Asset Servicing Automation
Key survey findings
Since 2020, the ValueExchange and ISSA have been partnering to help make the case for transformation in asset servicing.

In this latest global survey, led by ISSA with the support of Broadridge and DTCC, our aim was to provide an industry update on 4 key themes:

- How much are corporate actions costing us in 2024?
- What root causes are we seeing trigger issues across the market?
- What steps are firms taking to minimise cost and risk?
- What is the longer-term case for industry standardisation from issuer to investor?

These Key Findings summarise the statistical insights gained from our market survey in Q2 2024, sourcing detailed views from 278 respondents globally (with a similar distribution to 2023’s respondents).

This is a discussion document and we look forward to discussing the results of this research with you – to help you make the case for digital transformation in your organisation.
### Key findings

<table>
<thead>
<tr>
<th>Do we have a problem in 2024?</th>
<th>What is the core issue?</th>
<th>What is the change?</th>
<th>What is the case for standardisation?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors are carrying a direct cost of USD14m for corporate actions – with indirect pass-through costs multiple times that value</td>
<td>Processing errors and data gaps are causing problems for financial institutions – which causes frustrating delays for issuers</td>
<td>75% of issuers plan to automate their corporate action notifications in the next 3 years</td>
<td>30% of issuers believe their costs would be halved through automated notifications</td>
</tr>
<tr>
<td>Up to 453 people are touching a corporate action across its lifecycle; most of whom are at local market level</td>
<td>Our STP rates for voluntary events are less than 40% for investors – and declining</td>
<td>Volumes, costs and clients are the drivers of 70% of automation projects: not people, complexity or errors</td>
<td>Automation would drive an 87% reduction in the number of errors</td>
</tr>
<tr>
<td>Corporate action errors are costing up to 10% of our running costs – most often due to local market errors</td>
<td>Hidden risks permeate the corporate action lifecycle: with 75% of investors manually validating their event information in high growth markets</td>
<td>100% of investors are spending to automate their voluntary event processing today</td>
<td>Investors would realise annual savings of USD680k from automation</td>
</tr>
<tr>
<td>Investors’ asset servicing costs are growing by 23% per annum – although there are signs of efficiencies at local market level</td>
<td>Lack of clarity is a big-ticket problem: the #1 cause of high value errors today</td>
<td>Change is big: System change and new data sourcing are the preferred options for automation</td>
<td>Regulation works: SRD is driving significant automation in Europe</td>
</tr>
<tr>
<td>Accelerating volume growth in major markets is a core driver of corporate action pressures: especially in North America</td>
<td>Data consistency across custodians is the #1 problem for 75% of investors</td>
<td>Issuers systems are a core blockage to automation – although no one is chasing them</td>
<td>57% of issuers believe that their transfer agents should be responsible for automation as a point of concentration</td>
</tr>
<tr>
<td>Only 20% of funds are seeing corporate action costs directly impact their performance today</td>
<td>Instructions are where the manual risk is most acute: with 72 of messages processed manually</td>
<td>Current solutions are struggling: they are too complex and costly to implement</td>
<td>Over 75% of issuers and investors agree that there is minimal downside to inaction</td>
</tr>
</tbody>
</table>
Do we have a problem in 2024?
How much is asset servicing costing us?

Fund managers and beneficial owners are carrying a direct cost of USD14m per annum – with indirect, pass-through costs multiple times that value.

### Total Costs of Asset Servicing (Average in USD million per annum, by segment)

Assumes 3 regional teams and 20 investment markets

<table>
<thead>
<tr>
<th>Segment</th>
<th>Average Cost (USD million per annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers</td>
<td>$4.76</td>
</tr>
<tr>
<td>Exchanges / CSDs</td>
<td>$6.70</td>
</tr>
<tr>
<td>Brokers</td>
<td>$15.00</td>
</tr>
<tr>
<td>Custodians</td>
<td>$20.40</td>
</tr>
<tr>
<td>Investors</td>
<td>$13.50</td>
</tr>
</tbody>
</table>

[NB. No data available for costs of errors for issuers]
How much is asset servicing costing us?

