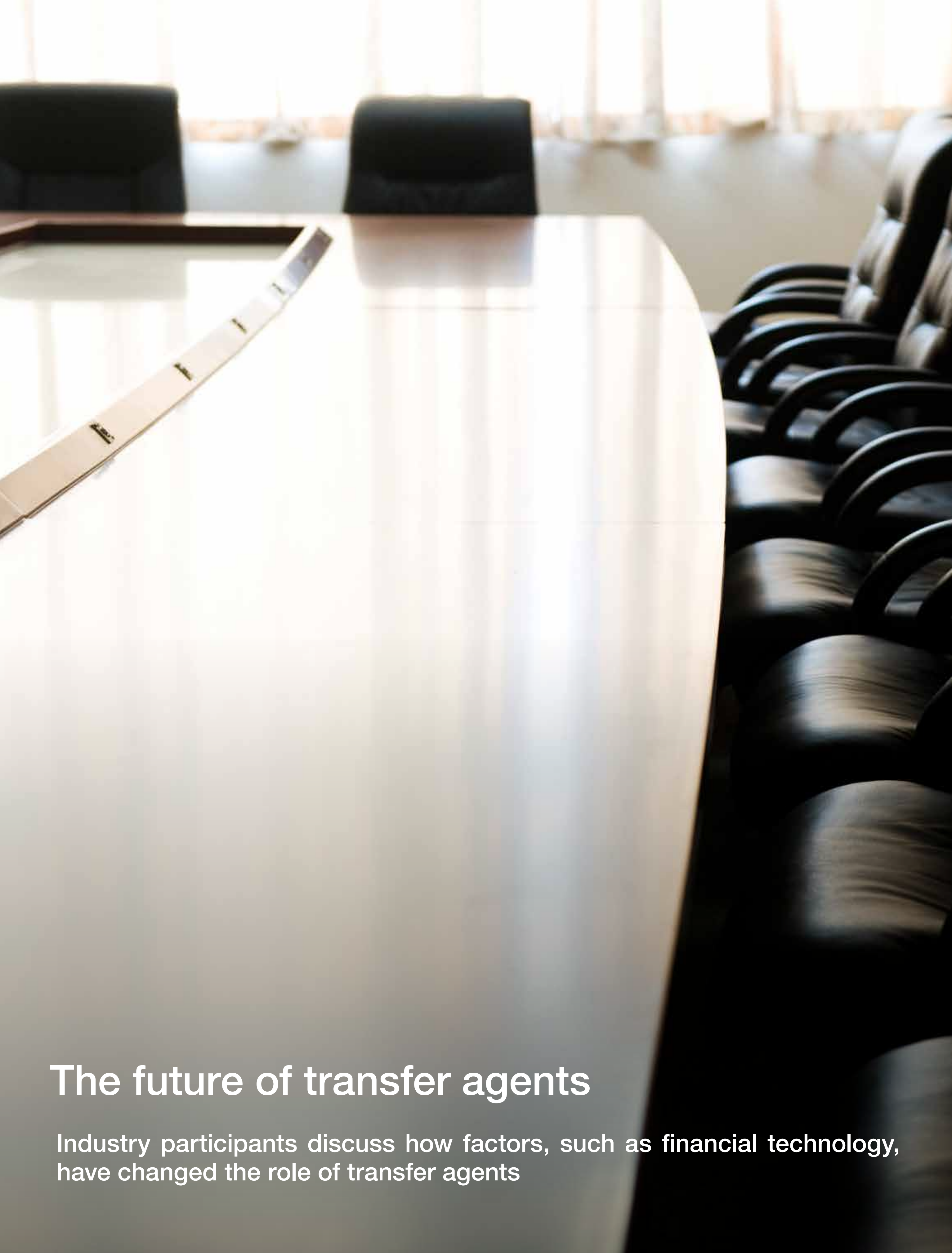

The future of transfer agents

Industry participants discuss how factors, such as financial technology, have changed the role of transfer agents

How are the transfer agency needs of asset managers changing? Are providers keeping up?

Geert Pick: Technology is the consistent theme during client conversations. This dialogue can vary depending on individual priorities, but improving efficiency and risk mitigation continue to be the constant.

However, a growing expectation for transfer agencies to help asset managers drive long-term and sustainable growth outside of the back office.

