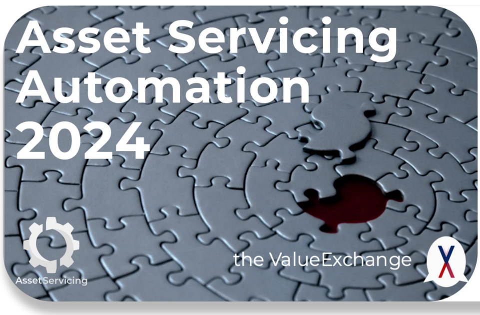
the ValueExchange

Asset Servicing Automation 2024

Why, how and where is the world automating asset servicing in 2024?

In partnership with



ISSA
International Securities Services Association

Broadridge

DTCC

Asset Servicing Automation 2024

Introduction

Asset Servicing is an area in dire need of automation, and it's a poorly kept secret. For years, we have discussed the inefficiencies, high costs, and frequent errors plaguing this sector. Yet the urgency for change has never been more pressing than it is today.

In 2024, market participants are grappling with rapidly increasing volumes of securities. At the same time, Straight-Through Processing (STP) rates linger at a mere 71% (even for mandatory and income events), making for a potentially explosive combination. The inefficiencies and manual processes in back offices are becoming increasingly costly with up to 10% of operating costs stemming from errors. It's clear that manual methods can no longer sustain the growing workload. Innovative solutions must be explored and implemented.

But how can the industry come together to tackle these challenges? Who do we need to engage in order to drive automation in event announcements and why do issuers need to have a seat at the table? How can we drive change when there's no immediate downside to maintaining the status quo? Do we need a carrot, a stick, or perhaps a combination of both?

This report delves into the challenges faced in 2024 and explores how new solutions and new forms of market engagement can catalyze the much-needed transformation. We are honored to have collaborated with Broadridge, DTCC, and the International Securities Services Association (ISSA) to compile this research. With insights from 278 experts worldwide, this report aims to empower change-makers across the industry.

We hope the insights within will help you forge a path toward scalability in your back offices. We look forward to discussing this research with you and supporting your journey toward innovation and efficiency.

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We are grateful to ISSA, Broadridge and DTCC for their extensive support as partners in this industry exercise:

ISSA International Securities Services Association

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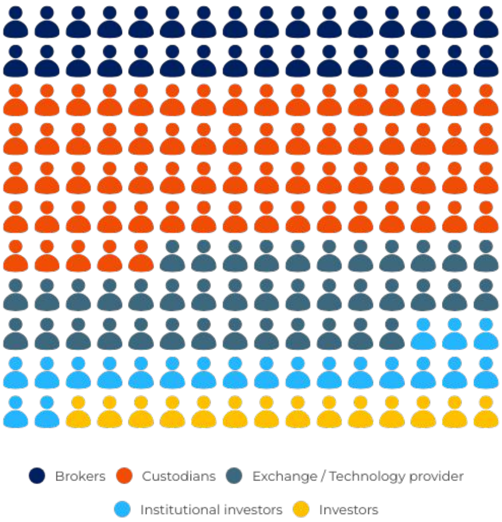
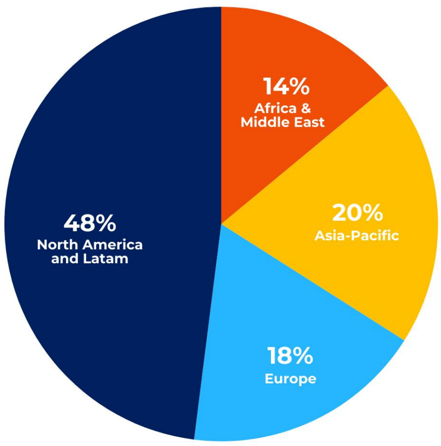
Who participated?

As a truly industry-wide survey, we have benefited from the insights of over 278 organisations across the capital markets globally in compiling this research. These respondents are broken down as follows:

2024 participants by segment



2024 participants by region



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Asset Servicing Automation 2024

Key Findings Overview

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

Asset Servicing Automation 2024

Survey key findings and expert insights

What is the case for asset servicing automation in 2024 and where are firms focusing today in reducing cost and risk across corporate actions and proxy voting? Drawing on the latest statistical insights from our "Asset Servicing Automation 2024" industry research campaign (led by Broadridge, DTCC and ISSA), **John Kirkpatrick (of Broadridge), Scott Grant (of Broadridge) and Patrick Barthel (of DTCC)** discuss today's challenges, ambitions and change journeys in the specific context of spiraling volume and cost growth in 2024.

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Do we have a problem in 2024?

Local market diversity is creating a lack of global scalability

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.

The total cost of handling one asset servicing event, end-to-end, is staggering.

At the end of the event lifecycle, investors and beneficial owners bear a high cost of asset servicing, with the average global asset manager having to spend up to USD 14m per annum to support their asset servicing activities globally.

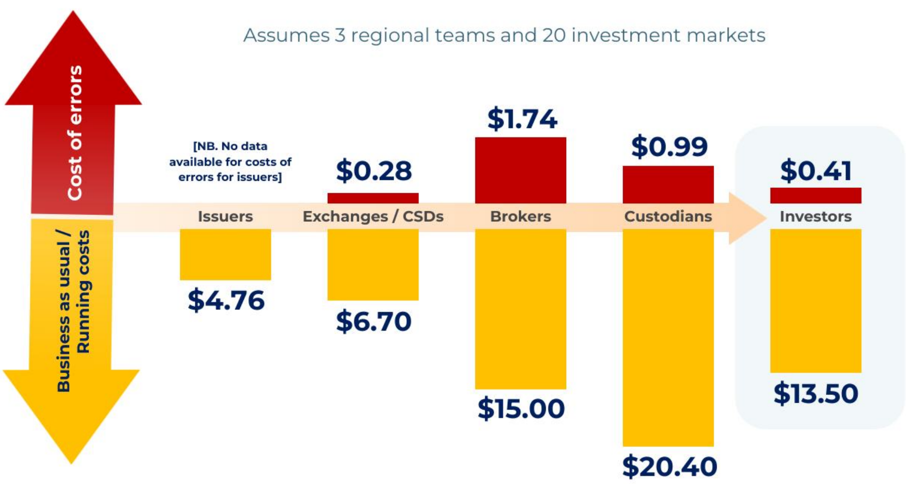
Whilst this number is significantly higher than many would expect, it is dwarfed by the additional costs that are embedded into service providers' fees along the chain - which investors ultimately bear. Each CSD is including millions of dollars in cost of risk in their charges to participants, whilst prime brokers and custodians are similarly factoring in tens of millions of dollars in manual processing costs into their monthly fees. **Put together, the true costs of asset servicing for investors far exceed USD14m each - meaning that pension holders and end-investors are carrying billions of dollars in asset servicing costs today.**

But how aware are we of these costs? After decades of business-as-usual activity, much of these costs escape the attention of finance departments and annual budgeting rounds. Instead, justification for most asset servicing automation projects today focuses on eliminating the cost of risk - which can be a fraction of the overall cost to the end investor. By focusing on errors, we risk missing the forest for the trees.