Average issuer headcount per asset servicing event

Issuer: 15
Transfer Agent / Sponsor: 16
Law Firm: 5

Up to 39 FTE needed for issuers to manage a corporate event

Average Asset Servicing Headcount by Scope and Segment (2024)

Exchanges/ CSDs: 58
Brokers: 54
Custodians: 82
Investors: 69

Local team
Regional team
Global team

That can then need up to 414 FTE to process it

Up to 453 people are taking one event from issuer to investor
How much is asset servicing costing us?

Custodians are carrying the heaviest resourcing weight for proxy voting

Total distribution of headcount by activity

- **Proxy voting**: 28%
- **Corporate Actions (Mandatory events, Income events, Voluntary events)**: 72%

Average Headcount by Scope & Activity (2024)

- **Brokers**: 19% Proxy voting, 81% Corporate Actions
- **Custodians**: 33% Proxy voting, 67% Corporate Actions
- **Investors**: 21% Proxy voting, 79% Corporate Actions
How much are asset servicing errors costing us?

Up to 10% of our running costs – with the majority due to local market errors

Average cost of errors per firm (USD thousand per annum)

- **Exchange / CSDs**: $178 (4% of total running costs)
- **Brokers**: $293 (10% of total running costs)
- **Custodians**: $74 (5% of total running costs)
- **Investors**: $920 (3% of total running costs)

Distribution of error costs by team level (% of total costs)

- **Global**: 80%
- **Regional**: 7%
- **Local market**: 12%
How much is asset servicing costing us?

A quarter of respondents are seeing their asset servicing costs grow by 10% per annum – with investors’ costs escalating rapidly.
How visible is this to the investor?

Where are corporate action costs allocated by fund managers? (% of respondents per level)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund expenses / TER</td>
<td>53%</td>
</tr>
<tr>
<td>Fund company level</td>
<td>27%</td>
</tr>
<tr>
<td>Fund performance</td>
<td>20%</td>
</tr>
</tbody>
</table>

Only 20% of portfolio managers are seeing the impact of this cost growth in their portfolio performance.

What incentive to act is there for the 80%?
What is the core issue?
What are the core issues that we need to address?

Poor automation of data is creating meaningful issues for issuers.

**Issues faced by financial institutions in 2024** (% struggling with each issue, multi-choice)

- Manual errors: 22%
- System errors: 9%
- Incorrect instructions / elections: 8%
- Late instructions / elections: 10%
- Late notifications: 14%
- Incomplete data: 10%
- Data gaps: 15%
- Processing errors:
  - Incorrect data: 13%
  - Manual errors: 22%
- Timing:
  - Late instructions / elections: 10%
- Data errors:
  - Incorrect data: 13%

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**Issues faced by issuers and transfer agents in 2024**

- Poor visibility on event responses (until just before deadline):
  - 50% Significant impact, 38% Limited impact
- Lack of active engagement from investors (i.e. majority resorting to default options):
  - 38% Significant impact, 50% Limited impact
- Inability to engage with leading shareholders in a timely way before deadline:
  - 25% Significant impact, 63% Limited impact
- Investors asking for last minute extensions / work around processes:
  - 25% Significant impact, 50% Limited impact
- Inability to identify beneficial owners:
  - 50% Significant impact, 13% Limited impact

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Manual data processing is creating a range of issues...
What are the core issues that we need to address?

