams from moving at the speed of business.

The Modern Financial Paradox

Financial markets have never been faster.

Operations have never been more fragmented.

A single institutional client onboarding may involve:

- Sales
- Client Service
- Legal
- Risk
- Compliance
- Treasury
- Tax
- Operations
- Technology
- External Counsel
- Custodians
- Clearing Brokers

Each function performs valuable work.

Yet delays rarely occur because one team is incapable.

They occur because work is constantly waiting for the next team.

Financial institutions have optimized individual functions while neglecting the connections between them.

The result is an organization full of efficient departments operating within an inefficient system.

Understanding Operational Friction

Operational friction is the accumulation of delays, uncertainty, duplicated effort, and coordination failures that occur as work moves across an organization.

Examples include:

- waiting for document revisions
- missing approvals
- unclear ownership
- duplicate data entry
- manual status reporting
- email chains replacing workflow systems
- repeated requests for the same information
- disconnected operational platforms

These activities rarely create value.

They merely consume time.

The Relay Principle

Institutional operations resemble a relay race.

Every client engagement passes through a sequence of handoffs.

Sales hands work to Legal.

Legal hands work to Risk.

Risk hands work to Treasury.

Treasury hands work to Operations.

Operations hands work to Client Service.

The objective is not to make one runner faster.

It is to ensure the baton is never dropped.

Most operational delays occur during handoffs—not during execution.

The fastest organizations are those with the smoothest transitions.

The Cost of Friction

Operational friction creates four categories of loss.

1. Revenue Delay

Clients cannot generate revenue until they become active.

Every unnecessary day spent in onboarding delays:

- commissions
- clearing revenue
- financing income

- custody fees
- relationship expansion

Speed is no longer simply an operational metric.

It is a commercial advantage.

2. Capacity Constraints

Financial institutions often respond to increased business volume by hiring additional operations staff.

Yet much of the workload consists of coordination rather than execution.

Teams spend time:

- requesting updates
- preparing status reports
- locating documents
- forwarding emails
- reconciling information across systems

As complexity grows, headcount grows.

Not because work becomes more difficult.

Because coordination becomes more expensive.

3. Client Experience

Institutional clients rarely complain about rigorous due diligence.

They become frustrated by uncertainty.

Questions such as:

"Who owns my onboarding?"

"What documents remain outstanding?"

"When can we begin trading?"

often require multiple internal conversations before anyone can answer confidently.

The issue is rarely information.

It is visibility.

4. Organizational Blind Spots

Senior management frequently asks:

Why is this onboarding delayed?

Which legal issues create the longest negotiations?

Where are operational bottlenecks forming?

Which clients require the greatest operational effort?

Most organizations cannot answer these questions without assembling information manually.

The data exists.

The intelligence does not.

The Limits of Traditional Workflow Technology

Many financial institutions already possess:

- CRM platforms
- Contract Lifecycle Management systems
- KYC platforms
- Document repositories
- Ticketing systems
- Email archives

These systems function as systems of record.

They record activity.

They do not understand it.

Knowing that a document exists is fundamentally different from understanding why it has stalled an onboarding for twelve days.

The next generation of operational software must move beyond workflow automation toward workflow intelligence.

From Automation to Intelligence

Historically, financial institutions attempted to automate repetitive tasks.

Artificial intelligence introduces a different possibility.

Rather than replacing workflows, AI can explain them.

Imagine asking:

Why has Client ABC not started trading?

Instead of searching through multiple systems, the platform responds:

"Risk approval completed on Tuesday. Treasury setup is complete. Legal review is awaiting revised limitation of liability language from outside counsel. Estimated completion: three business days."

This is not automation.

It is operational intelligence.

The Next Operating Model

The financial institution of the future will not eliminate specialists.

Lawyers will remain.

Risk managers will remain.

Operations professionals will remain.

What changes is their ability to coordinate.

AI becomes an intelligence layer connecting existing systems, surfacing bottlenecks, summarizing complex workflows, and providing real-time visibility into organizational execution.

The objective is not fewer people.

The objective is fewer unnecessary delays.

Looking Ahead: Beyond Onboarding

Operational friction extends far beyond client onboarding.

The same coordination challenges exist across:

- collateral movements
- treasury operations
- settlement
- margin management
- legal negotiations
- client servicing
- tokenized asset workflows
- digital custody
- regulatory reporting

As financial markets evolve toward real-time settlement and tokenized assets, operational coordination will become even more important.

Technology may reduce transaction times from days to seconds.

Organizations must ensure their operational processes evolve at the same pace.

Otherwise, operational friction simply shifts to new workflows.

Conclusion

The next competitive advantage in financial services is unlikely to come from faster execution engines or lower trading latency.

Those gains have largely been realized.

Instead, competitive advantage will come from reducing the hidden operational tax that slows every institution.

Financial institutions that eliminate friction will:

- onboard clients faster
- recognize revenue sooner
- improve client satisfaction
- increase operational capacity
- reduce coordination costs
- adapt more quickly to new market infrastructure

The future of financial services will not belong solely to the institutions with the fastest technology.

It will belong to the institutions that move information, decisions, and clients through their organizations with the least resistance.

In modern finance, speed is no longer measured in milliseconds.

It is measured in handoffs.