A harmonised infrastructure

Although they are not known for being one of the largest volume regions for asset servicing, the Nordics maintain their spot as being extremely attractive to international investors. The Nordics consists of Denmark, Norway, Sweden, Finland, and Iceland, as well as the Faroe Islands, Greenland, and Åland.

All of these countries have their own strengths and weaknesses when it comes to asset servicing, so experts suggest it is difficult to name a clear standout from the others.

"Rather than one country spearheading the asset servicing industry, what stands out for the region is that the Nordic countries aim to act as one, as the region focuses upon risk reduction, process efficiency and enhancing the client experience," observes Richard Wilson, director, corporate actions and securities processing, IHS Markit.

Meanwhile, the introduction of new tax measures has further enhanced the collaboration within the region as Finland and Denmark join forces to address the withholding tax regime.

Indeed, the Nordics have a harmonised infrastructure that works in their favour, particularly when it comes to responding to regulation.

According to Wilson, the harmonised market infrastructure on a modern scalable platform across the Nordic countries and regions will allow the industry to respond to regulatory change while reducing risk, increasing efficiency, and enhancing the client experience.

Financial market infrastructures have evolved significantly over the last few years, also driven by a changing regulatory environment and a continuous structural need to deliver ever more scalable processes and products.

Market harmonisation initiatives have aimed to increase the efficiency of European financial market infrastructure. T2S as well as the Central Securities Depository Regulation (CSDR) have both led to higher levels of standardisation.

"We also see an increase in service integration, for example, many organisations start to offer their clients the possibility to benefit from integrated trading, clearing, settlement and custody infrastructures: an approach that Deutsche Boerse has been successfully providing to its customers for over a decade now," says Thilo Derenbach, head of European custody products, Clearstream.

With recent developments in the Nordics, and future ones in the pipeline, experts believe that this region is only going to continue to grow from strength to strength, and technology will play a crucial role in this.
Developments and opportunities

Last year, Euronext completed the settlement of shares to acquire VP Securities, the Danish Central Securities Depository, which further provided the opportunity for further harmonisation and operational synergies within the region.

As part of the wider Euronext group, experts say it is envisaged that VP Securities can further leverage the scale and size of Euronext to provide additional expertise to the domestic market.

IHS Markit’s Wilson affirms: “The marketplace is currently awaiting the release of a new asset servicing platform across the Euronext group, which will, in turn, provide the VP Securities the opportunity to modernise their support for the asset servicing industry within Denmark and Norway.”

Modernising the asset servicing systems within the VP Securities, even in an automated market such as Denmark, will allow the depository to differentiate its service offering and focus on the value chain of the depository, to the benefit of its participants.

Meanwhile, the Swedish and Finish CSDs are owned by Euroclear. After the migration Swedish and Finnish markets decided to go slightly different ways. Finland decided to migrate to T2S, while Sweden decided to follow the development without joining.

“Due to this development in harmonising the markets with major European standards has progressed with different pace and priorities. Besides that, the same owner has brought similar practices and structures for the two markets in many other areas, for example on cyber security issues,” explains Janne Palvalin, head of sector and infrastructure, Nordea.

With these developments in place, experts identify there are even more opportunities for the taking in Nordics. This is as market accessibility continues to attract both domestic and international investors to look to the Nordic region.

“The safe haven of Danish mortgage bonds, the Norwegian movement to green/environmental, social, and governance (ESG) funds and Sweden’s ability entice entrepreneurs and attract capital to launch companies through the exchanges, provides extensive opportunities and growth for the asset servicing business,” affirms Wilson.

Elsewhere, Palvalin identifies that Sweden is having a strong commitment to harmonise the market with major European standards, bringing further opportunities to foster Nordic harmonisation.

Challenges

Amid developments and opportunities in this region, challenges of course remain. Challenges are particularly prominent in the area of tax, especially as there have been a number of tax changes in recent years.

Tax regime changes, driven from enhanced scrutiny, are said to be placing increased operational costs and burdens on custodians to provide data and mitigate tax risk through reporting to enable sub-custodians to comply with the regional tax regime changes. Custodians are also facing volume challenges. Due to the size of the region and therefore its limited ability to produce significant custody and asset services at scale, there is a development towards provider consolidation and exits.
“The ability to combine the asset servicing volumes of the Nordics with a wider geographic reach on one platform — as Clearstream does together with partners in the region — is, therefore, a relevant proposition. Clearstream has taken the strategic approach to work with partners who are local market experts and to closely collaborate with these partners,” Derenbach affirms.

In line with challenges facing asset servicing firms globally, regulation is another area that requires extra attention.

For example, the Shareholder Rights Directive II has democratised the bank’s asset servicing offering, as large volumes of retail investors request services and access to data, previously only supplied to institutional clients.

“While progress has been achieved by custodians in tackling these challenges through adoption of technology, the ability to fully optimise this investment is restrained due to other weaknesses in the investment chain who do not, or cannot, comply with industry reporting standards,” Wilson cites.

Technology is key

Technology plays an active role in mitigating challenges faced in the industry, and for all future developments, technology will play an important role.

Palvalin suggests that harmonisation between the Nordic markets and other European markets will create further possibilities for various market participants to develop their systems and create new services to cater to a larger market base.

“Nordic markets benefit also from the fact that all players including authorities, central banks, exchanges, CSDs and intermediaries have been closely investigating both possibilities and risks of new technologies, solutions or instruments,” Palvalin notes.

IHS Markit’s Wilson believes that given the reliance on manual touchpoints and processes, developments in new technologies such as robotic process automation can help increase operational efficiencies by automating the basic repetitive tasks without impacting the technology infrastructure.

Using robotics, Wilson notes that web scraping and artificial intelligence (AI) techniques to source corporate action data directly from newswires, the web, vendors and other providers and then analyse the unstructured data in disparate formats using AI and machine learning, to normalise can help reduce the manual validation efforts and timeliness issue for corporate actions.

Intelligent automation can also be used to analyse reconciliation breaks and patterns at different steps in the corporate actions lifecycle to help operations with faster resolution of such breaks.

“Modern tools like NLP-based chatbots can assist in client servicing for basic corporate actions information queries and assist in the decision-making process with additional information,” Wilson comments.

Weighing in on this, Clearstream’s Derenbach says: “On the securities side, we expect a wave of technological changes heading toward the asset servicing industry based on the broader adoption of APIs, robotic process automation (RPA), distributed ledger technology (DLT) and cognitive systems that will drive dramatic change and create lasting impact. These technology developments offer enormous potential to improve efficiency, reduce risk and enhance the quality of service for clients.”

Derenbach concludes: “State-of-the-art technology is key for developing the market in the Nordics. It fosters flexibility, provides the ability to react quickly to market changes and supports high-quality services for our customers. This is not only a Nordic phenomenon but certainly a global development.”