Our STP rates are low and declining

Average STP rates event segment (and by event type)

<table>
<thead>
<tr>
<th>Event Segment</th>
<th>Brokers</th>
<th>Custodians</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>63%</td>
<td>71%</td>
<td>64%</td>
</tr>
<tr>
<td>Mandatory / Income events</td>
<td>50%</td>
<td>59%</td>
<td>39%</td>
</tr>
<tr>
<td>Voluntary events</td>
<td>66%</td>
<td>68%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Change in Automation Rates Per Market (2023/2024)

- Singapore: +39%
- Hong Kong: +1%
- Switzerland: +0.1%
- Ireland: 0%
- Italy: 0%
- Japan: 0%
- Germany: 0%
- United States: 0%
- Australia: 0%
- France: 0%
- South Africa: 0%
- United Kingdom: 0%
- Canada: 0%
- Hong Kong: 0%
- United Kingdom: 0%

[Charts showing percentage changes for various markets]
What are the core issues that we need to address?

Investors face multiple layers of hidden manual risk – especially in event validation

Cumulative levels of risk faced by each market segment
(% of respondents undertaking each level of manual activity)

- Brokers
  - 24% receiving non-STP event data
  - 81% having to revalidate data

- Custodians
  - 35% receiving non-STP event data
  - 61% having to revalidate data

- Investors
  - 41% receiving non-STP event data
  - 75% having to revalidate data
  - 23% having to use additional sourcing
  - 77% receiving manual election decisions
What are the core issues that we need to address?

Highly manual additional sourcing is the #1 driver of high-value errors

**Average cost of errors**
(USD per annum, by root cause)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clarity on event details</td>
<td>$5.3 M</td>
</tr>
<tr>
<td>Manual errors</td>
<td>$3.7 M</td>
</tr>
<tr>
<td>Late notifications</td>
<td>$2.8 M</td>
</tr>
<tr>
<td>Incorrect data</td>
<td>$2.4 M</td>
</tr>
<tr>
<td>System errors</td>
<td>$2.2 M</td>
</tr>
<tr>
<td>Incomplete data</td>
<td>$1.9 M</td>
</tr>
<tr>
<td>Late instructions / elections</td>
<td>$1.7 M</td>
</tr>
<tr>
<td>Incorrect instructions / elections</td>
<td>$1.6 M</td>
</tr>
</tbody>
</table>

**Root causes of high value errors**
(over USD1m, average distribution)

- Lack of clarity on event details: 20%
- Incorrect instructions / elections: 11%
- Late instructions / elections: 11%
- System errors: 16%
- Manual errors: 16%
- Incomplete data: 7%
- Incorrect data: 4%
- Late notifications: 15%
What are the core issues that we need to address?

Election risk for custodians, data risk for investors

<table>
<thead>
<tr>
<th>Issues causing a meaningful P&amp;L impact in asset servicing</th>
<th>Custodians</th>
<th>Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Challenges in managing elections (with clients and counterparties)</td>
<td>70%</td>
<td>65%</td>
</tr>
<tr>
<td>Issues in managing and tracking claims</td>
<td>61%</td>
<td>66%</td>
</tr>
<tr>
<td>Lack of automated connectivity to registrars, tax authorities, etc.</td>
<td>61%</td>
<td>72%</td>
</tr>
<tr>
<td>Manual / PDF-based submissions from issuers</td>
<td>57%</td>
<td>73%</td>
</tr>
<tr>
<td>Issues and errors in tax calculation and reporting</td>
<td>48%</td>
<td>75%</td>
</tr>
<tr>
<td>Inconsistent interpretations of events across different market sources / custodians</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issues in managing and tracking claims</td>
<td></td>
<td></td>
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<tr>
<td>Manual / PDF-based submissions from issuers</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Differences in treatment of events across different markets</td>
<td>75%</td>
<td></td>
</tr>
</tbody>
</table>
What are the core issues that we need to address?

Manual risk is much higher for instructions than for announcements.