The true case for asset servicing transformation must include both ongoing costs as well as the hidden costs that are being passed on across the event lifecycle.

Total costs of asset servicing

(Average in USD million per annum, by segment)



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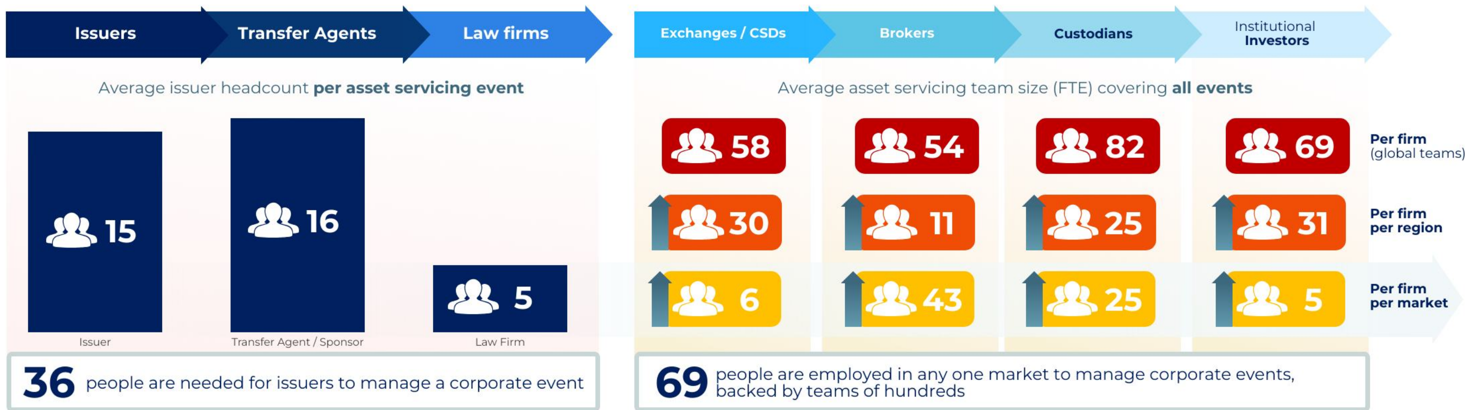
Local market diversity is creating a lack of global scalability

Up to 36 people are needed to trigger an asset servicing event - with up to 69 people then needed to process it locally.

Unsurprisingly, people are largest driver of those business-as-usual running costs.

On the issuer side, up to 39 people (full time employees or FTE) are involved in initiating and communicating a corporate event from the issuer, transfer agent/sponsor, and lawyers. By the time that event then reaches the beneficial owner in any given market, another 69 FTE have touched it – often multiple times.

Why do over 100 people need to touch a single dividend announcement, for example?
Partly it's due to the multi-tiered structure and global nature of investing, where local, regional and global teams all have a part to play. But it's also due to the volume, complexity, and lack of standardisation that necessitates constant cross-checking by every party at every step.
We appear to be duplicating our work extensively.



Local market complexity is the major driver of headcount costs.

"If all announcements and elections were delivered in a standardised format, we could potentially eliminate the need for our entire local asset servicing team."

(Product manager, global custodian)

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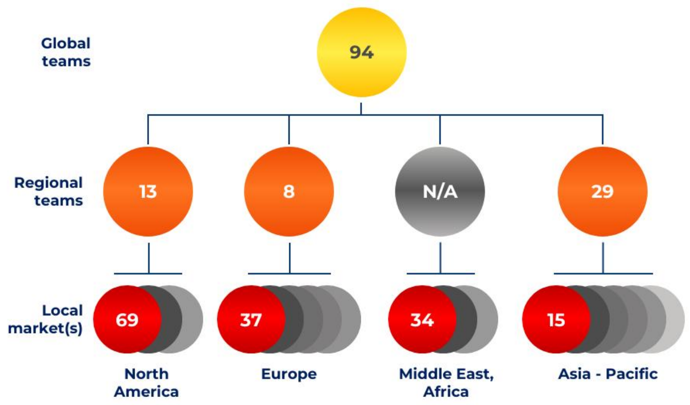
Local market diversity is creating a lack of global scalability

A key driver across all markets is the significant level of local interpretation and complexity inherent in today's processes. While the sheer size and increasing volumes of the North American and European markets are responsible for needing large local market teams, the challenge is universally felt across the world.

Adding resources in local markets, however, leaves no opportunities for economies of scale. Staff hired to process corporate events in Malaysia, where there are extensive manual requirements, cannot be reassigned to handle an event in Argentina or other markets.

Trying to centralise expertise and share workflows, some organisations have created regional hubs. However, the comparatively low levels of regional resources (versus local resources) underlines the limited success of this approach. It appears hard for regional hubs to scale when the events that they are processing remain so entirely diverse.

Average asset servicing FTE per team and region



...and local market errors are costing up to 10% of our annual running costs.

Asset servicing errors are **costing market participants an average of USD 3.42m annually** - making up around 10% of annual operating costs for brokers in particular. While 3-10% error rates would be unacceptable anywhere else in capital markets, it is routine and accepted in asset servicing.

Across the trade-cycle, brokers carry significantly higher costs of errors than their custodian peers or their end-clients. This is partly driven by brokers' historical under-appreciation of asset servicing as investment-worthy activity.

At the same time, this lack of automation is exacerbated by the uniquely high complexity of events and processes that (prime) brokers have to support in asset servicing. As previous ValueExchange reports have highlighted, **brokers are staking their future growth strategies on the most complex and manually intensive activities from a corporate actions perspective** - notably securities lending and wealth management. With manufactured dividends for equity derivatives creating a daily risk to broker operations, it is no surprise that the financial error rate is disproportionately high.

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

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Local market diversity is creating a lack of global scalability

"As a broker, we just don't have the volumes to justify major investment [in asset servicing] in most markets. We don't have the scale to automate."

(Head of Operations, global broker)

Scarily though, the true cost of errors is likely many multiples higher then reported.