Transfer agents are, in many ways, the fountain of knowledge due to the vast amount of data we hold. If packaged correctly, data has significant potential in helping asset managers define their fund sales strategy. Additionally, distribution methods will continue to evolve and seamless digital models of buying and selling into funds will increase.

Asset manager expectations for transfer agents to meet this demand and ensure investor experience is seamless are growing. The quicker the transfer agency can perform the appropriate due diligence on the investor, the quicker the investors investment can be realised.

Laurent Majchrzak: Transfer agents are facing a number of new demands that reflect the changing needs of their clients. Two major factors shaping those needs are regulations and servicing efficiency.

In terms of regulatory developments, there is the strengthening of anti-money laundering (AML) and know-your-customer (KYC) requirements for investors, recent fiscal identification initiatives like the Foreign Account Tax Compliance Act (FATCA) and the Automatic Exchange of Information (AEOI), and the part of the second Markets in Financial Instruments Directive (MiFID II) that requires asset managers to ensure that products sold direct or via distributors are sold only to a suitable profile of investor. Such new regulatory burdens are resource intensive for asset managers and so create a need for regulatory support, which the transfer agent fulfils.

Many feel these regulatory developments are behind us but there remain aftershocks, which will continue to impact the distribution space for years to come.

In regard to demands for servicing efficiency, there are many anticipated developments which aim to modernise current distribution practices. With MiFID II's ban on inducements, the emergence of financial technology and the opportunities the digital world offers, many asset managers believe the future is in direct distribution. There are many initiatives to meet those expectations, from players like CACEIS looking to fully automate the entry into a business relationship and order placement, to the plethora of competing marketplace initiatives aiming to create a multi-transfer agent super-platform interfaced with all players to rationalise the AML/KYC part.

Tim Leeming: Asset managers are impacted by three main factors with downstream impact on their transfer agencies: technology, market forces and demographics.

Distributed ledger technology (DLT), legacy systems that are costly to maintain and change, old business models that are not nimble, internal resistance to change, inability for existing solutions to scale, automation, artificial intelligence (AI), robotics are all significant pressures on asset managers requiring them to rethink their business model, some drastically, in order to stay relevant in the industry.

The last decade brought about extremely volatile markets and challenging environments under which asset managers had to operate under. Active management was under siege. Calls for low cost products like exchange-traded funds (ETFs) and passives emerged from a more cost conscious, aggressive and probably less loyal investors. Combine these forces with the more aggressive regulatory regimes and asset managers found themselves having to introduce a new line-up of funds requiring changes to their downstream operations including the transfer agencies.

In addition, changing demographics with millennials entering the workforce and becoming investors, requiring their employers with state of the art technology in the workplace, flexible schedules including working remotely, while requiring the fund industry to adapt to a more digital and mobile offering, are forcing more changes on asset managers and their transfer agencies.

David Moffat: Just as transfer agency requirements changed a decade ago, from operational processing to a greater focus on distribution service and support, asset management requirements are extending in a number of directions. Many larger managers are increasingly looking for a connected, global transfer agency model; allowing them to seamlessly distribute funds from multiple domiciles and, often, using different servicing agents.

The focus is now centred on the distributor and designing a service model around their domicile and local market needs, rather than the domicile of the funds or the servicing agent.

Beyond this, many asset managers are looking to transfer agents to absorb data from a multitude of diverse distributors and industry sources and to serve this information back in a digestible format, ideally in near real time.

Outsourced providers are reasonably well equipped and, more importantly, motivated to help transform operating environments. They are also well positioned to help to deliver a range of customer engagement, operational, risk and compliance, and data and analytics capabilities that help asset managers differentiate and grow.

Standardising service models and increasing automation across jurisdictions is required to manage volume variability, limit expenses and mitigate risk effectively.

How has the rise in financial technology, such as AI, affected the role of transfer agents?

Pick: If a transfer agency still wants to be around in 10 years' time, it will need continual investment into its technology to continue being of value to the asset management industry. The traditional transfer agency of today has the potential to become the engine room of the funds industry and be at the heart of each transaction or transfer, similar to the way PayPal facilitates cash movements. It is vital that transfer agencies reinvent themselves as a distribution facilitator rather than the back office. As they do, AI will become part of that value chain. Interaction with investors and/or clients concerning account queries is the start and will inevitably branch out into the complexities of determining fund sales opportunities by leveraging data, digital and social media channels.

