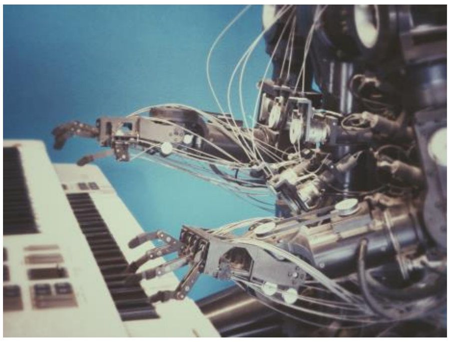
ISSA International Securities Services Association

The New Norm

January 2022



AUTOMATION

Welcome to the fifth - and final – article, prepared by ISSA's New Norm Working Group, that deals with the impact of the global pandemic on the Securities Services industry.

INTRODUCTION

The demands on Securities Services providers are greater now then perhaps they ever have been in the past. There is a need to be agile, scalable, resilient and responsive in order to meet client, market and regulatory demands.

The pandemic has exposed some of the long-standing weaknesses of the post-trade business with market volatility and surges in trade volumes highlighting the lack of scalability and the operational risk posed by enduring manual processes. Overnight, contingency arrangements saw staff in some locations lacking equipment such as laptops or network infrastructure, further exposing the risks of manual and labour-intensive processes.

This final article focusses on the topic of automation. It explores how a combination of the pandemic, the increased capabilities of modern technology and the digital revolution are finally forcing the Securities Services industry to focus on improving long-standing, and previously tolerated, manual processes both within individual firms and in partnership across the industry.

The New Norm

Automation

KEY ISSUES

There are many potential areas of focus for Securities Services providers to consider when looking to improve automation capabilities. Challenges include having to deal with legacy systems, complex infrastructures, manual processes, physical hand-offs and organizational silos. All of these issues make automation a difficult and costly transformation journey. Below the Working Group has highlighted the current manual processes as well as the impact on the Securities Services industry from this lack of automation.

Current Manual Processes

Although not exhaustive, the table below outlines the common areas where most Securities Services organizations have manual process pain-points:

Theme	Key Challenges
Data	Instrument Data, Corporate Action Announcements and SSI Data – all continue to be manually intensive in terms of sourcing, maintenance and ensuring integrity of data.
Confirmations & Pre-matching	Manual processes still exist for confirmations (e.g. faxes) and with the middle office matching process during pre-matching.
Reconciliations	The need to reconcile different data sets, both internally between systems as well as across external parties, is often still a manual process.
Corporate Actions	Due to regional market nuances, many technology platforms are not able to cater for automation in all markets, leaving elements of Corporate Action processing to be done manually.
Account Opening	Setting up accounts and KYC validation all continue to have a heavy reliance on emails, unstructured messaging and manual data entry.
Reporting	Bespoke, high touch client reporting and, in some emerging markets, complex regulatory reporting all require manual touchpoints.
Query Resolution	There continues to be a dependency on emails in many firms when dealing with client queries.
Inventory Management	Many processes (including depot realignments, posting and recalling loans or collateral, short position identification/cover and partial settlement) require manually intensive actions.
Physical Processing	Items such as paper certificates, tax reclaim processing, proxy voting, cheque processing and wet ink signatures are all manual.

The New Norm

Automation

Impacts from Lack of Automation

The increased demand for cost reductions, consistent client service and digital innovation – alongside continued global regulatory drives to increase settlement efficiency, through initiatives like CSDR, as well as the move towards T+1 settlement (e.g. India in 2022, US & Canada in 2024) – all increase the need for automation and efficiency.

Failure to address manual processes will become more transparent to clients, more expensive to manage and potentially present existential challenges for some firms.

Impacts from Lack of Automation

1. **Reputational Risk**
   Inherent weaknesses can be exposed to client and / or regulators
2. **Operational Risk**
   Driven by manual processes and increased financial risk
3. **Increased Settlement Risk & Cost**
   Shorter settlement cycles, and settlement efficiency penalties create more pressure, in addition to traditional buy-in scenarios
4. **Increased Cost of Change**
   Fragmented processes & systems make it difficult and costly to respond to market and regulatory change, and make projects more costly to execute
5. **Capacity Challenges**
   Inability of operational teams to scale, as they are vulnerable to spikes in volumes, from client growth or market volatility (e.g. due to the pandemic).

THE WAY FORWARD

Reimagine the Process

While automation can seem an obvious path, it is also important to carefully consider the validity of the process in question. With many firms now increasing their focus on digital transformation and enhanced client experience, there is often an opportunity to reimagine the process altogether. An example of this would be Custody FX Execution, which can be driven by integrated API technologies, reducing the need for spreadsheets or unstructured MT599 messages and providing the client with an integrated, automated service offering. In other words, it is important to ensure that any solution solves the problem of tomorrow, as well as the problem of yesterday.

Automation Solutions

Automation solutions will need to be multi-faceted and whilst technology underpins many of these, the need for industry collaboration and standards will also be key to ensure maximum benefit is achieved. Below are some examples of potential automation solutions which should be considered.

1. Industry Utilities and Tools

The creation of industry utilities to solve common problems has long been discussed, but to date there is little concrete progress, potentially due to the need for independent ownership to avoid competition challenges or conflicts of interest or due to the differing priorities and needs of participants.

There have, however, been notable successes with the creation of tools that have helped automate some traditional post-trade processes, many of which are part-owned by Financial Services providers. Adoption of these as industry solutions may help to ensure scale, common standards and therefore drive benefits across the industry. Some examples include:

DTCC: DTCC's CTM is a long-standing solution that has helped to provide a platform to resolve trade matching, affirmation and confirmation for buy and sell-side participants, whilst setting standards and increasing performance transparency.