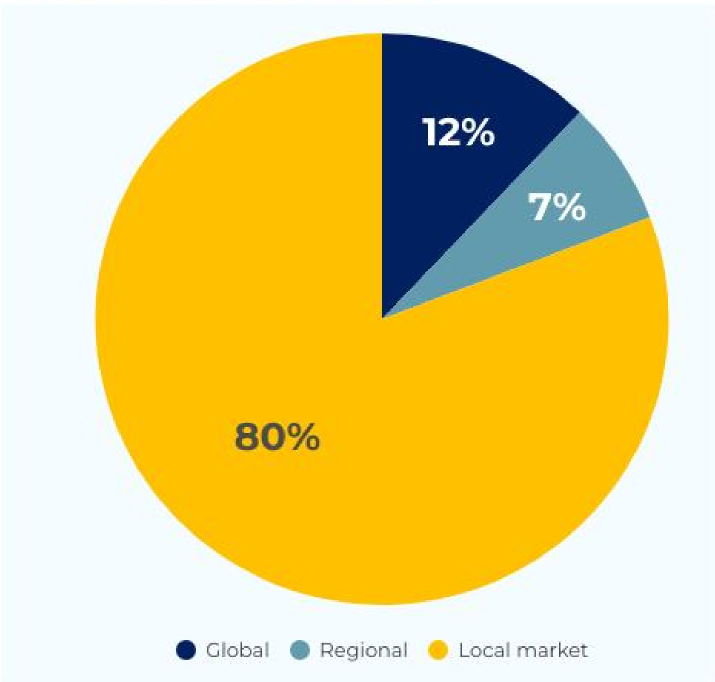
From a balance-sheet perspective, if a broker mistakenly holds long positions on their balance sheet overnight due to an error processing a corporate event, they will trigger extensive regulatory capital charges for the additional (proprietary) holdings - not to mention new market and credit exposures. And if these holdings are not properly reported, regulatory penalties and sanctions are a possibility for many. Put together, this means a strain for treasurers as they struggle to manage capital reserves and liquidity in the face of continuing errors.

From a people perspective, our 2020 research highlighted the massive human cost of major corporate action errors - often requiring extensive C-level participation over a 1 - 2 day "fire-drill" as firms struggle to manage and resolve multi-million dollar problems in conjunction with issuers, agents, CSDs, brokers, custodians and investors all involved. Add to that the time invested in conducting post-mortems, and implementing new controls or operational changes resulting from these errors and you have a significant burden that far exceeds reported costs.

In the management of these errors, several firms reported "that we are terrible" in accurately tracking the true cost of correcting errors, particularly in the case of smaller and more routine errors.

Error-related and BAU costs are clearly higher than we might have expected, but still are not fully captured. As market participants (and end investors) better understand the high price they are paying for asset servicing, the case for change is increasingly unavoidable.

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



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Proxy voting is consuming disproportionate amounts of resourcing.

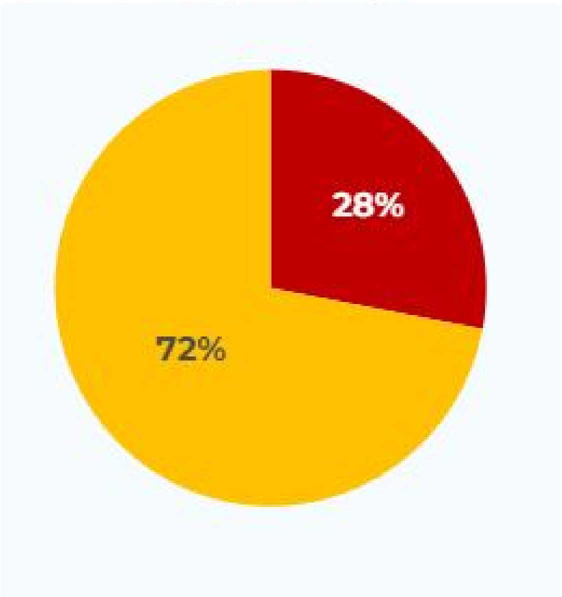
While increasingly frequent and complex corporate actions demand the majority of resources, **proxy accounts for nearly one-third of total headcount** – a surprising percentage considering that these are known, annual events with clearly defined timeframes and actions.

These resource demands likely reflect a series of unique considerations in proxy voting - including continuing regulatory pressures in Europe (through SRD II) and the wider increases being seen in shareholder participation at an institutional and retail investor level. Volumes are rising, as is the pressure to fix the operating model from regulators.

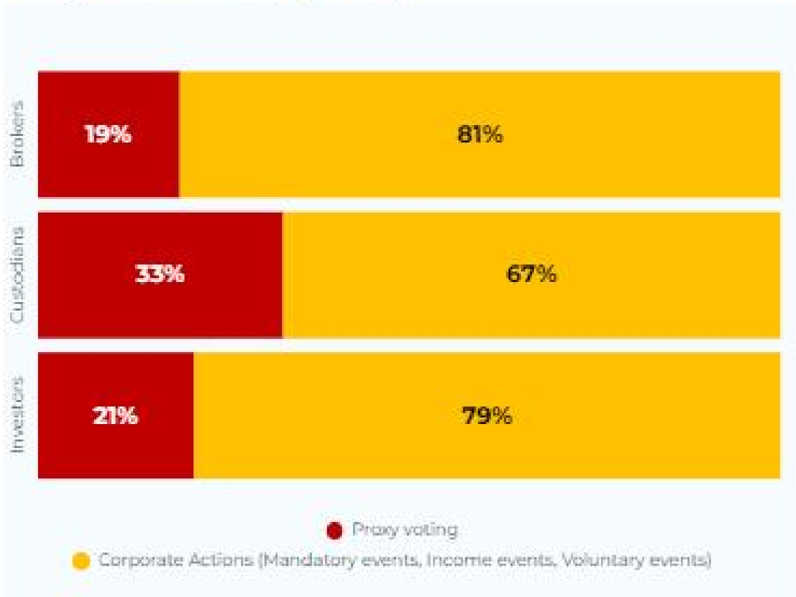
Unsurprisingly, **the burden falls mainly on custodians** given their key role in the process. From mapping the proxy event, to identifying the underlying beneficial owners in omnibus accounts, to receiving and transmitting proxy votes, the resource demands are heavy and the scope for errors significant.

In one conversation with a wealth management team, the operations lead questioned whether the investment in this area is delivering a worthwhile return. "While we have a large team and spend significant time to process all of the announcements, only a small number of our clients actually vote."

Total distribution of headcount by activity



Average headcount by scope & activity (2024)



Why does this matter in 2024?

Rising volumes are pushing manual processes and costs to the edge

A quarter of respondents are seeing their asset servicing costs grow by 10% per annum – with investors' costs escalating rapidly.

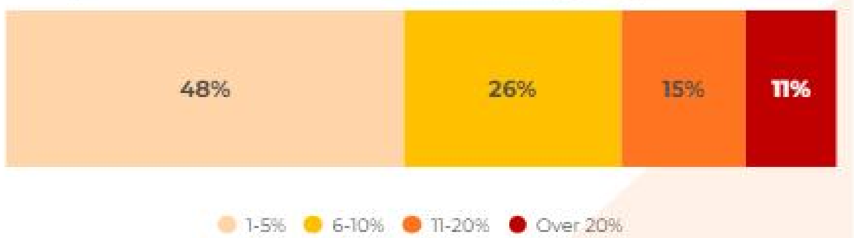
In the last year, corporate action costs have climbed by an average of 10%, with proxy voting rising even faster.