Technology is changing behaviours, expectations and practices globally. Blockchain and DLT technologies are other potential areas to revolutionise how a transfer agency operates today. However, DLT should be seen as a solution to a specific problem rather than leading the charge. For example, AML checks could be facilitated by DLT as it has the potential to accelerate the process. But, strong governance must be established following industry-wide agreement.

Majchrzak: In the past, there was much optimism about the financial technology and there have been a few positive impacts on our industry. However today, despite the many research and development (R&D) initiatives on alternative platforms and processes, the reality has seen little impact by technology on distribution. The digital space provides promising opportunities for improving the relationship, but there have been few impressive developments in the transfer agency domain.

AI certainly offers promising avenues to increase the efficiency of entering into a relationship with an investor, processing queries, interpreting problems and automating responses, and R&D is underway to reduce the need for human intervention. This is particularly important in jurisdictions like Luxembourg, where account opening regulations are particularly human resource intensive.

Nevertheless, despite the digital order platforms on offer retail clients still send kilometres of faxed orders. Other interesting avenues are automated identity photo comparisons and robotic software that can search documentation uploaded by a client and automatically fill out forms. Such projects don't necessarily use the latest technology but can be used at large scale by the industry.

Despite blockchain's reputation as industry disruptor, no project has yet been undertaken that aims to cover anything other than the most simple aspects of transfer agency, such as KYC.

We are an extraordinarily long way from it being able to provide an alternative to the full sophistication of legacy transfer agency systems and the complexity they handle.

Leeming: The recent surge of financial technology in financial services can be attributed to a number of variables beyond AI, such as blockchain, big data and robotics.

Regardless of how the industry feels about blockchain, it certainly is proving to be a source of debate on the ultimate impact but, at the same time, it is driving asset managers to engage with financial technology now in the form of developing what-if scenarios within private and semi-private incubator and innovation structures. Clearly, no one wants to feel they are left behind regardless of their longer-term conviction about the impact of blockchain and DLT.

In terms of AI, we feel it will play an increased role within transfer agencies relating to investors self-servicing, investment choice navigation and what-if scenarios. Many firms are already investing in this field, especially on their front-end, client facing applications with the aim of targeting the younger investor generations.

Big data analytics will play an increased role within transfer agencies, elevating their role as a contributor in data mining and trend analysis leading to more effective client servicing and focused marketing campaigns.

Beyond the data held by transfer agencies, asset managers will have to make effective use of all the data they hold on various internal platforms before they can duplicate what the likes of Amazon and Google are doing with their data.

Finally, robotics is really not something new to the transfer agency. Legacy business models have relied on mass upload and auto-key programmes for many years. However, robotics introduced today have a far reaching impact on transfer agency processes given the intelligence that can be provided by the new robots.

We are seeing activity in this space but still within limits. We believe this is an area that will witness increased focus in the coming years.

Moffat: Transfer agents are increasingly exploring, testing and implementing fintech initiative, such as robotic process automation (RPA)—the computerising of recurrent low value-added processes, which replicate the work of a human, but on a bigger and quicker scale.

Transfer agents have been prompted to roll out RPA projects, focused on key processes of their business, to see where they can create efficiencies and reduce costs, including on labour, as regulatory change and data management/protection drive additional expenses.

This type of implementation will also give employees the opportunity to build skills around technology, modifying and refocusing the transfer agent workforce rather than necessarily reducing it.

Blockchain/distributed ledger systems (DLS) technology has only had a very limited impact on transfer agent services as yet. The technology promises much in theory but is proving hard to progress in a market which is not fully digitised and still operating under regulations designed over ten years ago.

The most promising DLS models for now appear to be centred on the shared elements of the service model, such as AML/KYC and digital passports.

What kind of benefits would greater automation bring?

Pick: Manual processes are costly, time consuming and increase the risk of operational errors. If the industry is to realise any of the operational benefits of new technology then it must remove manual processing. Greater automation is the key to providing the most cost effective, accurate and lower risk solution to clients. Various technologies will play an interesting role in facilitating this change. It's difficult today to envisage the implementation of blockchain technology across the global asset management industry, but it is up to the transfer agency sphere to collectively develop and build an infrastructure that works for everyone.