How are we receiving event notifications (% distribution, globally)

- ISO 15022 messages: 37%
- ISO 20022 messages: 17%
- Local data standard: 19%
- Website / portal: 22%
- Manually (e.g. email, phone, fax, letters): 5%

How are we receiving event elections / instructions (% distribution, globally)

- ISO 15022 messages: 16%
- ISO 20022 messages: 2%
- Local data standard: 11%
- Website / portal: 24%
- Manually (e.g. email, phone, fax, letters): 48%

How are we receiving event elections (% receiving manual event instructions, per segment)

- Exchanges / CSDs: 37%
- Brokers: 50%
- Custodians: 46%
- Investors: 78%
Where is the change?
Where are we driving change?
We are spending a lot of money trying to fix voluntary events today

% of respondents in each segment with change plans in each event type

- Investors
  - Mandatory / Income events: 75%
  - Voluntary events: 100%
  - Proxy events: 50%

- Custodians
  - Mandatory / Income events: 54%
  - Voluntary events: 79%
  - Proxy events: 67%

- Brokers
  - Mandatory / Income events: 83%
  - Voluntary events: 83%
  - Proxy events: 17%

Top 5 markets for asset servicing change (% of respondents by market with change projects planned)

- United States: 60%
- United Kingdom: 30%
- Canada: 25%
- France: 25%
- Germany: 23%
We’re spending on instructions

- Announcement Sourcing
- Validation (including scrubbing)
- Entitlements calculation (and stock records)
- Notification (to your clients)
- Instruction processing
- Allocation / Distribution (including payments)
- Client (status) reporting
- Client servicing (Q&A and Exception handling)
- Tax claims processing

Investors
- Announcement Sourcing: 11%
- Validation (including scrubbing): 13%
- Entitlements calculation (and stock records): 13%
- Notification (to your clients): 11%
- Instruction processing: 9%
- Allocation / Distribution (including payments): 15%
- Client (status) reporting: 13%
- Client servicing (Q&A and Exception handling): 7%
- Tax claims processing: 9%

Custodians
- Announcement Sourcing: 12%
- Validation (including scrubbing): 13%
- Entitlements calculation (and stock records): 10%
- Notification (to your clients): 13%
- Instruction processing: 16%
- Allocation / Distribution (including payments): 10%
- Client (status) reporting: 11%
- Client servicing (Q&A and Exception handling): 8%
- Tax claims processing: 9%
How are we driving automation?
System change and data are our core answers

- Changing core systems: 46%
- Managed data services: 11%
- Sourcing additional data: 10%
- Adopting data standards: 8%
- Generative AI: 5%
- Robotics: 2%
- Machine Learning (ML): 7%
- API connectivity: 8%
- Hiring: 3%
- Generative AI: 5%
- Robotics: 2%
- Machine Learning (ML): 7%
What are the challenges for financial institutions in automating?

Current solutions are being set up to fail: they have to work too hard, at too much cost and with implementation times that are too long.

- Return on investment is too long
- Projected cost / risk impact does not justify the project investment
- Solutions do not reach the required levels of STP/error rates
- Risk of change - Program risk over the status quo
- Technology is still unproven at our scale
- Lack of client / counterparty support
- Lack of access to internal specialists and resources

By Segment

- Investors
  - 26%: Return on investment is too long
  - 31%: Cost / benefit doesn’t make sense for up to 37% of investors
  - 21%: Solutions do not reach the required levels of STP/error rates
  - 26%: Technology is still unproven at our scale
  - 32%: Lack of client / counterparty support
  - 16%: Risk of change - Program risk over the status quo

- Custodians
  - 52%: 52% of custodians are on their own
  - 33%: Projected cost / risk impact does not justify the project investment
  - 33%: Solutions do not reach the required levels of STP/error rates
  - 29%: Risk of change - Program risk over the status quo
  - 48%: Technology is still unproven at our scale
  - 38%: Lack of access to internal specialists and resources
  - 43%: Lack of client / counterparty support

- Brokers
  - 36%: Change is too slow for 36% of brokers
  - 16%: Return on investment is too long
  - 31%: Projected cost / risk impact does not justify the project investment
  - 29%: Solutions do not reach the required levels of STP/error rates
  - 27%: Risk of change - Program risk over the status quo
  - 9%: Technology is still unproven at our scale
  - 36%: Lack of access to internal specialists and resources
  - 36%: Lack of client / counterparty support
Proxy voting: are we still implementing SRDII?

