Asset Servicing Innovation:
Are we in the perfect storm?

Key Research Findings
Welcome to our “Asset Servicing Innovation” research Key Findings. Run by Broadridge and the ValueExchange in September and October in 2020 (in cooperation with ASIFMA, ISSA, The Network Forum and Global Custodian magazine), this survey is providing fresh, global insights on how the industry is dealing with a unique combination of market, customer and regulatory pressures today in the asset servicing space.

Our objective is to highlight key areas of difficulty and best practice in the industry: with a view to driving best practice amongst participants in every segment and region.

These Key Findings are an early, statistical snapshot of the outcomes of this unique market survey: designed to raise new questions and to drive industry discussion. We would welcome your views and comments on these insights ahead of the publication of our industry handbook in January 2021.
Key Findings

The corporate action problem

- Corporate actions are a multi-million-dollar risk centre: more than anyone realises
- Do we have a problem? It depends on who you ask
- There is no single issue: mandatory, elective and voluntary events have their own challenges
- ...but ‘garbage in’ is a fundamental challenge
- ...whilst manual errors are costing us much more than we think
- Capacity, flexibility and agility: the new principles of 2020

The corporate action solution

- It’s time to transform: we know we can’t keep tinkering
- Corporate actions are an investment priority in 2020
- ....ahead of almost every other activity
- But it’s not all about system transformation: beware the appeal of ‘Robotics’
- Transformation means working as an ecosystem
- Capacity, flexibility and agility: the new case for corporate action transformation
What is the corporate action problem today?
What is the problem?

Corporate actions are a multi-million-dollar risk centre

We are paying out over

$2m

over 24 months

...and costs aren’t even the biggest problem

Costs

Customers impacted

Additional hours worked

Management time

How much have you paid out in compensation for corporate action errors in the last 24 months?

What other negative consequences have you experienced as a result of corporate action processing errors in the last 24 months?

“It takes 2-3 days of full organisational focus to try to undo these with 4-5 parties online and working on it”
What percentage of your corporate action event information is received and processed automatically today?

We have very limited consistency across the industry...

...and it’s a long way from the front to the back office

- Exchange / CSD (74%)
- Custodian Banks (58%)
- Investment Banks (92%)
- Brokers (77%)
- Private Banks (60%)
- Fund Mgrs (25%)

What is the problem?
Do we even have a problem?
It depends who you ask
How do our corporate actions look today?
What is the problem?

There are at least 3 types of corporate actions problem

Low automation

MAND (Mandatory events)

APAC 30% 45% 59%

High automation

Huge variety causing static data maintenance issues and trade fails

CHOS (Elective events)

APAC 72% 81% 85%

Is 85% STP good enough: lost revenue opportunities and client pay outs

VOLU (Voluntary events)

APAC 20% 30%

More of an art than a science: heavy reliance on SMEs and experience

What percentage of your corporate action event information is received and processed automatically today?
Where are the risk points?

‘Garbage in’ is still the most pressing issue

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<th>Sourcing</th>
<th>Investors</th>
<th>Brokers</th>
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Key Challenges

- Automating with market infrastructures
- Incomplete data
- Regional variances (preventing automation)
- System capability limitations
- Automating with market infrastructures
- System capability limitations
- System capability / regional variances
- Regional variances (preventing automation)
- System capability limitations

How optimal do you consider your current corporate action processing infrastructure to be? (Scores out of 5)
Where are the issues coming from?

Manual errors are the root of the biggest issues and are far more harmful than we think.

What factors have been identified as root causes driving these costs?

- Manual errors: 28%
- Incorrect data: 20%
- Incomplete data: 20%
- Late data: 16%
- System errors: 10%

Manufactured dividends...

...cause a stream of small, lower profile payouts

...and create a huge organisational burden

- $2m payouts
- $500k - $1m payouts
- <$500k payouts

- Additional hours worked
- Customer revenue loss
- Costs
- Management time
- Audit issues
- Project delays
- Regulatory sanction
What lies ahead?

The problem is the changing shape of corporate actions

In H1 2020 (given Covid-19 and heightened market volatility), how big an impact have these drivers had on your corporate actions processing?
SRD II today

Capacity, Flexibility and Agility: Needed Yesterday

Most challenging areas of SRD II deployment:
- Country variance (of thresholds and penalties) (3.4)
- Speed / Automation of shareholder requests (3.2)
- Vote (and confirmation) processing (3)
- Disclosure of shareholder impact / governance (2.8)
- Speed of delivery for VOLU announcements (2.7)
- Security / Authentication of requests (2.5)
- Shareholder record keeping (2.3)

...which only half of us are ready with

SRD II readiness amongst in-scope participants:
- Live today: 49%
- Due to go live in 2020: 20%
- Due to go live in 2021: 14%
- I don’t know: 9%
- Evaluating: 9%
What are people doing?
It’s time to transform

We know we can’t keep tinkering any more

A unique number of changes that can only be dealt with by system change….

System transformation…is creating a unique alignment in our industry: centred on change.

- Increased complexity of corporate actions
- SRD II
- ISO20022
- CSDR
- Increased corporate action volumes
- COVID-19

System transformation!

- CEO
- Sales / Trading
- COO
- Product Mgt
- Back office / Ops

System transformation!
System transformation!
System transformation!
System transformation!

From an investment perspective how are you managing your corporate actions transformation in 2020/2021?
Corporate actions are an investment priority today

...and it’s not about cost cutting

How much?

+10%

YoY increase in corporate actions budgets

What?

System transformation

FTE Increase

Incremental IT development

System change (29%)

Hiring (7%)

External Connectivity (8%)

RPA (15%)

Why?

✓ Future flexibility

✓ Risk

✓ Timeliness

✓ Reduced reliance on FTE

✓ Regulatory compliance

✓ Cost reduction
Corporate actions is the #1 investment priority

....but not for everyone
Where is the change?

System change is happening everywhere: but beware of the appeal of RPA

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<th>Activity</th>
<th>More FTE</th>
<th>RPA</th>
<th>New connectivity (APIs / ISO20022)</th>
<th>System change</th>
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But we can’t achieve the change we need on our own

Cooperation across the entire ecosystem is key

**Internal dependencies**

1. Increased use of industry standards
2. Internal automation
3. Automation upstream
4. Regulatory clarity
5. Electronic shareholder services
6. Organisational change

**External dependencies**
Capacity, Flexibility and Agility

The new case for corporate actions in 2020

Yesterday’s business case for change

Corporate Action Transformation Today

1. Reduced Payouts
2. Client revenue protection
3. Reduced internal costs (inc. management time)
4. Capacity: Volume spike management
5. Avoidance of regulatory fines and penalties
6. Income earnings from Elective events
7. New asset classes / New business activities (e.g. Wealth Mgt)
8. Liquidity management improvements
9. FTE savings
10. Future proofing
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