The Future of Securities Services

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The Securities Services industry has generated relatively stable revenues driven by accumulation of Assets under Custody (AUC) or Administration (AUA) and underlying trading volumes, even during substantial market swings witnessed over the last decade. However, the last cycle has also seen continued fee compression and decreasing net interest margins at the core of the industry. Even the introduction of value-adding adjacent services has not sustainably offset fee pressure on core business models, since new services have typically been included in existing service offerings and have thus become subject to the same pricing challenges.

Looking forward, our analysis suggests that developments in the broader Capital Markets ecosystem will create continued top-line pressure for the Securities Services industry as we know it, which will make it difficult for some players to fund required investments and fend off the threat of potential disruption. For firms that can afford the required investment, there is a significant future growth opportunity arising from the servicing of new (digital) asset classes and leveraging of new technologies within Capital Markets, with higher margin for associated products and services.

Exhibit 1: Impact of Capital Markets ecosystem trends on key drivers for the Securities Services industry from the ISSA Working Group analysis

■ Positive impact ■ Neutral impact ■ Negative impact □ No impact

Source: Oliver Wyman

On top of that, global geopolitical uncertainties increase the risk that the global Securities Services industry becomes regionally fractured. This might disadvantage firms that consequentially need to scale back their global business models. As a counterpoint, the firms that manage to retain global business models or which have a deep regional franchise in growing markets, may be able to increase their business.

With the knowledge that the Securities Services industry — as we know it — will undergo significant change over the next decade, but given the uncertainty of when and how this change will happen, we have taken a scenario-based approach to identify the drivers of change that are expected to have the largest impact on the industry.

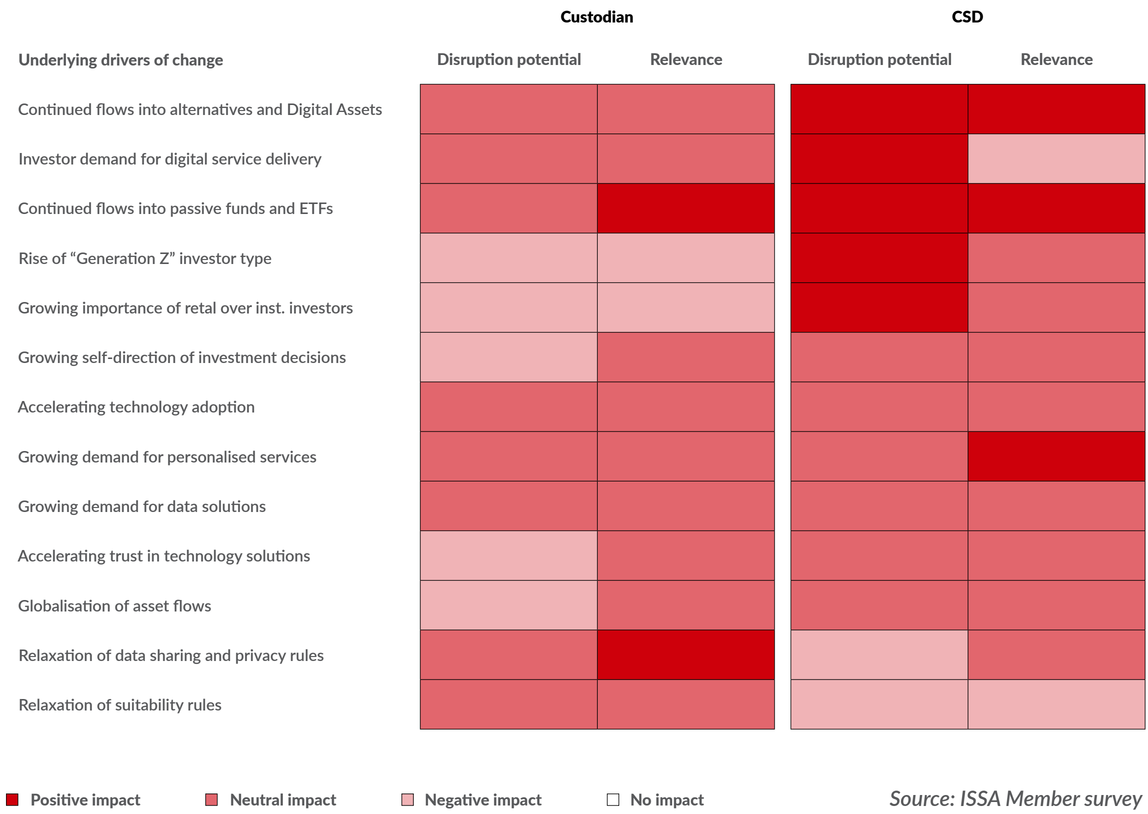
The analysis of the working group, supplemented by research from Oliver Wyman and a survey of ISSA member institutions, all conducted for the report, identified ten important trends in Capital Markets and concludes that changes in investor behaviour, as well as changes in technology and technology-enabled competition, are likely to have the biggest impact on the industry:

