Go for global

In a fast-changing financial world, Riva's Ghassan Hakim makes a renewed case for a global transfer agency solution, and why industry leaders should care

Our industry first started to touch upon the subject of a global transfer agency solution soon after the monumental, later deemed 'non-event' of all the preparations and execution of transitioning our legacy systems through the move from the year 1999 to 2000, better known as Y2K. While the implementation went seamlessly, it was not without significant capital and human investments for several years prior to D-day. Today's generation using today's technology may not appreciate all the fuss about Y2K, but for those of us deeply involved, it was a big deal.

I had the privilege of experiencing Y2K from a transfer agency perspective within the structure of a truly global company. What this meant was significant communication, analysis, research, development, and testing, and implementation of a number of transfer agency systems supporting various jurisdictions. Given that these systems were quite different, it meant several implementation plans and different resources globally, all at a very high cost.

Post-Y2K, as part of their lessons-learned exercises, many industry experts started discussing the merit of global solutions (for fund accounting, wealth management, brokerage and transfer agency systems, among others). Given the legacy nature of the transfer agency systems developed in the 1970s and 80s, and even some in the 90s, production costs were monumental. Beyond the basic technology infrastructure costs (mainframes for the most part), organisations could not leverage their resources across these systems and the transfer agency operations that relied on them.

These systems did not interact with each other and they were designed and developed in very different ways, requiring redundancies in staff, training programmes, operating procedures, disaster recovery, documentation, and testing and development of enhancements and implementations. Later, as the burden of the regulatory landscape started to increase, these legacy systems required further redundancies in ensuring various systems were compliant across all jurisdictions.

For these reasons, the business case for a global transfer agency solution was established fairly early on. Case in point, the founders of Riva Financial Systems set out to develop such a global platform as early as 2002, with the mindset of creating a transfer agency solution that would support multiple product types across multiple jurisdictions, currencies and markets. So, why did we not experience a number of Riva-like developments? The cost savings and elimination of redundancies alone should have been compelling reasons for any leader to pursue.

The truth is that taking these legacy systems and changing them to support multiple jurisdictions was a big deal, requiring significant investment in capital and human resources, along with development and data transition exposures, freezing of other much-needed enhancements to support call centers, and the introduction operating efficiencies. Many organisations chose to invest in front-end presentation layers and surrounding strategies for specific functional aspects like client output, trade control, reporting, commission processing, and others.

Concurrent with these efforts, outsourcing transfer agency was becoming more popular, resulting in the emergence of global transfer agency service providers with global locations. While these organisations still relied on multiple systems in their infrastructure, they ensured their internal organisations would do the heavy lifting across their various units, while ensuring to their clients a single global servicing offering. While the underlying cost kept rising, these organisations shifted to lower-cost centres for back-office operations, in an attempt to defray the cost inefficiencies of their multiple legacy systems.

We then experienced the financial crisis in 2008, and that gave good reason for many executives to kick the can down the road, retaining redundant legacy systems in their portfolios. Riva Financial Systems, on the other hand, leveraged that period by attracting seasoned transfer agency specialists, increasing 10-fold its investment in the continuing development of its global solution, Riva TA.

Fast forward to 2017 and we see that many organisations have increased their investments into their transfer agency solutions, most claiming global solutions when in fact they are still relying on their old legacy platforms. We have seen some cross-functional and cross-jurisdictional development on these same platforms, which adequately addresses short-term needs but still has to contend with higher costs and inefficiencies in developing and maintaining new code.

So, if we've managed to get along all these years in providing transfer agency support without implementing a global solution, why should industry leaders care about not having a true, wholesome and global transfer agency system now? Two words: demographics and blockchain.

I wrote an article in the Asset Servicing Times Technology Handbook 2017-18, in which I spoke about the impact of both demographics and blockchain technology on the future state of our transfer agencies.

There are clear pressures on our service models to become more nimble and effective, and less encumbered by so many intermediary layers (distributors, clearing organisations, banks, regulations, closed markets and more). The next generation wants to be able to invest through their mobile devices, social media and in whatever new ways that are yet to come upon us.

A blockchain infrastructure currently offers the most plausible medium by which our service model is likely to be disrupted.

While we can easily see how a demographics-blockchain alliance could ultimately eliminate distributors (through robo-advice and artificial intelligence), the clearing organisations (through replicated distributed ledger technology) and the settlement banks (through embedded cryptocurrencies), it is harder to conceive that the highly-regulated and controlled aspect of the underlying transfer agencies could be eliminated in the near- to medium-term horizon. We are also convinced that the regulators will be reluctant to change current regulatory regimes just for the sake of accommodating blockchain. A fully functional transfer agency system will be required to exist in these blockchain infrastructures.

For global organisations utilising multiple legacy systems and facing the real potential of converging global markets forced by the changing demographics and the call for fast and efficient solutions, this will be their worst nightmare, and one that will come at a seriously significant cost. Legacy systems will have to collapse into a single platform in order to support internal interfaces, or they will have to be completely re-written.

It will take too long for our industry to react and support the changing and disruptive world around it, and this will cause many to fail, thus allowing for new entrants with new technologies to occupy our space.

At Riva Financial Systems, we are already working on a proof-of-concept that leverages blockchain and distributed ledger technology for the entire spectrum of transfer agency functionality across product types and jurisdictions in a single offering. Riva is not limiting its proof-of-concept to single functional strands like know-your-customer or anti-money laundering processes.

We believe that a single, global transfer agency solution is the only way to address the complex challenges that the future delivery models will impose on transfer agencies. **AST**

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Ghassan Hakim, CEO, Riva Financial Systems