For a quarter of respondents, corporate action costs are growing by more than 10% and proxy voting costs are growing by more than 20%.

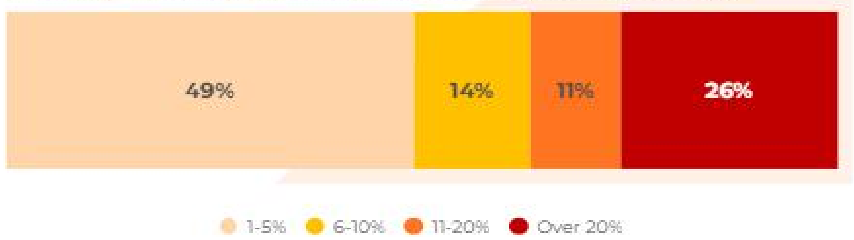
Most notably, costs for investors are accelerating. In our 2022 research, investors' costs were growing at a strong 17% year-on-year. Today, the inflation in buy-side asset servicing costs has risen by 5% (to 23% year-on-year growth) - compounding the effects of the above pressures on the beneficial owners of the world.

Industry costs are not only high - they are growing at an accelerating pace. And it is the world's pension holders and retail investors who are bearing the impact of these increases.

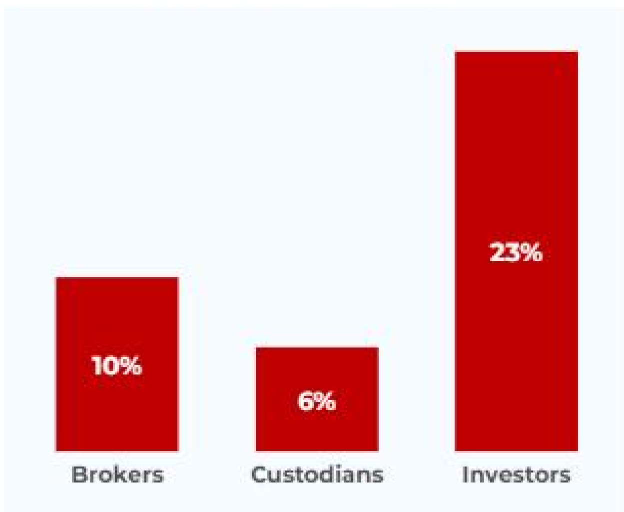
Corporate actions costs change (2023/2024)



Proxy voting costs change (2023/2024)



% change in average corporate action costs (2023/2024)



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Market exposures matter: accelerating growth in the Americas and Europe is at the heart of the cost challenge.

While we often hear about the increased complexity and sophistication of events, the true root cause of this cost growth is the industry's inability to manage volume growth in a scalable way. Asset servicing remains a highly volume-sensitive activity.

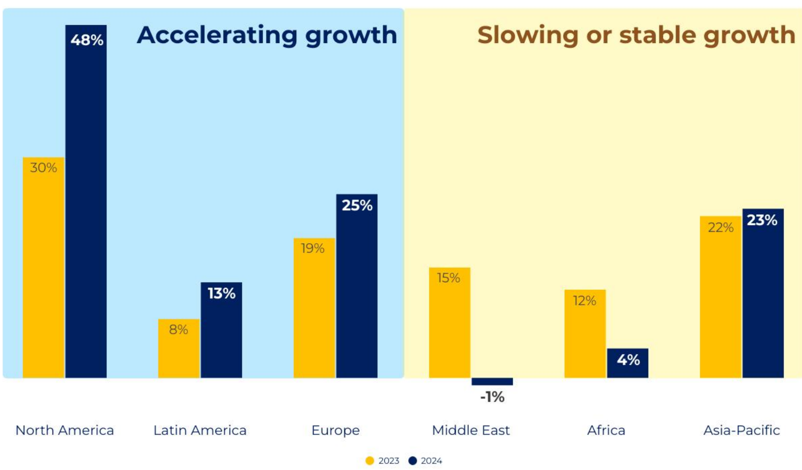
And what is worrying in 2024 is where this volume growth is happening.

> **"Asset servicing is highly volume-sensitive today. The more volume there is, the more events there are, the more the losses are going to be."**
>
> (John Kirkpatrick, Broadridge)

Securities holdings are growing fastest in the world's largest investment markets, most notably in North America (where portfolios are growing by 48% year-on-year) and in Europe (25%). If holders of American securities around the world were processing more than 3.7 million event announcements in 2023 (according to **a 2023 DTCC paper)** then this year they are processing almost 50% more than that.

So while smaller markets are stable or slowing, **the world's biggest markets are growing - and growing faster.** Since those developed markets make up the largest part of our portfolios, our inability to scale our current processes means that growth has a disproportionate impact on overall volumes and costs.

Portfolio growth is costing us dearly in the back office and is significantly exacerbating the need for transformation in our asset servicing processes.



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Rising volumes are pushing manual processes and costs to the edge

Are investors worried? No.

Today, **only one-fifth of the portfolio managers who are driving investment choices and stock picking are even seeing their asset servicing costs grow**.

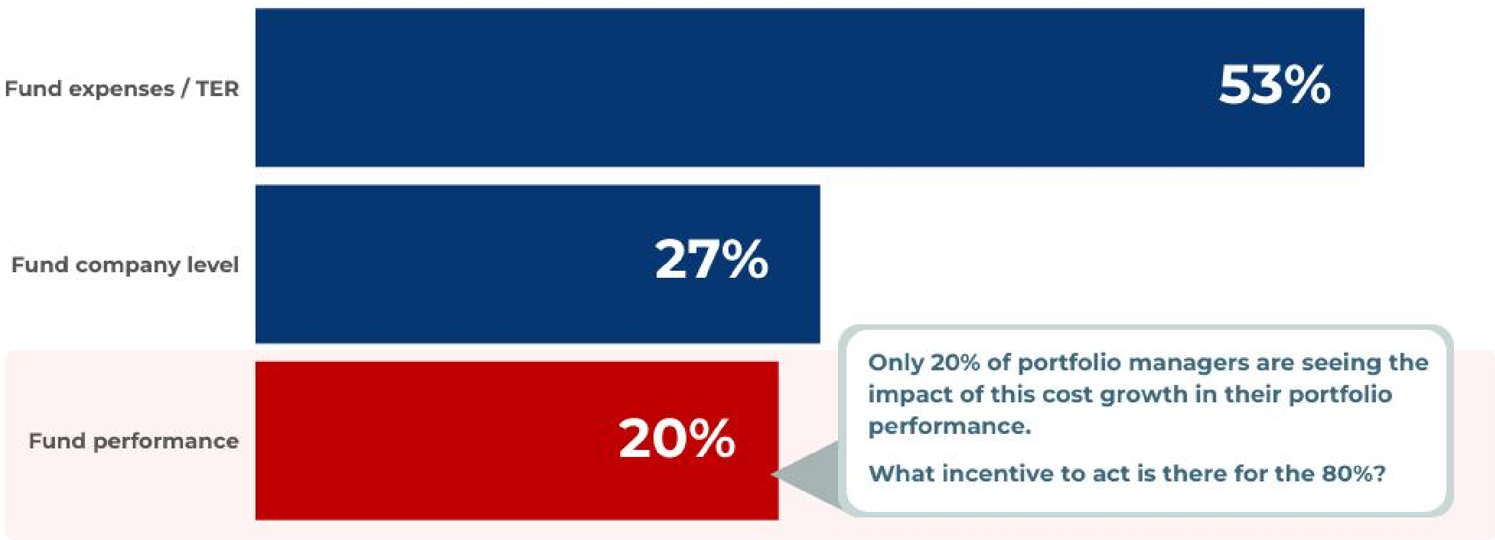
With most fund managers allocating their rising corporate action costs into overall fund expenses or absorbing them at the fund company level, the risk of this problem being overlooked by the financial markets' key decision makers is significant. Rising asset servicing costs are being buried in catch-all Total Expense Ratios.

