# The road ahead

**The asset servicing industry shares its predictions for 2022 and what obstacles and opportunities may lie in wait down the track**

***Jenna Lomax reports***

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It is no understatement to say the last two years have changed the world completely; since March 2020, life has certainly not been the same. 2021 found us stopping and starting with everyday life and business, between lockdowns and the emergence of new COVID-19 variants. The new COVID-19 variant of Omicron may be a force to be reckoned with in the early months of 2022, and others may unfortunately develop as the year goes on. But as Monty Python's Eric Idle once said (or sang), let us look on the "bright side".

Looking on that side of life, industry heavyweight J.P. Morgan predicted that 2022 will be the year of full global economic recovery from COVID-19, while Microsoft mogul Bill Gates envisioned 2022 to be the end of the "acute" phase of the global pandemic.

Industry experts share with Asset Servicing Times why they remain aware of — and prepared for — the uncertainties that may still lie down the road amid the ongoing uncertainty. But beyond this, they also discuss the impending Central Securities Depositories Regulation (CSDR), the ever-widening appeal and necessity of environmental, social and corporate governance (ESG), the challenges and opportunities that lie in digital assets, and why it is imperative to invest in people, not just technology this year.

## Facing the first hurdle

The first point of call for the market next month will of course be the implementation of cash penalties under the CSDR and their allocations, which are, at time of writing, still set to come into force on 22 February.

As has been well-documented, the postponement of the CSDR's mandatory buy-in rules were announced by the European Commission on 25 November 2021, but despite that delay, this is no time for market participants to sit on their laurels.

"The mandatory buy-in rules deferral may reduce the current workload, but there is still work to be done before 22 February, and the larger problem has not gone away," says Neil Sheppard, global head of business development for transaction lifecycle management corporate actions at SmartStream.

The mandatory buy-in postponement was almost a forgone conclusion by Q3 2021, with many industry participants confident that by that point, the European Commission would have no choice but to postpone them.

However, the penalties framework is still going ahead in its current form and may be more of a wait-and-see game, to which no one yet has a crystal ball for.

As Karan Kapoor, head of regulatory solutions and regtech at Delta Capita, outlines: "The penalties framework was the far less contentious cousin of the now infamous mandatory buy-in regime. All in all, the market will need to wait to see what happens when the penalty rule goes live in 2022. Yet to be seen is whether efforts around settlement efficiency have been enough."

## Down the track

The pandemic has been a long road for many of us, both personally and professionally, but although it is beyond clear that COVID-19 will not leave us overnight, 2022 may be the first year that it begins to topple off the headlines, particularly for the financial industry.

"We expect that the next year will present continued challenges associated with the pandemic; it is reasonable to assume there will be more bumps in the road," says Andrew Lelliott, managing director of fund administration and financial investments at Link Group. "The good news is that many of the industries hit hardest came through the difficulties of 2020/21, with almost all economies in the most developed countries open for business."

The difficulties of 2020 and 2021 profoundly changed the way we work — in the financial industry in particular, technology was already evolving at a rapid pace, though there was widespread criticism that, broadly speaking, it was not moving fast enough before the pandemic hit — whether that meant removing legacy systems from post-trade, or moving data management toward the cloud.

But, of course, the need for speed was hastened through the necessary logistics that the pandemic demanded. Through the ongoing turbulence of 2021 most adapted to a hybrid way of working that first started in 2020, and will no doubt be the way of the future.

SmartStream's Sheppard voices: "With the actual awful COVID-19 virus itself aside, quite honestly [2021 will be remembered for] how we have seen a major 'reset' of the life-work balance, how productivity increased, how flexibility around working hours and locations is now part of the standard working week."

## Beyond the landscape

The collective adaptation needed to work from home over the last two years, advanced into a collective effort to update or streamline other technological areas of asset servicing and did much to accelerate the use of cloud and data technologies, in particular, to a degree that may have not been seen if it had not been for the pandemic.

"Asset servicing is becoming a distinct differentiator," says Thilo Derenbach, head of European custody product at Clearstream.

"Digital workflows and use of data capabilities will become even more important to improve client experience, allowing for further scalability of the service and to counter continuing margin compression in asset servicing."

The necessary logistics the pandemic brought with it filtered down the asset servicing streams to vendors, asset managers and custodians.

The industry change is highlighted from post-trade to payments in which the removal of many barriers and sticking points that had been apparent and stubborn to move in the years prior, have since rapidly moved aside, or are at least, on their way out.

From the vendor's perspective, Brian Collings, CEO of Torstone Technology, indicates: "The markets are constantly moving towards performance and efficiency that cannot be achieved via siloed, legacy post-trade systems."

"There are banks still struggling when they do not need to, and we are looking forward to helping them win new business."

From his side of the market, Ronan Doyle, global head of product management, transfer agency at RBC I&TS, says: "We expect to see further consolidation activity as asset managers review their operating models to achieve greater scalability and efficiency both regionally and globally."

Such major operating models always come back to the quality of data, or the pace at which technology can provide data for both the investor and investment manager. Providing better and faster access to data in such a historically volatile time is crucial to stability of the market in the year ahead.