The Year Ahead

Lucy Carter talks to industry experts about their predictions for 2023, what they're looking forward to and what problems may arise along the way

2022 was certainly turbulent, with heightened international tensions a constant backdrop to the asset servicing industry's technological developments and innovative operations. Although industry participants should take note of the lessons learned over the past 12 months, there is a lot to look forward to over the coming year.

ISO 20022

2023 will see the widespread rollout of the ISO 20022 messaging system, expected to be fully implemented next spring. The system aims to reduce costs, ease the movement of payments between channels, and improve market access for new entrants. Small, medium and large businesses will all benefit from the transition, according to SWIFT, as long as they are aware of what is required of them and prepare sufficiently.

There are several benefits to the adoption of ISO 20022, according to Ken Fullerton, managing director and global head of hedge fund administration at SS&C. "Enhancements to cash messages to provide rich, structured data will allow organisations to improve their know-your-customer processes and meet their financial crime compliance obligations." He adds that improved data availability will help the industry on a wider scale, allowing for increased automation and lower costs.

Looking beyond the immediate perks of ISO 20022, such as increased granularity to communications, Adam Cottingham, product manager for corporate actions at SmartStream, states that it has the potential to "become an enabler for blockchain". He goes on to suggest that those who have invested in solutions which are compatible with both ISO 20022 and 15022 messages will be more "future proof" than others, with their systems prepared for later ISO developments.

While Cottingham is already looking forwards, Pardeep Cassells, head of securities and claims products at AccessFintech, warns that many organisations are not yet SWIFT-enabled. "Although ISO 20022 is intended to ensure a more open messaging rulebook, organisations are unlikely to adapt to new standards if they do not adhere to the old ones," she says. ISO 20022 may not create a level playing field, but instead reinforce the disparity between companies who are and are not able to work with SWIFT.

Similarly, Andy Schmidt, global industry lead for banking at CGI, draws attention to the 'uneven' adoption of ISO 20022, with different markets and infrastructures using disparate versions

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>
> ***Simon Shepherd, MYRIAD***

of the system. This increases "the possibility of dialectical differences, which will need to be identified and mapped out" before ISO 20022 is fully interoperable, he says.

This concern about industry imbalance is echoed too by Samir Pandiri, president of Broadridge International, who expects that the industry "[will not] see one standardised messaging type for some time". Firms must be prepared to adapt to the current environment, perhaps "needing to adopt three or four competing protocols" to keep communications running, he predicts. "If there was just one messaging type in the asset servicing industry, it would be a lot simpler," Pandiri affirms — but it does not look like that goal will be realised this year.

Technology

Simon Shepherd, CEO of MYRIAD, argues that "broader and deeper" digitisation should be a priority over the coming year. "It is a necessary precursor to digitalisation, and without one before the other, efforts at digitalisation will be severely — and expensively — compromised. Any technology developed around legacy data, without a care for digitisation, will be fundamentally flawed," he says.

Offering an alternative perspective, SS&C's Fullerton believes that the continued development of artificial intelligence (AI) "will continue to have a transformative impact on asset servicing over the next 12 months". The wide range of areas that AI can be implemented in — from manual processes automation to customer service, and data analytics to back-office efficiency — alongside the speed with which firms are investing in and developing it, cement AI as an area to keep an eye on in 2023 and beyond.

Many firms are already adopting AI into their approaches, with new products boasting chatbots, machine learning and natural language processing. "Firms can use intelligent automation to improve their processes, products and services, and to create new ones," Shaun McKenna, senior director for APAC at SS&C said in the company's article 'Opportunities for Intelligent Automation' earlier this year.

There are endless opportunities for AI to be integrated into companies' systems, but it is important that such technology is in place to fix a problem rather than for the sake of an eye-catching headline or marketing tool. As with any new forms of technology, viable use cases must be found or firms may risk confusing their clients, complicating their systems and ultimately losing capital.

Automation, alongside the replacement of legacy systems, is a key priority for several industry experts. According to Vicky Dean, managing director for EMEA at Goal Group, legacy systems are "the dinosaur in the room" of the asset servicing industry, with companies requiring "dramatic and significant transformation" to improve their operations, reduce costs and enhance services.

Automation "has been an ongoing development in the marketplace," says Lloyd Sebastian, vice president of global financial institutions at CIBC Mellon, and is one that he expects to continue. This includes increased outsourcing, with firms handing over non-core activities to specialist third-party vendors in order to focus on areas where they can deliver the most 'core value' to their clients. This increase in automation and technological innovation "is consistent with the broader themes" that the industry is focusing on, he says: "more efficient, effective and transparent investment operations, and ultimately greater optimisation outcomes for clients."

Workplace

Alongside changes in how people work, changes in why people work have also become apparent over the COVID-19 pandemic and its aftermath. Studies have shown that those of working age from the Gen Z generation (18- to 25-year-olds) are searching for a deeper fulfilment in their jobs. They want to feel that they

are actually making a difference, rather than wanting to climb the corporate ladder as previous generations have.

While 2022 was business as usual (BaU) in comparison to 2020 and 2021, the industry showed its cards over the pandemic and revealed to employees that they have more power than they might have thought, pre-COVID-19. Firms are now having to adapt to the changing wants and needs of their staff, rather than vice versa. 'The Great Resignation' and labour shortages have put employees in the position to demand certain things from companies, with hybrid or fully remote work now something that potential employees expect from their employers.