With only a small proportion of portfolio managers actively seeing asset servicing costs as a drag on portfolio performance, there is a fundamental gap in the chain of accountability across the investment cycle.

If the people responsible for investing in specific companies are unable to take into account the multi-million dollar costs of doing so (in terms of asset servicing risk), then how are they able to drive any kind of market improvement with the issuer?

It is not just our industry workflows that are in urgent need of revision in 2024 - the fundamental chain of accountability that drives our industry investments also needs careful attention.

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



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What is the core issue?

Is changing the core system the only solution?

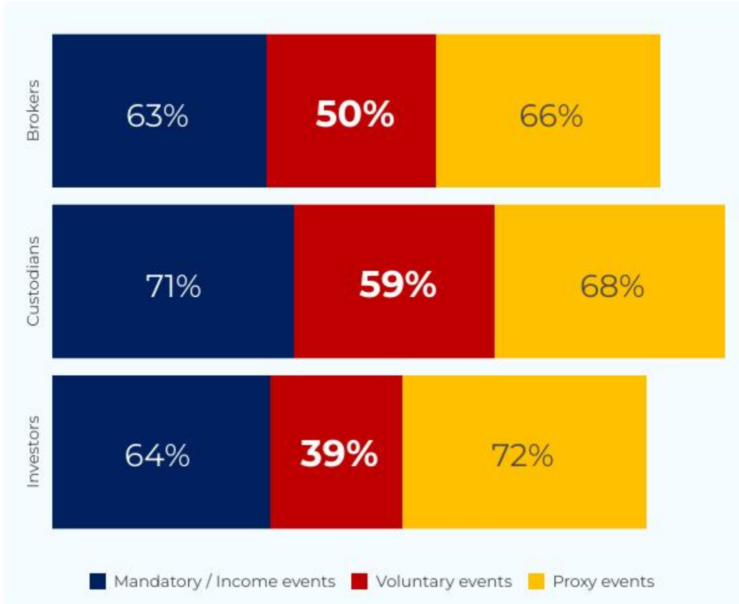
Our STP rates are low and declining.

At the root of our industry's inability to scale are our straight-through-processing (STP) rates for all types of corporate event.

Whilst many would expect core, mandatory events to be processed with automation levels of over 90%, our research highlights a major gap between expectation and reality. And if only two-thirds of dividends, stock splits and other mandatory events are being processed without manual intervention today, it is no surprise that our (human) costs are spiraling with our volumes.

At the other end of the event spectrum, low STP rates for voluntary events are perhaps less surprising but all the more concerning. Whilst less frequent, events such as spin-offs and rights issues are invariably very high-value events, with significant portfolio impact if anything goes wrong. And with manual handling needed to support more than one in every two voluntary events, the likelihood of error are high.

Average STP rates event segment
(and by event type)



Across both of these event types though there is clearly a common, underlying theme. Why are brokers, custodians and investors compelled to manually intervene in handling even the most standardised event types today?

> **"Our clients are starting to complain that we keep bringing innovative new solutions to them, but we can't even process a simple income payment on time and accurately."**
>
> (Operations head, global custodian)

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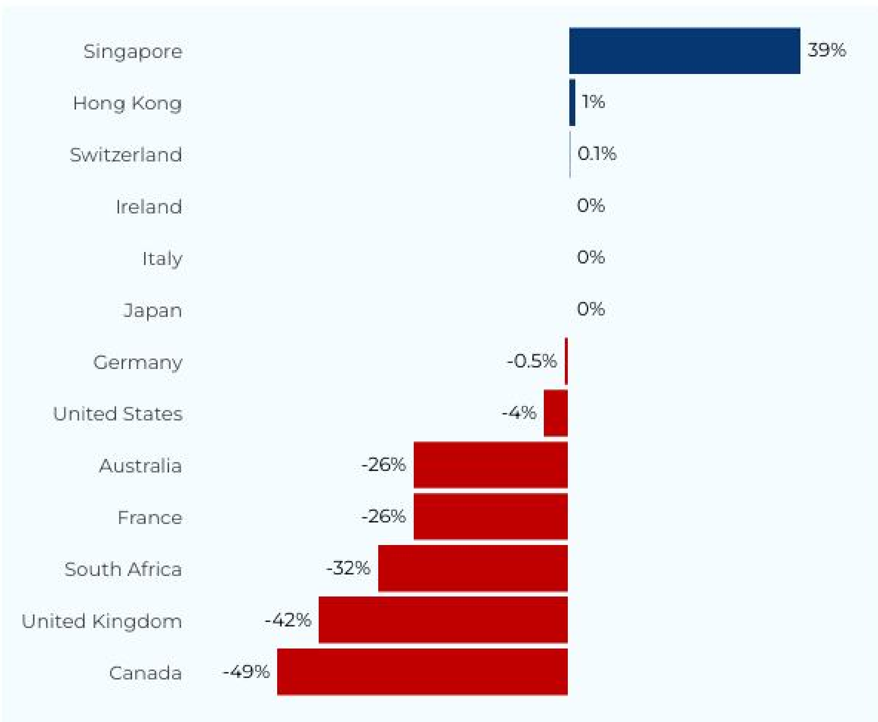
Even more concerning, rates are declining - particularly in the markets that are growing the fastest.

In an era of digitisation and data transformation, the fact that our (already surprisingly low) automation rates are in decline is alarming. With APIs, tokenisation and data lakes all offering new possibilities across the industry, a 30% decline in automation rates across the world's developed markets is difficult to understand. What is driving this decline?

One operations manager indicated that the decline in STP rates is partly due to internal control processes, which intentionally cause corporate action messages to fail STP in order to allow for accuracy checks. In certain markets (and under SRD II), regulatory requirements dictate specific formatting for events, which can disrupt STP protocols as legacy systems struggle to translate and bridge from one format to another. Another firm highlighted internal debates over the definition of STP even, with some arguing that any human intervention disqualifies a process as STP whilst others argue that it is more nuanced.

