The sunset of manual processes

The Nordics are looking to make further technological advancements within its financial services space

Maddie Saghir reports

Consisting of Denmark, Norway, Sweden, Finland, and Iceland, as well as the Faroe Islands, Greenland, and Åland, the Nordic region has made its place on the financial services map. Denmark, Sweden, Norway and Finland have long been identified collectively as a single destination but they do remain four completely separate markets.

The financial crisis of 2008 altered the Nordics region, along with what was experienced globally. Ann Magnusson, head of investor services at SEB, says that a lesson learned from the financial crisis was the importance of maintaining confidence in the banking system, to avoid large scale bank defaults with huge long term negative impacts.

"Three countries (Sweden, Finland and Norway) established crisis resolution agencies to manage public support and restructuring of the banking system. The Nordic banks, as well as control functions, have learned from the past and grown strong over the years to secure capital buffers in the banking system," Magnusson says.

"The enormous trading volumes on the cash equity trading during the crises highlighted the need for a central counterparty in the Nordic markets and it was introduced in 2010. It also resulted in further efficiencies in the use of IT as well as an improved and more efficient way of working," she adds.

Also looking at how the financial crisis affected the Nordics, Michael McPolin, business transformation manager, corporate actions, IHS Markit, notes in respect of asset servicing there were significant volume fluctuations with an increase in bankruptcies and complex debt restructures.

However, moving away from manual processes and towards more enhanced technology is one opportunity that is shining on the Nordics' horizon.

Deja Vu?

It took a little while for the Nordics to shake off the effects of the financial crisis of 2008 but it has since embraced new European trading regulations and made way for new market expansion. The crisis also prompted the move to the TARGET2-Securities (T2S) platform. However, the pandemic is presenting the Nordics with very similar impacts that were caused by the financial crisis, especially in terms of extreme trading volumes and volatility.

According to Magnusson, the difference, however, is mainly related to the need to have split operations and work from home.

"The infrastructure and the banks have not been negatively affected by the situation as the banking system per se is not part of the problem, as it was during the financial crisis. However, the focus from governments and other bodies to support society and mitigate the risk of financial collapse are obvious," she says.

From a securities services perspective, Magnusson notes that the implications have been limited, if any, foremost related to volatility on the stock exchanges, de-risking impacting derivative clearing and collateral management.

She continues: "Some very quick changes of corporate law have been implemented in Sweden and Finland in order to allow remote voting at annual general meetings (AGMs). We have also seen a few funds deciding to close down. Similar to the financial crisis, this pandemic crisis has pushed the digitisation and need for technology, and thereby a new and improved way of working. After the initial focus on crisis management, the establishment of split operations etc we have experienced more of a new normal."

Also discussing the similarities and differences between the pandemic and the financial crisis, Richard Wilson, product management director, corporate actions, IHS Markit, highlights that actually the recent global market volatility, as a result of the pandemic, has been more severe than the crash of 2008 and has continued over an elongated period with economic impacts still evolving and impacting investor confidence.

Wilson affirms: "The market volatility and trading spikes, plus the challenges of cancelled income and redemption events, conflicting market event information, more complex bankruptcies and debt restructures, were all prevalent in 2008. However, the major difference is that the period of uncertainty and economic impact is ongoing, with a three to four-month delay on CA events and a shift in the 'busy' season."

Unlike 2008, however, he explains that the scale of impact this time is not ring-fenced to financial services. It has instead impacted multiple industries and sectors.

Governments and regulators were quick to step in having learnt lessons from the past to take some control of the situation. He says: "The Ministry of Finance Norway led the pack to recommend restrictions on payouts and distributions after COVID-19 was declared a pandemic by the World Health Organisation, well before any recommendations from European Council, Bank of England or the US Federal Reserve."

Another consideration, Wilson suggests, is that the current regulatory environment is more demanding now, as much of the current regulation was introduced as a result of the 2008 crash.

Challenges

Amid the turmoil of the pandemic, custodians in the Nordics are also facing challenges elsewhere.

Magnusson explains that the main challenges have nothing to do with the pandemic crisis. She highlights that the focus is still very much on the regulatory environment and implementation of Central Securities Depository Regulation, Shareholder Rights Directive II and Securities Financing Transactions Regulation.

"The new and tighter tax legislation is also something that impacts the way we operate making sure we and our clients stay compliant. Custodians are also facing increasing cost due to the regulatory driver. Infrastructure has also been increasing cost towards the participants," she says.

Additionally, she observes that custodians are seeing a continuous need to develop services to support the client base. "We see an increasing demand for investments into alternative assets, more markets and support around corporate events like voting services," she adds.

McPolin affirms that the challenges for custodians in the Nordics are consistent with global market challenges and emanate from the fact that even with continuous margin compression for both custodians and their clients, the costs and risks in the corporate actions space are escalating due to volumes increases, new regulations, regional variances and market infrastructure changes.

"These factors coupled with the lack of standardisation and manual processes built around legacy technology architectures, further exacerbate the risk of errors and financial losses. This environment is a catalyst for change, with custodians needing to review operating models and adopt new technology to reduce risk and increase efficiency," McPolin comments.

Meanwhile, while progress has been achieved by custodians in tackling these challenges through adoption of technology, McPolin notes that 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.

Opportunities and beyond

Amid the challenges, there are opportunities on the horizon too, such as technological developments.

Magnusson comments: "We see great opportunities in the growth of the savings industry. There is an increased interest in alternative assets as well as services around environmental, social and governance. We also expect a need to manage assets in a more digitised form, tokenised assets will be of growing interest."

"We also see growth in the interest of our client to outsource different services. How we use new technology to interact with our clients will be very important. To become more agile and bring additional value to our clients will be crucial going forward," she adds.

Similarly, McPolin also sees technology as an area of opportunity for the Nordics. He says: "Custodians are leveraging cloud to lower total cost of ownership (TCO) and simplify implementation and maintenance of solutions compared to the traditional model of on-premises deployment and upfront licensing costs."

He continues: "Application programming interface (API) adoption is increasing at a rapid pace and their adoption can improve the efficiency, not only around client communication but also interactions with the street including counterparties, market infrastructures and solution providers."

McPolin also affirms 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.

Elsewhere, looking at how the Nordics could develop over the next 12 months, Wilson explains that the purchase of the VP in Denmark by VPS Norway will mean that both central securities depositories (CSDs) are owned by Euronext, and it is felt that they will look to achieve operational synergies.

"Additionally, with the Swedish and Finish CSDs being owned by Euroclear, there is a stated intention by the Nordic CSDs to focus upon market harmonisation, in line with European wide standards and practices," Wilson comments.

He identifies that operating models will need to evolve in response to the pandemic with all financial institutions looking to introduce remote working on either a permanent or rotational basis, all four Nordic CSDs have confirmed this is their intention.

As part of this revised operating model, there will be greater use of communication channels like Zoom and Teams by the industry to support client, team and industry engagement which should result in cost savings to the industry on travel and entertainment, according to Wilson.

"Focus upon achieving risk reduction, process efficiency and enhancing the client experience will be a key element of the operational model review with clients looking to technology and outsourcing for options for solutions. The pandemic could also be the catalyst for market change with efforts being made to sunset manual processes and adopt digital solutions. It was also highlighted that tax changes, driven from enhanced scrutiny, could result in fundamental changes to how local tax reclaim are handled across the Nordic region," he concludes.