

The New Norm

Working Methods

Welcome

Welcome to the first of a series of short articles, prepared by ISSA's New Norm Working Group (WG), that deal with the impact of the global pandemic on the Securities Services industry.

Most in the industry already know the challenges that the Securities Services business faces. The pandemic, though, has brought these starkly into the spotlight. This is therefore a defining moment for the industry. If the key players come together - and act now - there is an opportunity to drive forward and effect real change. If they don't, the same discussions will be taking place in another five years.

1. Introduction

Businesses and individuals, across all continents, have faced unprecedented challenges as a result of the Global Pandemic. Many companies around the world have risen to the occasion; acting swiftly to safeguard employees and migrating to a new way of working that even the most extreme business-continuity plans could not have envisioned. Some refer to this new temporary normal as «Business as Unusual». However, what is clear is that many of the changes to our working methods are likely to be here to stay.

Working Methods

In this initial article, entitled «Working Methods», the WG will brief you on how changes to working methods, that have been necessary due to the pandemic, have impacted the Securities Services industry.

The ISSA New Norm WG participants first consider the key challenges faced by the Securities Services industry in managing different working methods during this difficult time.



The WG then offers insights and guidance as to how working methods could potentially be optimized in the future as well as lessons that leaders can learn from this large-scale work-from-home experiment. By being creative and bold, the WG participants believe it is possible to re-imagine how work could be done - and what role offices and employees could play - in the future.

2. The Key Challenges

After the initial shock to the system, the Securities Services industry globally is considered to have dealt reasonably well with the enormous challenges that have arisen as a result of the pandemic. While significant changes have been required to «normal» working methods, organizations have demonstrated a level of flexibility, maintained regulatory compliance and ensured operational resilience.

Below, the New Norm WG participants have identified the key changes to working methods experienced by the Securities Services industry as well as the challenges these have caused.

2.1 Move to Remote Working

As with other industries, the Securities Services industry has been forced to move significantly to remote working as a result of the pandemic.

Anecdotal feedback from the industry shows that remote working has, generally, been positively accepted. Whilst working from home on the occasional day may previously have been perceived as less productive, the pandemic has shown that it can make people more efficient. People no longer have to endure the office commute, travel to multiple client sites, navigate different office buildings or spend time packing, preparing and travelling to different countries.

Whilst embracing the advantages of not having to work in the office, it is also important though to consider the challenges of remote working. By working from home there is less social activity with teams, which can impact the team cohesion and consensus building. Creating new relationships with people – such as with new company joiners or new clients – can become more difficult virtually. Being at home all the time can also cause additional complexities for certain employees, such as parents with young children who have found it difficult to focus on work with youngsters under their feet or those living alone who have found themselves in danger of becoming isolated. In addition many have struggled to split their home and work life and feel "always on". This is particularly true of those living in small apartments - who cannot just close a door on the home office.

Apart from the personnel aspects, another frequent issue for many industries has been the lack of a «common» video conferencing tool to use in external interactions. Every organization has a slightly different IT security policy, with little overlap between firms. This has led to some external communication often needing to be managed through audio-only conferencing, a method which makes functions such as screen sharing and face-to-face video conferencing impossible.

«The new work arrangements pose real issues for hearing impaired colleagues that depend on lip reading to follow a discussion. Not only in virtual meetings of course, but also in face-to-face meetings where we all wear masks!» SWIFT employee

2.2 Change to Virtual Client Relationships

Sales and Relationship Management is another area that has faced challenges due to the pandemic. The inability to meet face-to-face, organise client events, and even align on video conferencing technology have made driving forward new sales leads and managing existing client relationships more difficult than normal.

In general, the Securities Services industry has navigated these obstacles well where existing trust-based relationships have been built over many years. Some Relationship Managers and Clients say their relationships are closer than ever, and many have developed new and innovative approaches to conducting virtual due diligence reviews.

However, others say that their networking capabilities have been challenging and salespeople have found it more difficult to generate and cultivate new sales leads. Longer term, managing relationships virtually alone is unlikely to be sustainable. As people move on, and new relationships need to be formed, the lack of being able to connect in person is likely to inhibit the ability to build lasting, trust-based relationships in the traditional way.