Access Fintech, Symphony, Taskize and Meritsoft: The need to respond to regulations, such as CSDR, has seen the emergence of solutions with the aim of creating workflow tools to manage and communicate exceptions across parties (e.g. Access Fintech/Symphony). Platforms such as Taskize and Meritsoft also have similar offerings, focused on driving improvement and collaboration around Exception Management.

Proxymity: For Corporate Actions, which is traditionally a non-standard, volume and manual intensive space, Proxymity has emerged to provide a tool for Proxy Voting, whilst also helping to provide solutions for regulations such as SRD II.

ISSA expects this trend of emerging fintech solutions to continue over the coming years

2. Technologies

The emergence of digital technologies has provided new tools to solve old problems. Many other areas of financial services, for example retail banking, have transformed their manual processes and client experience with their use of technology and the Securities Service industry can leverage a similar opportunity.

Artificial Intelligence (AI): This technology can be used to help detect preventable issues or even patterns that are unusual. This could include predicting trade failures, forecasting cash / stock ladders and identifying patterns of behaviour (e.g. cancels or non-receipt of trades from a client) to enable more proactive management of issues. AI could also be used to remove manual effort through "self-healing" common exceptions across the lifecycle.

Application Programming Interfaces (APIs): Data is at the heart of technological advancement. Fragmented and disparate data within firms and across firms is often the root cause of many exceptions. Many firms are now looking to create interoperable architecture and integrate more closely with partners. In many cases this is to drive solutions for sharing data through technology solutions such as APIs, which allow clients to access information that would typically not be available on a SWIFT message and would require an exchange of emails to obtain. To improve user experiences, the APIs can be wrapped using Chatbot technology that provides a richer user experience and a quick time-to-market for implementation and adoption. Similarly, leveraging technology to share data (e.g. KYC documentation) more efficiently can help speed up account opening and reduce duplicative processes and requests. While many are reaping the benefits of enriched information and considering bi-directional workflows, other firms are still deciding whether or not APIs provide concrete benefit over traditional SWIFT messaging.

Robotics Process Automation (RPA): RPA is a technology that can divide opinion, but in terms of resolving challenges around automation, manual processing and enabling scale, there is no doubt that it can play an important role. In particular, as a short-term fix, RPA can provide automation to help scale a process and allow SMEs to focus more on value added work, rather than repeatable manual processes. If, however, RPA is kept as a long-term solution, it can cause challenges (e.g. robot failure, cyber security threats, etc.). RPA is, therefore, a good backstop solution that can be thought of as a back-up generator - not something to rely on forever, rather a solution where scale and effort needs to extend over a short-term horizon.

Distributed Ledger Technology (DLT): DLT is the technology that could dramatically change the Securities Services landscape. For some time, DLT has been perceived as a solution waiting for a problem, however, while there are still challenges around the scalability, legal aspects, and levels of trust, more concrete use cases are emerging which could not only provide a solution to some of the issues mentioned above, but enable processes to truly be reimagined or transformed, reducing cost, risk and manual effort. Financial markets participants are already offering DLT solutions to tokenise securities to better manage collateralisation, digital issuance of securities, settlement of FX transactions, payments and more.

Could DLT be leveraged to provide a golden copy of Corporate Action data that can be used across multiple firms? Could an industry-wide distributed ledger solution provide permissioned access to market participants allowing KYC and AML checks to support account opening or tax reporting? What is clear is that the industry is collectively at the start of the journey of understanding the potential of DLT and it should not be ignored. Many firms will be considering how they explore this technology, both internally and with partners. Others will also be considering how their role in the traditional marketplace and securities value chain may change or evolve as this technology takes off. The ISSA DLT Working Group continues to explore the possibilities that this new technology can bring to the Securities Services arena.

Tel: +41 58 399 23 68
Email: issa@issanet.org
c/o SIX Group Services AG Hardturmstrasse 201, P.O.Box, CH-8021,Zurich, Switzerland
www.issanet.org

The New Norm

Automation

CONCLUSION

The pandemic has undoubtedly highlighted the inefficiencies that exist due to lack of automation, however, much work remains to be done to resolve them. The automation and removal of manual processes should be a key priority across the industry, but traditional challenges of complexity and investment budgets remain. On the other hand, the disadvantages for not automating become increasingly more obvious, due to regulatory requirements, the pandemic and the increasing demand for digital solutions.

A critical enabler for improved automation across the industry will be effective collaboration across the Securities Services industry. Collaboration will be necessary to encourage the creation and adoption of more industry tools and services. Engagement by all key participants will ensure that there are efficiency gains across the market, rather than the fragmentation that exists today.

Common standards need to be agreed, to both eliminate the need for costly bespoke integrations and to enable the broader industry to benefit. Whilst regional standards continue to develop in some areas, there remains a challenge around global adoption. Greater levels of standardization will provide common solutions around processing, as well as enabling consistent service provision to clients.

Finally, firms should start to consider how they can collaborate to co-create technology solutions to common problems, to mutualise cost, limit inefficiencies and enable them to focus budget on growth areas.

Many would agree that the above points are logical, so the next question is whether the industry is collaborating enough. Are we moving at the right pace? What is stopping us or holding us back? How do we take a step further? What are our common priorities? These are critical questions the industry must ask and discuss to breakdown the challenge of automation for the benefit of all firms.

The ISSA Working Groups give members a great opportunity to explore and discuss how to take these points forward. The time to act is now - help transform the industry and genuinely take advantage of the opportunities that the pandemic and advances in technology have created.