Investor behaviour: A continuation of flows into alternative and digital assets, as well as further shifts towards passive/ETF structures combined with further globalisation of the asset flows and higher investor digital service expectations.

Exhibit 2: Change in investor behaviour theme*

Average ratings of disruption potential and relevance for the industry from the perspective of Custodians and CSDs

** Includes the following relevant forces from Section 3: increased adoption of new technology, financial deepening and globalisation, shift into digital and alternative assets and shifat to passive and ESG.*



Source: ISSA Member survey

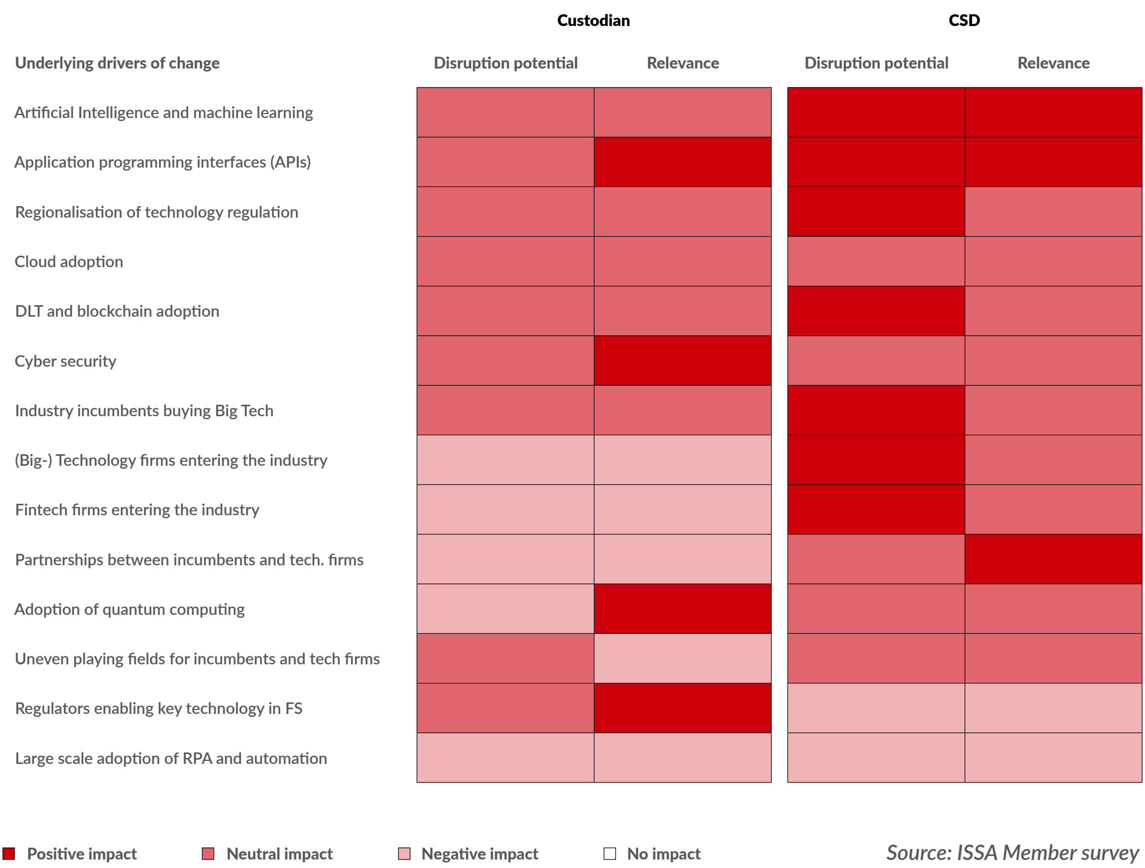
Technology and technology-enabled competition: Larger-scale adoption of Artificial Intelligence/Machine Learning/DLT, new business models based on new technologies, as well as new entrants to the industry from the technology sector.

