



# 21<sup>st</sup> ISSA Symposium

10 to 12 May 2023

Breakout Session 5: Potential for Mutualization - Outcome



## Potential for Mutualization - Hypothesis

Over the last decade, several trends in the global Securities Services industry have spurred firms to engage with third-party providers in order to modernize their operations and optimize their front, middle and back office functions. More recently, Securities Services providers have also been insourcing multiple functions from third-parties.

Whilst the concept of mutualization may not be new, the pandemic, geopolitical unrest and new technological innovations have presented entirely new challenges – and opportunities to the industry and shone a new light on the benefits that mutualization can bring. Mutualization can generate significant cost savings. The sharing, amongst peers, of the upfront costs of new technology development can create strong economies of scale and allow firms to modernize both legacy platforms as well as introduce new innovative functions at a much lower price.

Examples of mutualization within Securities Services include:

- Swift's Know Your Customer (KYC) protocol
- DTCC CTM trade matching

The objective of the Breakout Session will therefore be to debate the theme, consider if there are areas that the ISSA membership feel resonate and, where this is the case, review whether this is something that should be taken forward by ISSA in some way.

## Potential for Mutualization – Ideas for Consideration

### **The Case for Mutualization**

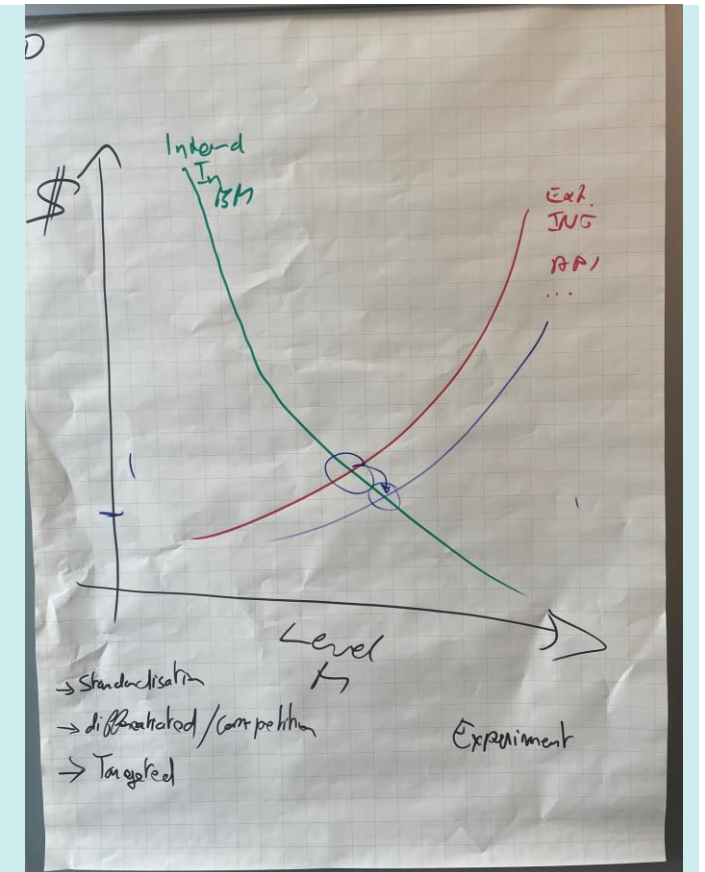
- Review the benefits of, and potential barriers to, mutualization
  - the advantage of greater operational productivity and enhanced resiliency
  - the dependencies on others and service differentials
- Consider how the industry can overcome any barriers

### **Uses of Mutualization**

- Consider which areas may benefit most from this approach:
  - Operational processes
  - Technology solutions
- Other technologies, such as artificial intelligence and machine learning

# Potential for Mutualization – Summary Observations on Hypothesis

- **Define clearly what is mutualisation**
- **Clear Criteria for Eligible Processes/Areas**
  - Non Area of Competitive Priority
  - Highly duplicative / Inefficient / Underperformance - Clear problems to solve
  - Opportunity to enhance/transform through sharing / collaboration
- **Consider Key Barriers**
  - Liability / Regulator Backing & offshoring – Client Tools
  - Client Perception / Client Data
  - Ownership/Control
  - Openness of Banks / Widespread Support
  - Investment / Funding
- **Types of Target Model**
  - Ownership Structure
  - BPO/ITO => BPaaS => Multi-client Utility (non-shared)=> Full integrated utility



# Potential for Mutualization – Detailed Findings

- **Migration Paths**
  - Standardise before Mutualise? Industry Best Practice Procedures
  - Foundation Partners.. Size of firms

- **Potential Use Cases**

	Non-Competitive / Shared Problem	Regulator Barriers	Sub-Optimal	Liability Potential
CA Sourcing / Validation	Y	N	Y	H
Tax Processing	Y	Potentially Yes	Y	H (Rep)
Trade Matching & Repair	Y	N	Y	L
Market Claims	Y	N	Y	L
Two Factor Authentication 4 STP tx	Y	N	Non Existing	H
Proxy Voting	Y	N	Y	M
Regulatory Reporting	Y	N	N	Neutral
Onboarding & A/c Docs	N	N	Y	H
Sanction Screening	N	N	N	H
Static Data/Sec Master	Y	N	Y	L

## Potential for Mutualization – Proposed next steps

1. Survey ISSA Membership / White Paper
2. Establish WG Model & explore Other WG Synergies
3. Processing Review vs Criteria – Aspirational Benefits / Outcomes
4. Barriers Analysis & Target Operating Model/Risk Management
5. Standard Practices / Standards