These issues are then compounded as events reach investors. Issues such as multiple custodians, varying notification formats, and events that do not conform to standard processes all necessitate manual handling. And if beneficial owners then provide instructions manually via email, websites, or even fax (as many still do), what hope is there for STP across the chain?

Change in automation rates per market (2023/2024)



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What is the core issue?

Is changing the core system the only solution?

Automation is about much more than the message format - it's about trust.

Whilst 15-23% of market participants today receive their event notifications in a non-STP format (i.e. by email, fax or through a website), 61-81% are today compelled to manually revalidate and verify those announcements.

The primary issue affecting our STP rates today is **not the format of the automated, standardised messages, but rather the lack of trust in the information received**. The distrust that necessitates revalidation and the sourcing of additional data, significantly impacting STP rates appears three to four times more significant than the simple message structure.

Multiple touchpoints, including several layers of manually-driven data revalidation, additional data sourcing, and election decision management introduce inefficiencies that create cumulative risk across the board—from announcement through to instruction. **Even if they arrive in a standardised (and STP-enabling format), we simply do not believe the integrity of the announcements that we receive - making any prospect of automation impossible**.

Multiple touchpoints, including several layers of manually-driven data revalidation, additional data sourcing, and election decision management introduce inefficiencies that create cumulative risk across the board—from announcement through to instruction.

What is the core issue?

Is changing the core system the only solution?

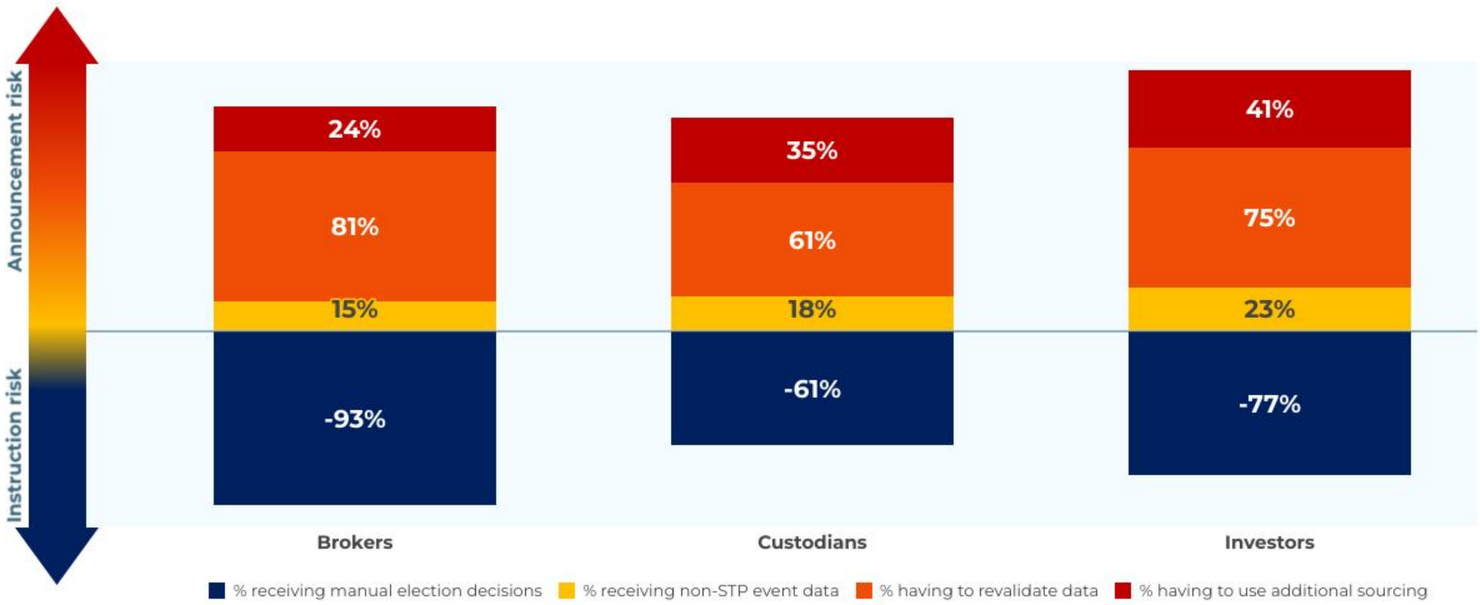
Even if they arrive in a standardised (and STP-enabling format), we simply do not believe the integrity of the announcements that we receive - making any prospect of automation impossible..

Fund managers face the brunt of these inefficiencies as they are left to revalidate data up to 75% of the time, which severely slows down the notification process to beneficial owners. Additionally, they must manage the influx of manual notifications from these beneficial owners, further straining their resources.

Is the vast amount of money spent on sourcing additional data, and revalidating announcement a worthwhile expense?

Some fund managers are starting to believe that the process of second sourcing and revalidating data might be unnecessary. They argue that no single source of data is superior to another and suggest that simply relying on notifications from their custodian, who ultimately processes the event, is sufficient. They contend that even if a second source suggests an alternative option for an event, it doesn't matter if the custodian isn't offering it.

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



Asset Servicing Automation 2024
Survey key findings and expert insights

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What is the core issue?

Is changing the core system the only solution?

Event interpretation is the #1 driver of high-value errors.

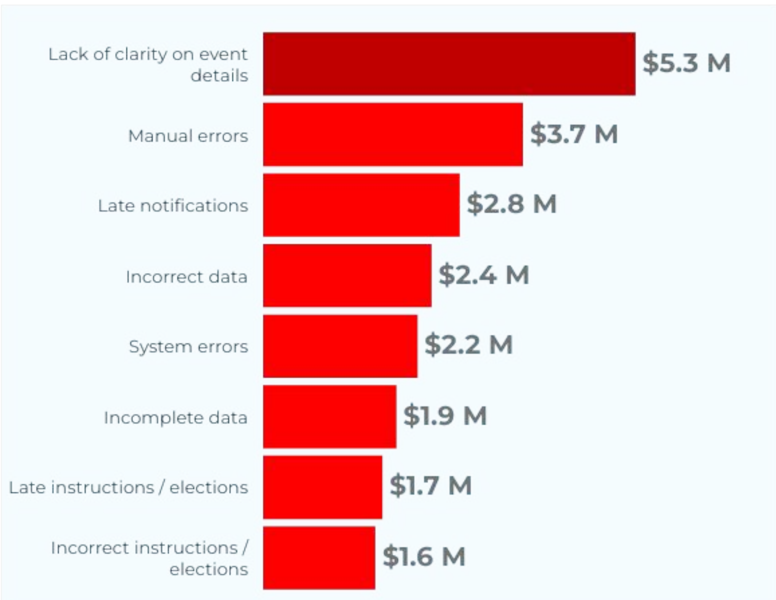
On the theme of trust, the highest value errors today are being caused not by format but by a lack of clarity on event details. This stands alone as the single largest contributor, accounting for 20% - or USD 5.3M - of all errors.