Depending on the business model, scale and geographic footprint, four strategic considerations will be critical for players in the Securities Services industry:

Cost pressure to the core: Counter continued pressure on top-line revenues by placing additional focus on strategic cost reduction, doubling down on cloud-enabled modular fintech ecosystems to achieve higher levels of efficiency, forcing higher levels of service standardisation across clients, and pursuing strategic participation choices and industry consolidation.

Exhibit 3: Change in technology and technology-enabled competition

Average ratings of disruption potential and relevance for the industry from the perspective of Custodians and CSDs



Source: ISSA Member survey

New growth paths: Develop and ize new revenue opportunities by investing in new products and services, possibly built on data and Artificial Intelligence, recalibrating distribution channels and service offerings to reflect the increasing importance of buy-side clients and transforming underlying legacy IT infrastructure to increase flexibility for future innovation.

Industry disruption: Rethink positioning along the current post-trade value chain to ensure preparedness for potential industry disruption, potentially by filling capability gaps with partnerships and acquisitions, and reviewing insourcing and outsourcing decisions.

COVID-19 early lessons learned: Embed lessons learned from operating our businesses during the COVID-19 pandemic into future operating models by reviewing and rethinking existing (digital) transformation programs across the full value chain of activities, critically reviewing costly and manually intensive but non value-adding activities, and adopting new ways of remote and resilient working into Business as Usual (BAU) capabilities. Considering the findings of this report, potential areas for collaboration within ISSA and between its member firms for the next three to five years could include the following topics. These are grouped according to strategic considerations and ordered within those groups by the feedback reflecting the early view of ISSA Members who participated in the webinars and the poll. This ordering has then been optimised for execution likelihood. Some of the ideas presented may not be achievable by ISSA and its members alone and/or may require extensive collaboration.

Cost Pressure to the Core

Industry APIs: Joint development of standardized industry APIs for core industry processes.

Common data standards: that facilitate data analytics.

Front-to-back ecosystem cost reduction: Identification of areas that lead to inefficiencies for all.

Business Process as a Service (BPaaS):

Cost sharing for selected R&D investments: Collaboration on key investments in digitalization.

Consolidation within the industry: out of the scope of this paper as ISSA would not be involved.

New Growth Paths

Client value-add increase: Identification of areas to increase the value they provide to their clients.

Private Markets and digital assets: Development of a shared Private Markets/Alternatives/token infrastructure.

Pursue a more rigorous Front to Back cooperation: Identification of beneficial areas to address opportunities.

Geographical cooperation: Facilitation of increased collaboration, specifically among smaller players.

Industry Disruption

Joint positioning: Joint efforts to accelerate the development of ESG standards.

Cyber threats arising from Cloud and Quantum Computing: Joint analysis and sharing of perspectives on risks.

SaaS ecosystems: Development of an interoperable SaaS ecosystem for data analytics and workflow solutions.

Covid-19 Early Lessons Learned

Best practice sharing digitization: Sharing of best practices and lessons learned from the accelerated digitization.

Best practice sharing: Sharing of best practices with respect to the implementation of regulation and risk management/operational resilience.

Best practice sharing future of work: Sharing of best practices and lessons learned from operating our businesses.

Conclusion

Among the ten forces in Exhibit 1, the ISSA working group believes that the most impactful forces for the Securities Services Industry revolve around changes in investor behaviour (i.e. shift to passive and ESG, digital and alternative assets, globalisation of asset flows) as well as changes in technology and technology-enabled competition (i.e. adoption of new technology, industry disruption by Big Tech). The next stage of the work is to further syndicate within the ISSA membership and decide which topics, listed just before the conclusion, that we should focus on. Please feel free to join us for that conversation.