Key drivers of investment into proxy voting automation (% of respondents)

- **Regulation (SRDII)**: 31%
- **Increased volumes**: 27%
- **Cost reduction**: 18%
- **Client experience / loss of business**: 15%
- **Talent turnover**: 8%
- **Increased event complexity**: 1%

**North America**
- **Regulation (SRDII)**: 37%
- **Increased volumes**: 37%
- **Cost reduction**: 37%

**Europe**
- **Regulation (SRDII)**: 79%
- **Increased volumes**: 79%
- **Cost reduction**: 79%

**Africa and Middle East**
- **Regulation (SRDII)**: 53%
- **Increased volumes**: 53%
- **Cost reduction**: 53%

**Asia-Pacific**
- **Regulation (SRDII)**: 63%
- **Increased volumes**: 63%
- **Cost reduction**: 63%
What is the case for standardisation
Why are issuers investing in automated, logical data distribution?

### Key Drivers for Issuer Automation (% of Issuers citing each issue)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Trigger for investment</th>
<th>Nice-to-have</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to ensure that 100% of elections are received by you or your agent (i.e. with no losses in information)</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Ability to receive elections faster / earlier from beneficial owners</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Reduced cost of event processing (including handling, reconciliation, etc.)</td>
<td>38%</td>
<td>25%</td>
</tr>
<tr>
<td>Ability to identify beneficial owners</td>
<td>25%</td>
<td>38%</td>
</tr>
<tr>
<td>Ability to engage directly with beneficial owners</td>
<td>13%</td>
<td>63%</td>
</tr>
<tr>
<td>Ability to send event announcements faster to beneficial owners</td>
<td>13%</td>
<td>63%</td>
</tr>
</tbody>
</table>

- **Trigger for investment**
- **Nice-to-have**
What are the challenges for issuers in automating?
Current infrastructure is creating inertia – which there is little need to overcome

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Blocking progress</th>
<th>Limiting progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current system capabilities and dependencies</td>
<td>29%</td>
<td>57%</td>
</tr>
<tr>
<td>Lack of demand (and downside risk) from beneficial owners</td>
<td>29%</td>
<td>57%</td>
</tr>
<tr>
<td>Challenges in investment prioritisation</td>
<td>14%</td>
<td>71%</td>
</tr>
<tr>
<td>Current levels of automation</td>
<td></td>
<td>86%</td>
</tr>
<tr>
<td>Challenges in workflow approval between issuer and agents</td>
<td></td>
<td>57%</td>
</tr>
</tbody>
</table>
What would standardisation do?
Are issuers more bullish on the potential cost savings than FIs?

Expected P&L impact of real time, golden copy, standardised event notifications (% of respondents per segment citing level of change, excl 'no change')

- Issuers:
  - Costs would be more than halved (by >51%): 10%
  - Costs would significantly reduce (by 25-50%): 10%
  - Costs would reduce (by 0-25%): 30%
  - Costs would increase (by 0-25%): 10%
  - Costs would increase significantly (by >26%): 11%

- Brokers:
  - Costs would be more than halved (by >51%): 28%
  - Costs would significantly reduce (by 25-50%): 11%
  - Costs would reduce (by 0-25%): 30%
  - Costs would increase (by 0-25%): 0%
  - Costs would increase significantly (by >26%): 12%

- Custodians:
  - Costs would be more than halved (by >51%): 28%
  - Costs would significantly reduce (by 25-50%): 45%
  - Costs would reduce (by 0-25%): 1%
  - Costs would increase (by 0-25%): 0%
  - Costs would increase significantly (by >26%): 12%

- Investors:
  - Costs would be more than halved (by >51%): 30%
  - Costs would significantly reduce (by 25-50%): 12%
  - Costs would reduce (by 0-25%): 4%
  - Costs would increase (by 0-25%): 0%
  - Costs would increase significantly (by >26%): 4%
What is the case for logicized event data?

