

A Critical Component

For firms with asset servicing functions, executing their business strategy better, faster, and cost-efficiently has never been more critical. IHS Markit's Madhu Ramu explains more

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What are the key trends you are seeing in the corporate actions managed services space at the moment?

The pace and complexity of industry change is accelerating — consider the growth in trade volumes, supporting multiple asset classes, trading in new markets, and dealing with more complex events. With mounting competition, investment firms are focusing on reducing the fixed costs of their business to stay competitive and build the ability to scale quicker and more nimbly than ever before.

This competitive environment has forced banks and asset managers to re-examine their core competencies. They are focusing on the modernisation of asset servicing operations to gain a competitive advantage on top-line growth, access to operations and technology

skills that are short in supply, and access to a scalable technology platform without the associated costs of maintaining it.

Managed services are an immensely viable option. This is not a new trend and has existed for over two decades. It is relatively common to see large banks and asset managers outsource at least a part of their asset servicing functions. North America, the UK, and Europe have dominated the outsourcing market globally as these regions have the highest concentration of banks and asset management firms.

Due to the current market conditions and increased competition in financial services, banks and asset management firms are taking a closer look further up the value chain, outsourcing asset servicing operations which are generally costly and error-prone. In the past, firms have been reluctant to embrace outsourcing operations primarily due

to a perceived lack of control in a critical area. However, advances in technology like application programming interfaces (APIs), real-time data delivery, advanced analytics, and reporting functionalities for risk management help mitigate most of these concerns. For instance, IHS Markit's corporate actions products include robust quality controls every step of the way, followed by four-eye checks from experienced subject matter experts. The system also provides a complete audit trail with a view of every step in every process.

One of the other trends in outsourcing is to have a fully integrated platform with cloud compatibility. Customers like that managed services have optimum servicing platforms consisting of proprietary applications and best-in-class vendor products. For example, IHS Markit partners with the top-of-the-line solutions for cloud, analytics, and reporting functions. We integrate them seamlessly with our proprietary applications to provide a superior experience to our customers.

Previously, the tendency was to look at managed services with a singular objective of cost reduction. But now, the focus has shifted to qualitative factors that drive benefits. Scaling to a global operating model, access to robust technology, managing risk, and navigating regulatory challenges are compelling reasons that need to be part of the discussion. Building these solutions in-house generally requires significant investments as they involve executing large-scale integration programmes. This also requires a willingness to take on additional operational risks, hire experienced staff to achieve the transformation, and build specialised functional and technical skills to realise the benefits of the new solutions.

How can managed services be leveraged to transform corporate actions operations?

Typically, straight-through processing and automation in asset servicing operations is a massive challenge due to disparate systems, multiple interfaces from brokers, custodians, and other third-party systems. Information from data vendors, depositories, agents, and custodians is not always timely, complete, or accurate. Complying with several market nuances and requirements from downstream clients leads to additional data scrubbing, sourcing, and reviewing related documentation and information. A significant amount of manual intervention is necessary for these processes that require specialised expertise and complex technical solutions.

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Even today, most asset servicing operations are regarded as cost centres. However, for an experienced managed services solution like IHS Markit's managed data and agent validation services, our core businesses are onboarding, data sourcing, validation, agent reconciliation, client services, and reporting. We continuously invest in improving efficiencies, reducing operational risks, and redefining best practices. Our primary objective is to help firms reduce risk, optimise, and implement processes more efficiently. Our solutions encompass several asset management activities like data management, corporate action data validation, reference data, data reconciliation, performance monitoring, and data analytics. Customers get access to a robust and scalable technology platform without the associated costs of maintaining it in-house. They also get access to a global operating model and the requisite skills to navigate the complexity of corporate actions across multiple asset classes and markets worldwide.

As firms look for ways to streamline asset servicing operations, and reduce costs and risk, managed services can free up critical human capital. This lets the customer achieve essential objectives like business growth, market expansion, portfolio management, expanding product offerings, and adding new product and service capabilities across all of their businesses. In our case, the managed services solution discussion essentially starts with a business process mapping exercise to understand the customer's current operating model and specific challenges. We then work with the customer to arrive at a customised target operating model that brings the most value to their business. We then ring-fence all the operations tasks and related functions, develop a detailed implementation plan, and co-manage the strategy with the customer to lift out the operational components part of the managed services arrangement.

There is generally no movement of staff or systems to reduce the time to execute these massive transformational projects. For instance, our deep expertise in this space allowed us to implement one such

solution last year with a large asset manager in the US at the peak of the COVID-19 pandemic. The customer realised the benefits of the cost reduction and increased efficiencies throughout various stages of the 12-month implementation timeline.

What are the main opportunities managed services can provide?

If I look at some of our customers who have already outsourced their asset servicing operations to us, they have immensely benefited. For instance, our recent implementations with a couple of large buy-side customers have led to a significant reduction in manual tasks, decreased operational risk, provided their teams an opportunity to focus on complex issues and strategic projects, improved efficiency by making hundreds of legacy processes, reports and checks redundant, and shifted their focus toward new opportunities to grow the business and automate the remaining downstream functions.