Many in the industry believe that this was no bad thing, with hybrid working, although initially a challenge, allowing for greater flexibility of both employee and employer. Goal Group's Dean argues that the hybrid working model has "drastically increased productivity and morale, as staff are able to regain more of a work-life balance and gain a sense of freedom and independence." She cites technology developments as the facilitator of this, and urges companies to continue their shift from legacy infrastructure and manual processes to ensure data protection and risk reduction.

Also advocating for technological change is Michelle Zak, managing director at Qomply. "Collaborative digital solutions will take over in 2023," she predicts. With the acquisition and retention of skilled workers becoming a chronic challenge, "digital solutions that offer streamlined automation, that simplify complicated computations or tasks, will flourish". Firms will "reduce their dependence on highly-trained staff" to prevent potential disruptions in the future, Zak adds.

This outlook perhaps suggests that part of the human component of the industry is on its way out, in favour of digital solutions that can complete work more efficiently. However, Ludovic Blanquet, chief strategy and transformation officer at Xceptor, is instead looking into a future where working environments are made more intense, as firms struggle to maintain service levels under pressures that force a reduction in headcount. Rather than a particularly poor response to the remote or hybrid working model itself, he draws attention to "the ongoing technology stock collapse" and states that "for the foreseeable future, the age of abundance is over."

Opinions are similarly split on the actual benefits of remote working — productivity, company culture, teamwork and wellbeing are all crucial areas of a firm's commitment to its staff that need to be addressed when working models are up for debate.

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Phil Anderson, executive director of D&I, CSR and ESG at DTCC, emphasises the pressure that "the feeling of social disconnection" places on talent attraction, retention and business performance. "Steps must be taken to foster collaboration and cultivate a sense of inclusion and belonging," he urges, also emphasising employee demands for a more 'holistic' workplace that provides "mental, social, and mindful development opportunities alongside work flexibility". Firms will need to engage with these requests in order to remain competitive in the market as time goes on, he affirms.

Employee communication, colleague engagement and company values will be pushed by firms to help harbour a more consistent workplace culture, suggests Cuan Coulter, UK country head for State Street. This will be "crucial in ensuring that the hybrid workplace works for everyone," he affirms, expecting the popularity of the model to remain at a high.

Although this model is being driven by workers, it is something that businesses can equally profit from as they acquire talent remotely, breaking down some of the hiring restrictions of a traditional workplace. Ed Gouldstone, product and business advisor for asset management at Linedata, suggests that in light of recruitment difficulties "talent and experience may well now mean casting the net wider," with a greater proportion of the workforce working remotely. With the impact of the COVID-19 pandemic still reverberating, he believes that "it seems unlikely that we will see a full return to full-time in-office working".

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Yet this is not something universally recognised; Fullerton draws attention to the many firms making office-based working mandatory. However, he predicts that over the next 12 months "firms will continue to seek a balance between what is good for the organisation and what is good for the employee because, in the end, those two things are synonymous".

This balance may take some time to find. Although there are many positives that have been seen from alternative working models, including high productivity levels, CGI's Schmidt warns that there are several less beneficial factors at play. Fully remote working stifles employee creativity, he says, adding that employee engagement is hard to maintain when teams are not seeing each other in person. In what remains a volatile employment market, "firms will need to find the right balance of work location and flexibility to help sustain employee engagement to retain the employees they have, and attract the recruits they need," he says.

SRD

The Shareholders Rights Directive (SRD II) was off to a difficult start in 2022, with few differences to the realities of proxy voting and the number of failed shareholder communications observed in the industry.

Panellists at this year's AMFE OPTIC conference hinted at the chance of SRD III being put into place this year, yet were not optimistic about the short-term improvements of any version of the directive.

There needs to be a "willingness to change" in the industry before SRD sees any real success, said Mariangela Fumagalli, head of asset servicing for global product and regulatory solutions at BNP Paribas Securities Services.

"The principles of SRD II are sound," says SmartStream's Cottingham, a sentiment frequently echoed by industry players. The issues that have emerged, he suggests, "show more deep-rooted issues with the systems many firms are using to run asset servicing operations" than problems with the regulation's goals.

Although he recognises the benefits of the regulation — namely, greater transparency and governance, efficient proxy voting systems and improved shareholder disclosure systems — Broadridge's Pandiri agrees that SRD "is a complex regulation and there are lots of moving parts".

He considers the evolution of technology in the past two decades as a major vehicle for the improvement of shareholder engagement and rights through its impact on both industry capabilities and client expectations.

"Executives and board members of public companies no longer have to meet in-person and shareholders don't have to miss out on events," he says; "instead, they can all click a simple link on their laptops to meet corporate executives virtually." In 2023 and beyond, he expects a "continued deepening of shareholder engagement".

It is impossible to predict exactly what 2023 will hold, especially in light of all the unexpected events and challenges that the past few years have thrown out. But the variety of predictions, hopes and concerns shared here offer well-considered insights into what the next 12 months might look like, and what the industry needs to be aware of. Which particular change will be the most impactful remains to be seen. ■