2.3 Spotlight on Inefficiencies

The pandemic has also had another interesting impact on the Securities Services industry – in that it has highlighted inefficiencies that still exist within the client services, operational and technical areas of the business. The move to remote working, and the change to virtual client relationships, has meant that tools and processes - that previously were just accepted – have come under the spotlight and these highlight the need for a fundamental change.

A number of the inefficiencies identified have long been known, as they exist due to specific market requirements. This includes items such as the need for paper-based documentation and the physical attendance at meetings. Others though have resulted from the use of antiquated tools and operational processes by some in the industry. Examples include query management still frequently being handled by phone or over email, manual processing of ad-hoc client reporting requirements, inconsistent and incompatible data being received from different sources and then manually processed as well as a continued reliance on Excel spreadsheets for core processes.

The above examples not only cause inefficiencies though, they also increase risk. If a malicious virus, for example, infects an Excel spreadsheet - and the data in the spreadsheet cannot be recovered - then operational processes cannot be completed. However, what if the virus then infects the core computer system and causes this to crash or further infects other market players? An article by the Cyber WG provides further insights into the impact of the pandemic on Cyber threats.

3. The 'New Norm'

No one would argue that the pandemic has proved to be a challenging time for the Securities Services industry. However, the New Norm WG participants also believe that lessons can be learned by organizations through looking at the benefits the necessary changes have already brought and recognizing this offers an opportunity for firms to rethink their historical working methods, particularly as the industry begins to return to «normal». In this section, the WG participants offer their perspective on what the «new norm» could look like if the industry takes the opportunity to adapt and look to adopt many of the «new» methods longer term.

3.1 Adoption of a Hybrid Working Model

Upon discussion with ISSA Members, the consensus is that adopting a hybrid working model would be the optimal solution for the Securities Services industry as businesses begin to move back to «normal». Many of the current constraints to office working are driven by government-based rules and regulations to stop the spread of the virus. However, as we settle into a new normal, the New Norm WG participants believe there is an opportunity for organizations to adopt the remote working element - together with the traditional office working – on an ongoing basis, such that employees spend only part of their week in the office.

As already outlined above, the benefits to employees are clear. They can continue to save time on things such as the daily commute, whilst also being able to meet their colleagues in the office, network and participate in internal and client meetings face-to-face.

There are also potential benefits, though, to the firms themselves. Having employees who have a better work-life balance can lead to improved staff relations. There is also an opportunity for firms to reduce their overheads and real-estate costs.

«Even before the pandemic, we've been less and less tethered to the office as a primary workplace. I work just about every day with individuals across many DTCC locations, so the physical office has less meaning. However, we are human and there are benefits for collaboration from human contact. I can't provide an exact answer now, but I know the future will involve working from home.» DTCC employee

3.2 Protection of Client Relationships

One key element that has not changed is that the human experience remains as critical in the relationship business as it was in the past. So, despite the fact that the WG participants believe there should be more remote working and less travel in the future, sales and relationship management personnel will still need to be able to meet in person and establish / maintain a relationship in the same traditional ways as prior to the pandemic. Client facing managers will need to consider how this can best be achieved and aim to provide additional support for their relationship staff in order to protect both new and existing relationships.

3.3 Acceleration of Digital Transformation

Digital transformation is a key theme for most Securities Services providers. The rise of remote working, and the prevention of in-person interaction, has accelerated the need for this transformation more than ever before. The WG participants believe that firms should now be looking to rapidly enhance their digital capabilities so that they will be able to operate more efficiently and mitigate risk in the longer term.

The desire to transform across the industry presents a unique opportunity for Securities Services participants to «seize the day», collectively driving change and introducing new best practices. Newer and more integrated technologies present opportunities to address things, such as the existing two stage confirmation and matching process, which causes overheads, exceptions and duplicative effort. The New Norm WG will look at this in more detail in a future article.