The paper can be found at: https://www.issanet.org/e/pdf/ISSA_Future_of_the_Securities_Services_Industry_final_Nov20.pdf

ISSA thanks the Oliver Wyman team for their insightful help in creating and editing the paper, and also our Working Group member firms whom have contributed to the analysis so far. The authors co-chaired the Working Group.

ABOUT ISSA

The International Securities Services Association (ISSA) is an international organization; whose members include influential securities services leaders, regulators and other industry stakeholders. As a result of this broad membership base, ISSA is able to foster international coordination and collaboration across the securities services industry.

One of ISSA`s key missions is to actively contribute to the development and promotion of forward-thinking solutions that create efficiencies and mitigate risk within the global Securities Services industry. Through its activities, ISSA facilitates and stimulates active communication among all industry stakeholders.

This, in turn, leads to the provision of guidance and best practice which both assists industry participants and helps shape the future of the securities services market.

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Colin Parry
Chief Executive Officer
ISSA

Colin is the CEO of ISSA. He is responsible for creating & executing the ISSA strategy, growing the membership, and ensuring that ISSA continues to help the Securities Services industry develop solutions and reduce risk. He also runs his own consulting business.

Prior to joining ISSA in September 2019, Colin co-founded a fintech (Atomic Wire) and set -up his own consulting business after almost 25 years at UBS. At UBS he held a number of senior roles in the US, UK and Switzerland in both Operations and Finance, including running the global investment banking Operations and creating Finance Shared Services.

Colin holds a Bachelor's degree in Money, Banking and Finance from Birmingham University (UK) and graduated from the Royal Military Academy Sandhurst.

DTCC

William Hodash
Managing Director, Enterprise Data Management
DTCC

William Hodash serves as DTCC's Managing Director of Enterprise Data Management, responsible for deploying data governance and data quality processes throughout DTCC, focused primarily on data critical to DTCC's aggregation of risk exposures.

In recent years, he has focused on the identification and development of opportunities in reference data management, assisting DTCC clients in meeting emerging regulatory requirements. William led DTCC's team that in collaboration with SWIFT, established the Global Markets Identifier Utility, a local operating unit of the global legal entity identifier system, a key enabler to facilitate systemic risk analysis. William also led DTCC's team in the acquisition of full ownership of Omgeo, which previously was a joint venture between DTCC and Thomson Reuters.

William has managed a range of functions during his thirty-five years with DTCC, including Product Management, Operations, Client Services, and Strategic Business Development. He served five years in several senior roles with Omgeo, and three years in London, opening and heading up DTCC's first branch office outside the U.S.

William holds a Bachelor of Science from the State University of New York at Albany and an MBA from the Leonard N. Stern School of Business of New York University. He also serves on the Board of Trustees for the SIFMA Securities Industry Institute at the Wharton Business School of the University of Pennsylvania, the Operating Committee of the International Securities Services Association and the Office of Financial Research's Financial Research Advisory Council.

About DTCC

With over 45 years of experience, DTCC is the premier post-trade market infrastructure for the global financial services industry. From operating facilities, data centers and offices in 15 countries, DTCC, through its subsidiaries, automates, centralizes and standardizes the processing of financial transactions, mitigating risk, increasing transparency and driving efficiency for thousands of broker/dealers, custodian banks and asset managers. Industry owned and governed, the firm simplifies the complexities of clearing, settlement, asset servicing, data management, data reporting and information services across asset classes, bringing increased security and soundness to financial markets. In 2019, DTCC's subsidiaries processed securities transactions valued at more than U.S. $2.15 quadrillion. Its depository provides custody and asset servicing for securities issues from 170 countries and territories valued at U.S. $63.0 trillion. DTCC's Global Trade Repository service, through locally registered, licensed, or approved trade repositories, processes over 14 billion messages annually. To learn more, please visit us at www.dtcc.com or connect with us on LinkedIn, Twitter, YouTube and Facebook.