An experienced managed services provider can offer a global footprint at a fraction of the cost of an in-house model. This would mean that the customers have 24/7 access to superior expertise due to regional teams who understand the market and speak the local language. This provides customers access to the requisite skills to navigate the complexity of corporate actions, enter new markets, support new asset classes, and expand geographically without the need for investments in human capital and technology across the world. If you look at the last couple of years during the pandemic, it has truly tested the ability to operate in a business-critical situation. A global operating model combined with a deep bench of subject matter experts allowed IHS Markit to deliver business-as-usual seamlessly.

A critical aspect of managed services is the supplementary benefit of a professional user community. Operational risks are significantly reduced as processes and enhancements go through a critical review by clients with similar needs. This leads to delivering the most suitable and well-thought-out solution agreed by the user group.

Finding and retaining proper operations and technology skills is another industry-wide business challenge. However, managed services providers make substantial investments to attract and retain this talent as it is part of their profit centre. We have highly skilled professionals across multiple geographies, some with more than 30 years of

experience in corporate actions processing. This is exceptionally critical for us to provide a high-quality service while allowing for opportunities to scale.

Managed service providers typically offer an efficient, controlled operating environment that helps mitigate operational, regulatory, and financial risk from a technology aspect. They push for investments in software development, automation, reporting, cloud, and the use of emerging technologies.

Our customers can leverage these capabilities with continuous upgrades in technology while reducing their internal infrastructure and system maintenance costs. Additionally, our customers get the flexibility to choose from hosted, cloud-delivered or platform-as-a-service options.

Another benefit is that managed services contracts are usually a variable cost model. Our pricing models, based on factors like asset classes in scope, 'securities of interest', and the number of agents, provide agility. This makes scaling easier as the business expands with customisable capacity and customised packages to fit business needs. This also provides a single point of contact across multiple service providers.

What are the biggest challenges firms face when it comes to corporate actions as we move toward 2022? What challenges or opportunities do you think the new year will bring?

The long-term impacts on the day-to-day operations due to the pandemic and the new operating model companies are adopting remain to be seen. The inherent uncertainty in some markets and the work-from-home requirements caused by the pandemic have highlighted how some banks and asset managers may not have the scale and infrastructure to keep their businesses functioning effectively and manage operational risks. A recent ValueExchange survey revealed that 31 per cent of corporate action costs are consumed by the need to clean, augment and interpret event data. In short, one-third of corporate action costs are driven by a lack of confidence and completeness in the information we receive. Manual sourcing and re-keying dominate the asset servicing space at every step of the chain, resulting in increased costs and risk — they are also an enormous reconciliation burden.

Across the investment cycle, the average bank receives 43 per cent of its corporate action data via entirely manual mechanisms. Only 50 per cent of banks are then publishing that data in standardised formats to any reasonable level of automation.

Due to escalating market conditions, increased regulation, transparency demands, and time sensitivities, oversight tools and demand for data have increased. The ability to get more accurate and timely data is ultimately going to drive investment. This role is critical given that the disruption stemming from the COVID-19 pandemic has resulted in more data that needs to be consumed. We continue to see increased market activity, a spike in corporate actions volumes, the added complexity in certain asset classes like special purpose acquisition companies, funds, derivatives, and securitised products. The recent bankruptcy-like proceedings filed by Puerto Rico to address its approximate US\$120 billion of public debt and pension impacted over 1,200 securities, translating into upwards of 2,500 plus options. Events such as these can put a lot of stress on an already fragile operating model escalating risks significantly.

Strategies for reducing costs, while maintaining best-in-class asset servicing operations, are critical to achieving minimal disruption in the current environment. The market uncertainty is driving firms to look for a means of controlling costs, creating scale, and geographical expansion along with an efficient process for getting access to accurate and timely data. This has motivated firms to look at managed services for asset servicing operations to improve processes and reduce reliance on internal teams with attrition risks, critical person dependency, and higher costs. In addition, technology cost savings are also a key driver.

Advanced technologies like machine learning and robotic process automation are other trends critical to systematise and automate asset servicing operations instead of allocating hours of manual work to complex and time-consuming tasks.

How do you see the corporate actions managed services space evolving over the next two to three years?

The corporate actions industry has been relatively slow to evolve. However, the managed services space is maturing in capability

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and acceptance. There are significant financial and reputational risks associated with poor data management. Banks and asset managers have realised the vast value extracted from richer and timelier data to improve asset servicing, provide vital insights and improve client satisfaction.

So, anything data-related that enables data-driven decision-making, provides business insights, and connects data across multiple processes are prime candidates for managed services, and that space is growing significantly. Particularly in the asset servicing world, this involves processes relating to corporate actions and reference data. We see the trend continuing towards a transition to a complete end-to-end managed services solution. This includes data and document sourcing, validation, golden record creation, comprehensive aggregation and reconciliation against the client's agents to the extent it is ultimately fit for straight-through processing.

The ability to streamline asset servicing processes and differentiate against the competition has never been more critical. By using managed services, customers can benefit from geographical presence, unlimited resources to skilled operational expertise, and use the saved-up human capital in an oversight capacity to maintain data integrity, create efficiencies, enhance capabilities, and control costs. And by utilising the managed services technology, they can have a lightweight framework too.

In the past, customers had fewer choices when it came to outsourcing operational tasks. However, solutions like IHS Markit's managed data and agent validation services include a range of options to match the customer's specific operating model. It is customised to achieve their aspirations and provide solutions for their ever-changing strategies, making it one of the most viable solutions. ■