Majchrzak: Asset servicing is an industry where the human element still plays a significant role in areas such as account opening, account keeping, transaction processing and receipt of transactions, investor reporting and responses to all types of query calculation of trailer fees. Some of these areas have already benefited from automation compared to 10-15 years ago when the automation rate was relatively low. However, there remains a long way to go. Human resources are costly and we can reduce them, but we must be modest about those goals and separate fantasy from reality.

Technology is expensive, and despite blockchain being presented as "virtually free", no one has put forward a balanced business model to demonstrate this for the entire value chain of the complex world of distribution. Distribution is not a standardised area where one-size- fits-all is remotely possible unless regulations or supra-national industry associations make it so—it is inherently complex.

If the industry managed to automate ninety percent of the processing chain that would mean it could focus on client service which would be ideal for asset servicers, asset managers and investors. However, until it can be shown that the huge technology investment would significantly bring down the cost of production compared to the current model, proof of concepts will remain at the proof of concept stage.

Leeming: The obvious benefits of automation within the transfer agency processes are the reduction in costly manual intervention, reduction in human errors and consequent reduction in claim settlements, penalties and regulatory fines.

Transfer agencies as a cost model should be moving towards exception processing with all key jobs automated and highlighting the exceptions, which can be actioned as standalone activities. This allows transfer agency professionals to concentrate on the true value add processes and enables managers to build inherent scalability into the process against an existing fixed cost base making any new future business or activity more profitable.

There are many other benefits that will result in further reducing transfer agency expenses. Automation means lower headcount hence lower turnover rates, reduced training and re-training expenses. Automation will inherently introduce efficiencies, which in turn generate their own cost savings. Taking automation yet another step further, with the reduced burden to deal with repetitive tasks, transfer agency professionals could extend their services to cross-selling within the call centre as well as data mining its own databases for investor trends thus benefiting portfolio managers with forecasting behaviours associated with time of year, market fluctuations, geo-political factors and the like.

Moffat: Discussions around the benefits of automation typically look at the reduction in costs; however there are several, arguably more important, positive outcomes. Automation relieves employees of the more tedious and repetitive tasks and processes, allowing them to focus on higher-value activities and optimising human resources.

Automation allows for efficiency to spread across several departments, with simple processes automated quickly; relieving pressure on IT teams and allowing them to focus their resources and efforts on the most strategic initiatives.

Compliance departments are another obvious beneficiary, with automation leaving a clear record/audit trail of completed transaction(s) and activities, elevating accountability and transparency. Increased consistency, productivity and speed are also significant advantages here. The same process is executed every time with 100 percent accuracy and no down time, with automated solutions running 24/7.

Are these changes happening fast enough?

Pick: Transfer agencies need to ensure the speed of change is happening at the right pace and cadence. RBC Investor & Treasury Service is working across the entire value chain with our clients,

The obvious benefits of automation within the transfer agency processes are the reduction in costly manual intervention, reduction in human errors

Tim Leeming, chief administrative officer and business development manager, Riva Financial Systems regulatory authorities and other partners to address and deliver solutions to changes affecting the industry and our stakeholders.

The expectations in meeting these evolving needs have already seen some transfer agencies question their long-term commitment in certain jurisdictions. Transfer agents need to resume investing in technology. As an industry, regardless of other priorities, we must continue to anticipate what the industry will look like a decade from now in order to meet the demands of our clients. Transfer agents will continue to play a significant role in the asset management sector, but only if the industry accepts that the twenty-first century requires collaboration and an innovative spirit to continuously add value and help our clients achieve success.

Majchrzak: Whether they are fast enough, I am not certain, but they are nevertheless fast, especially if we look at the pace of work concerning modernisation over the past three years compared to the past 10 or 15 years. We clearly see a huge acceleration in the pace of progress. It is important to question whether this is actually going too fast, whether we are rapidly climbing up a blockchain ladder that can only be used on 20 percent of the current distribution model because the complexity is not taken into account. If that is the case, then we're actually going too fast.

Leeming: The transfer agency business is not renowned for its pace of change, but we feel that given the changes impacting them and the pressures in the financial services space as a whole together with more millennials entering the workforce, we are more likely to see a greater acceptance of these new technologies and a clearer understanding of the relevance to the younger investor profile. We also feel that the pace of change in the sector is likely to be very rapid and increasingly so, so that keeping ahead of the game or at the cutting edge will become a necessity to survival.