Usually in the case of complex, voluntary events, event details can often be unclear, scattered as they may be within an 80-page document online. And as one person (in a custodian, for example) interprets an event differently from their peer, then downstream notifications will differ and trigger risk. Add to that specific tax conditions, for example, and you have a highly subjective and multi-dimensional event that breaks almost all automated processing models today.

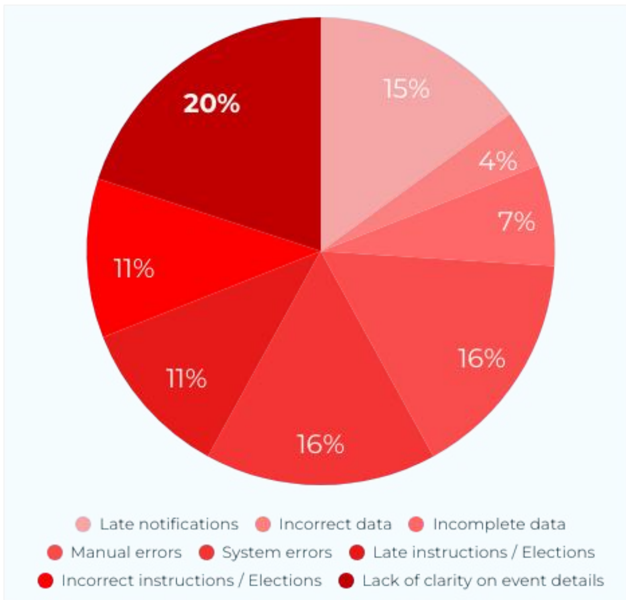
In these highly complex and conditional events, absence of clarity is forcing firms to use interpretive judgement on event information, which can only be achievable with a team of highly skilled and experienced talent. Absent that, the risk of interpreting incorrectly is huge, and so are the cost of errors.

This issue is further compounded by our inability to hire and retain talent capable of interpreting the event information. As previous ValueExchange reports have identified, hiring staff with over 10 years of corporate actions experience is the leading workforce challenge in the industry.

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



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



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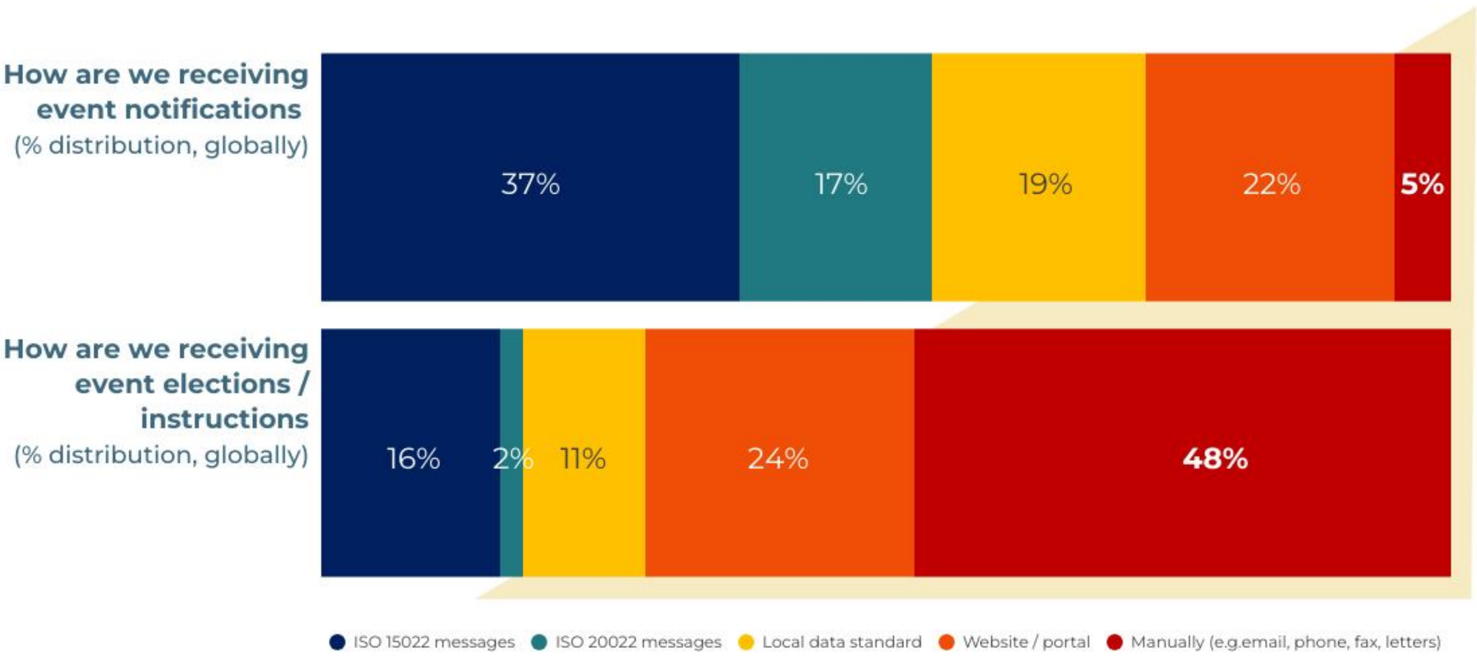
Manual risk is much higher for instructions than for announcements.

Risk is higher for instructions than notifications, which is not surprising given that the notifications follow a fairly prescribed (if low STP) outbound path from a single issuer through its partners and intermediaries to the investor. Once it reaches the investor and ultimately, the beneficial owners, the inbound path is more complicated.

Nearly 80% of all beneficial owners provide manual instructions back to the investor for any event, with an additional 36% using non-standard formats. These have to be consumed through multiple intermediaries, and often interpreted or re-keyed, until they reach a level of aggregation at the custodian(s) and are communicated back to the issuer.

Some of these manual instructions are due to a lack of alternative options. Some events require beneficial owner or constitutional documentation which has to be sent manually. For other events, global custodians are having to provide excel spreadsheets to the local custodians to provide additional beneficial owner details when they are using an omnibus account structure.



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Where is change needed?

Is changing the core system the only solution?

The case for investment in automation: volumes, cost and clients.

> **“The majority of client complaints, by far, stem from asset servicing.”**
>
> (Commercial product lead, leading global custodian)

Fortunately, business managers appear to be very aware of the issues highlighted above in 2024. The case for investing in asset servicing automation is compelling, with three primary drivers accounting for 75% of the overall investment: increasing volumes, reducing costs, and enhancing client experience.

A well-crafted business case addresses all three of these drivers. This was exemplified by a recent initiative undertaken by a major investment bank we spoke with. The firm has multiple business units that require asset servicing announcement data, from core asset servicing teams to fund accounting and the front office. Previously, each of these areas sourced and scrubbed data independently from different vendors. The bank identified excessive spending on separate announcement vendor feeds and operational scrubbing resources, which were only compounded by the increasing securities volumes we've discussed. Added to that, cross-product clients were complaining about receiving conflicting information from the same institution.