Savings for 66% of respondents and up to 87% reduction in the cost of errors.

Expected P&L savings from standardisation:
- Costs would significantly reduce (by 25-50%) 26%
- Costs would reduce (by 0-25%) 38%
- No cost impact 24%
- Costs would increase significantly (by >25%) 3%
- Costs would increase (by 0-25%) 6%
- No cost impact 24%

Root causes of corporate action errors:
- Manual errors 22%
- Lack of clarity on event details 15%
- Late notifications 14%
- Incorrect data 13%
- Incorrect instructions / elections 8%
- System errors 9%
- Late instructions / elections 10%
- Incomplete data 10%

87% reduction in errors.

A further 36% of errors could be reduced with a properly logicized data feed.

51% of errors could be avoided with a properly logicized data feed.
What is the case for logicized event data?

USD680,000 per annum removed from investors’ direct costs – with several times that in indirect costs eliminated.

**Expected savings from a real time, logicised data feed (%) and USD million per firm, per annum**

- **Exchange / CSDs**
  - $1.35m
  - -20%

- **Brokers**
  - $3.61m
  - -24%

- **Custodians**
  - $7.10m
  - -35%

- **Investors**
  - $0.68m
  - -5%

**Expected P&L savings by country (%) saving per annum**

- **Canada** 32%
- **Japan** 28%
- **United States** 27%
- **Singapore** 22%
- **Hong Kong** 19%
- **Germany** 19%
- **United Kingdom** 19%
- **France** 18%
- **South Africa** 13%
- **Switzerland** 9%
- **Australia** 3%
Does regulation work?
SRDII case study

Announcements distributed in ISO format
ISO 15022 messages ISO 20022 messages
Europe
17% 54% 16%
19% 27% 12%
9% 40% 18%
20% 22% 24%
North America
Africa and
Middle East
Asia-Pacific

Instructions sent in ISO format
ISO 15022 messages ISO 20022 messages
Europe
16% 4%
12%
18%
24%
5%
North America
Africa and
Middle East
Asia-Pacific
Who do we rely on to automate?
Are transfer agents a key point of concentration?

Issuers' expectations of who should be responsible for transmitting automated event data (% of issuers citing each partner):

- Issuer: 14%
- Law firm: 14%
- Transfer Agent: 57%
- Brokers: 14%

14%
Where does the industry need to come together?

Where does the industry need to come together? (average score out of 5)

- Facilitating greater alignment between issuers, intermediaries and investors (in terms of messaging formats and flows): 4.3
- Driving more consistent use of standards by CSDs and custodians/brokers across global markets: 4.0
- Defining and enforcing new data standards across the event lifecycle: 4.0
- Tracking and measuring the cost of existing inefficiencies and risks in the asset servicing event lifecycle: 3.4
- Developing new utility platforms to manage existing data flows: 2.9
What if we do nothing?
Over 75% of issuers and investors agree that there is minimal downside to inaction

Issuers perceptions of downside risk of taking no action (% of issuers)

- **Huge downside risk / We must automate within 2-3 years**: 14%
- **Some downside risk / unclear case investment**: 71%
- **No downside risk / no case for investment**: 14%

Likelihood of investors removing stocks from a portfolio based on poor event data

- **Likely**: 25%
- **Unlikely**: 50%
- **Very unlikely**: 25%
The ValueExchange

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Over 25 years of practitioner experience in securities and capital markets

**Expert community**
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**Unique industry data**
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**Measure Impact**
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**Industry advocacy**
Collaborative, industry-wide campaigns to make the case for transformation

**Thought leadership**
Tailored whitepapers, factsheets and webinars to help you make your case for transformation
Thank you!