The good news is that we're already observing more and more transfer agency professionals play an increasing influential role in industry committees, technology proof of concept and new platform incubators. There is also a wide recognition in the industry that silo-based changes to part of the food chain (like with distributors, clearing organisations, settlement banks and custodians) will not achieve the overall efficiencies and cost reductions expected from these changes. This is a classic view of the weakest (or most inefficient) part of the chain will bring down (or slow down) the entire chain.

Moffat: Regulation is often perceived as a hindrance to innovation despite being largely motivated by the best of intentions. MiFID II now requires asset managers to pay much more attention to which type of clients are buying their funds, for what purpose and in combination with which other products – all of which will genuinely assist managers in designing and adapting product design and distribution models. The General Data Protection Regulation (GDPR) will force firms to dedicate time and resources to getting their data into a useable and readily manageable state, something they most likely wouldn't do organically.

We recognise companies operating outside of the financial services industry are miles ahead in terms of execution and customer adoption; with expectations set much higher as a result. This reality means we have a genuine opportunity to develop our direct-to-consumer (D2C) offerings, to match (or ideally surpass) the expectations of retail customers.

The industry is, however, unlikely to change overnight. Adoption takes time, even if the pace of change is perceived to be moving faster than it may have done previously.

Transfer agents need to embrace the opportunity to be up to date and 'in the know', assessing the impact and practical applications of technologies and ensuring they adapt accordingly.

How has regulation affected transfer agencies? Does this differ by jurisdiction?

Pick: The challenges introduced by the regulatory evolution have two sides. The first is the cost associated with compliance, which squeeze the margins for managers and transfer agencies. The other side is that the rules introduce additional responsibilities to the various players in the distribution chain. For example, MiFID II is not only cost transparency or tight rules on retrocession fees. But it creates additional oversight responsibilities for managers, who

Transfer agents need to embrace the opportunity to be up to date and 'in the know', assessing the impact and practical applications of technologies and ensuring they adapt accordingly

David Moffat, chief client officer, DST ensure the real investor base is coherent with the one targeted by their products.

Transfer agents can play an important role to establish processes that support fund managers in fulfilling their obligations and managing new responsibilities.

For example, under MiFID II, transfer agencies can develop additional KYC services to help fund managers more precisely categorise the investors. This will help monitor how their investor base matches their target investor universe. Transfer agents have achieved great results in automation enhancements, especially in areas such as transaction processing, reconciliations and reporting.

However, the combination of regulatory change, product innovation and new technology is creating an unprecedented challenge. Transfer agents have the opportunity to tackle that challenge by leveraging the financial technology and regulation technology wave, understand how blockchain and other new technologies can simplify their processes and develop a new generation of high quality services.

Majchrzak: If we look back over the past 10 years, we often see regulations being uniform in spirit and always very different in transposition in local markets. For example, AML/KYC processes have little in common across Italy, Luxembourg and France despite being subject to the same regulations. I believe everyone would like to have greater harmonisation, with the same market practices on every market concerned by the same regulation.

If we look at Luxembourg, there is a very high level of regulatory complexity for transfer agents to deal with on behalf of their clients to meet all the requirements in terms of FATCA, AEOI, changes to the AML/KYC regulations, setting up the UCITS Key Investor Information Document, in combination with PRIIPs and MiFID, so with ever increasing restrictions and responsibilities, there is more processing involved and therefore higher charges.

Regulation starts with good intentions to protect investors but in most cases has triggered a huge increase in the burden for the distribution processes. The next step for regulation should be standardisation, where transposition of laws into practice is the same in every country concerned. For the moment, this remains a myth.

Leeming: For the past several years, the industry has experienced a continuous stream of regulatory changes, for example, GDPR, common reporting standards, MIFID II and many others impacting asset managers and transfer agents.

In most cases the regulations have common themes, such as knowledge of the customer and intermediaries and data protection, so whilst there may be slight jurisdictional nuances the general principles are the same.

The larger global asset managers operating multiple transfer agency systems have the additional burden, challenge and risk of implementing multiple projects for the same or similar topics. These legacy systems rely on different teams with different skill sets. Same changes are duplicated across systems, take time, requiring extensive testing and end up increasing cost and risks. As a result, we feel that over the next few years this increased regulatory activity will cause these larger organisations to consider a more strategic global transfer agency solution with a stronger business case for rationalising both the spend and risk regarding these common-themed regulatory changes.