With digital transformation, there is the opportunity to create efficiencies and increase automation in the Securities Services arena, in particular - but not limited to - the areas mentioned below:

- **Process Automation**

Many use cases are coming up where digital transformation can aid process automation. For example, where FX trades need to be booked for the cash settlement of an out of currency trades, spreadsheets are frequently passed between parties to request for updates when a certain set of trades are matched and / or settled to enable the physical execution of the FX in the market. Through transforming the digital landscape, this process could be integrated into different systems to obtain the latest trade status updates and alert teams that the FX is ready to be booked. This would not only improve automation and workflow - while also reducing manual effort by all parties - it would also reduce risk. The challenges and opportunities posed by the need for further automation will be discussed in a future article that the New York WG will publish.

- **Digitized Account Opening**

Custody account opening processes are typically littered with manual steps, such as MT599s to raise requests and requests subsequently submitted over email or fax machines. The unstructured nature of this workflow results in challenges, including multiple manual interactions, a lack of transparency to all parties as to the status of the process and who owns the next action. Once the accounts are set up at the custodian, there is then dual keying to get the accounts and SSIs set up in multiple other systems. The risk is that there is a data mismatch at some point in the chain, leading to trade matching issues later in the chain.

The WG participants believe that the rise of digital solutions offers the opportunities to automate much of the flow, with structured information being provided as input, clear visibility and transparency of the process throughout its lifecycle, the ability to upload documents for audit trail and validation and potentially a feed of data upon account creation to help automation and the creation of the accounts in client systems and other industry systems such as ALERT.

- **Digital Signatures**

Wet signatures are another area where a change to working methods has been necessary given the pandemic. The inability to provide wet signatures has meant that organizations have, from necessity, adopted a digital signature solution. These practices now need to be embedded as part of «the New Norm». However, there are still varying standards around digital signatures, with some regions demanding that documents that have been signed digitally be re-signed in wet-ink post-pandemic. A separate article will be published that will provide guidance on best practices for the use of digital signatures as a permanent change to working methods.

Additionally, the demand for APIs has also increased significantly. However, many in the Securities Services industry are still exploring the value that APIs can offer over and above traditional methods. Certainly, APIs could potentially be an option for certain functions, allowing firms to achieve real-time access to data, have closer firm-to-firm integration and create greater data transparency as well as provide a better client service.

For the securities services industry specifically, the WG believes that digital transformation – and, where appropriate, the use of APIs – could also be of significant benefit in the following areas:

- **Data Access**

Access to data is an area that offers great potential for more efficiency. More specifically, through automating the areas of query management and client reporting – perhaps through the use of APIs – it could be possible to give clients access to real-time, and better, information from front to back of the data.

Traditionally query management has been mostly handled by email or over the phone. However, through using an API, it would be possible for a client to request the latest status of trading or settlement information – which would negate the manual effort of either an email or phone call. This approach also has the added benefit of allowing client information queries outside of typical working hours.

Client requests, for items like ad-hoc reports, are also frequently received via email and create manual work on all sides. It could be something as easy as requesting a simple report to list all trades that are pending settlement. By delivering the data for the report on APIs, it offers the opportunity for clients to be able to self-serve on demand. Again, this could be outside of traditional working hours, providing an efficient solution for clients with last-minute requirements or for those in different time zones.

- **Data Aggregation**

Many Securities Services organizations want to keep data from different suppliers (e.g. sub-custodians) in a data lake. By obtaining a streaming data feed from suppliers and normalizing it into a common format, firms would be able to up-to-date information for all their suppliers. Through integrating the data for further automation, value-added functions can also more easily be performed, such as data analytics for further insights into patterns or trends.

4. In Summary

The pandemic has certainly proved that a change in working methods is possible – and can offer many benefits and opportunities – for the Securities Services industry.

The WG participants believe firms should consider how they may adopt a flexible working plan, allowing for the hybrid model and taking into account the optimal balance between remote working and face-to-face team interaction. Reviews of location strategy, and the potential to attract different talent pools, should also be considered as opportunities of the new ways of working.

Now is also the time for organizations to reassess technology and digital transformation strategies, to ensure they are positioned to take advantage of the pace at which the industry is moving. To achieve the full benefit, it will be key for firms across the industry to collaborate and ensure common digital standards are adopted in order to avoid inefficient and bespoke builds and processes.

The New Norm WG will continue to explore the evolution of Working Methods – as well as look into additional topics, such as Process Automation, Operating Models, Electronic Signatures and SSIs – in future articles.