Moffat: New and evolving regulation requires access to data if it is to meet disclosure and reporting standards. Transfer agents are able to help aggregate an array of data types to report and evaluate risks and exposures. Collaboration with the regulators ensures transfer agents are able to take a leading role in helping to shape and interpret regulatory changes; designing new or amending existing processes and technologies (in partnership with asset managers) to implement operational changes. Transfer agents must work collaboratively with asset managers if they are to achieve greater openness and transparency from a regulatory standpoint.

What other challenges are transfer agents up against?

Pick: In the coming years, there will be a change to the role of transfer agents and technology will be central to this. However,

Transfer agents will need to ensure to strike this balance. They need to stay relevant and provide distinctive value

Geert Pick, managing director, global head of product management, RBC I&TS

equal to technology is the strong decider that the appointed transfer agency has a strong balance sheet and is regulated by the relevant authorities. Investors will expect their asset managers to appoint transfer agencies that can demonstrate strong due diligence throughout the investment lifecycle. Just as depositary has certain obligations to protect the underlying investor, so too does a transfer agency, whether that's ensuring appropriate checks are performed on investors through to regulatory obligations in protecting investor subscriptions should anything untoward take place.

Transfer agents will need to ensure to strike this balance. They need to stay relevant and provide distinctive value. It is essential that they take advantage of the potential that technology can and will remain critical in the funds process so long as they understand their new place in the value chain. They will have to adapt if they are to take on this role. They will need to be secure, auditable and seamless for the asset and fund managers as well as the end investor.

Majchrzak: Some distributors/promoters believe that technology will allow the transfer agent to be cut out completely, so instead of mandating a transfer agent to perform operational services like today, a platform would perform the same services without the need to pay a transfer agent. Whilst it is not unthinkable that technology could tick all the boxes to enable this, complexity remains the major challenge, which is badly understood by blockchain enthusiasts, but will protect the place of the transfer agent in the distribution market. Again, no player has yet come forward to demonstrate that they can bear the initial costs of creating a platform that doesn't just cover a tiny portion of distribution's low hanging fruit.

The challenge remains for the transfer agent to create added-value activity in addition to the traditional activities, such as calculation of trailer fees and support for fund registration that have been available for several years. The big opportunity for the transfer agent is to leverage the massive amounts of data it holds regarding investor behaviour, fund performance and market fluctuations.

Using big data and sophisticated analytical tools, we can provide services that help clients understand precisely how internal and external events affect investment inflows, from marketing campaigns to stock crashes, modelling distribution and its sensitivity to events, especially in terms of prediction. These are all challenges for the transfer agent in the years ahead, and areas where CACEIS is making significant progress.

Leeming: The trend towards outsourcing transfer agencies to third party providers is likely to experience a healthy debate over the next few years. Past business cases for cost reductions towards more efficient third-party providers utilising best of breed, best practices and lower cost centers are likely to be challenged by the more automated solutions, more digital platforms and the likely impact of DLT. With third-party providers unable to replace their legacy systems in a timely manner, many asset managers will look for their technology and operation groups to identify standalone, state-of-art vendor solutions for internal implementations. On the other hand, a new generation of third party providers could emerge with fully digitised solutions causing these managers to switch providers. Different jurisdictions will see different trends at different times based on their local perspectives. For example, the trend towards omnibus accounts in the US has resulted in many organisations having a significantly lower number of shareholder accounts making the case for insourcing a much smaller transfer agency operation a more attractive proposition.

Moffat: The size of global and/or pan-European managers is expanding rapidly. Their extensive resources have allowed them to enlarge their geographical footprints organically and/or through mergers and acquisitions. Transfer agents focusing on expansion will need to be well positioned, both geographically and with defined service models, if they are to support the launch of new product structures, aid distribution across multiple jurisdictions, and tailor to local preferences.

Transfer agents need to increase their investment across a multitude of departments if they are to support regulatory requirements and industry standards. This is particularly crucial when it comes to IT and compliance departments who will need to support regulatory changes, and who will ultimately be subject to more complex audits and demands for more comprehensive documentary evidence. A commitment to increasing capital investment is essential for transfer agency providers across all the major regions. AST

The big opportunity for the transfer agent is to leverage the massive amounts of data it holds regarding investor behaviour, fund performance and market fluctuations

Laurent Majchrzak, group product manager, Caceis