By centralizing these functions, the firm achieved significant cost savings and established a unified view of events across the firm. This move also eliminated much of the reconciliation required across departments. The benefits, including a strong ROI from reducing multiple data sources, removing duplicate teams, and improving the client experience, made it an easy investment decision which ultimately saved them several million dollars per year.

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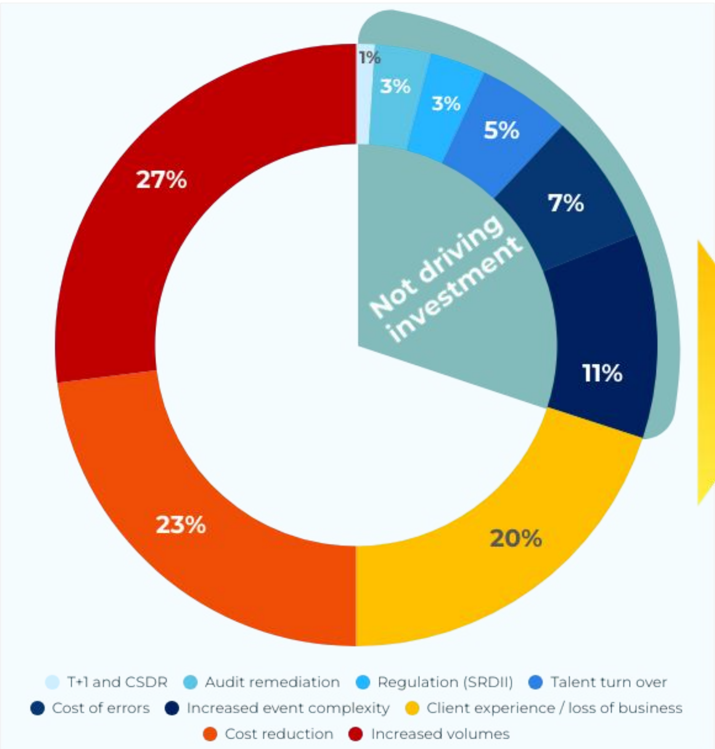
20% of investment is attributed to client experience, highlighting the frustration among investors with the current corporate action processes. Disproportionately burdened by the operational inefficiencies highlighted above, the world's investors are increasingly including asset servicing performance in their vendor service reviews - and creating a more explicit link between asset servicing and overall relationship performance.

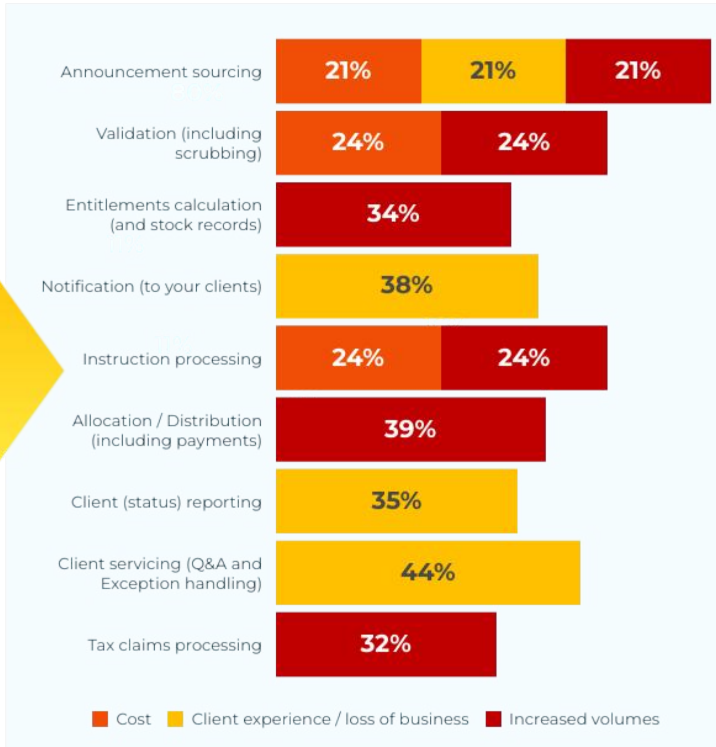
Yet, as compelling as it is, we appear to be under-estimating the true case for asset servicing automation in many areas. Whilst growth and client considerations are clear and understood, the **fact that the cost of errors makes up only 11% of industry business cases is a red flag.**

Given these errors can increase the annual cost of operations by up to 10% (even taking into account what gets missed), the exclusion of these costs from our industry business cases means that we are significantly under-estimating the case for change (and also the potential returns on investment from automation).

Key drivers of investment into corporate action automation
(% of respondents)



Key driver for corporate action automation
(#1 driver per activity)



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We are spending a lot of money trying to keep up.

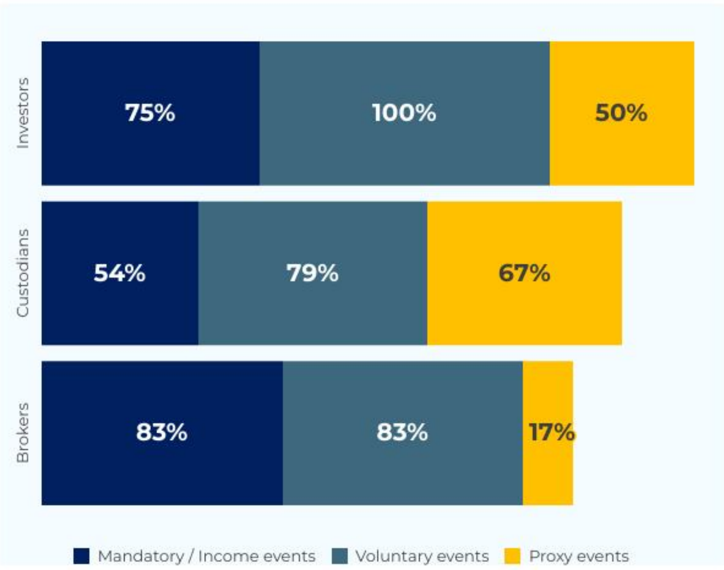
As an industry, we are clearly working hard to build scale into our processes and platforms. **Every single investor that participated in our survey has ongoing automation work in the voluntary event space** - highlighting a vast, global effort to address the risks and costs outlined above.

As the largest and fastest-growing market, t**he US appears to be the global hub of asset servicing transformation in 2024**, with 60% of respondents driving change projects today - ahead of other leading, developed markets.

Yet every one of the markets where investment is highest has seen a decline in (voluntary) event automation rates in the last year. Custodians, brokers and investors appear to be working hard and investing significantly in order to arrest the decline in automation that they are seeing across their largest investment markets.

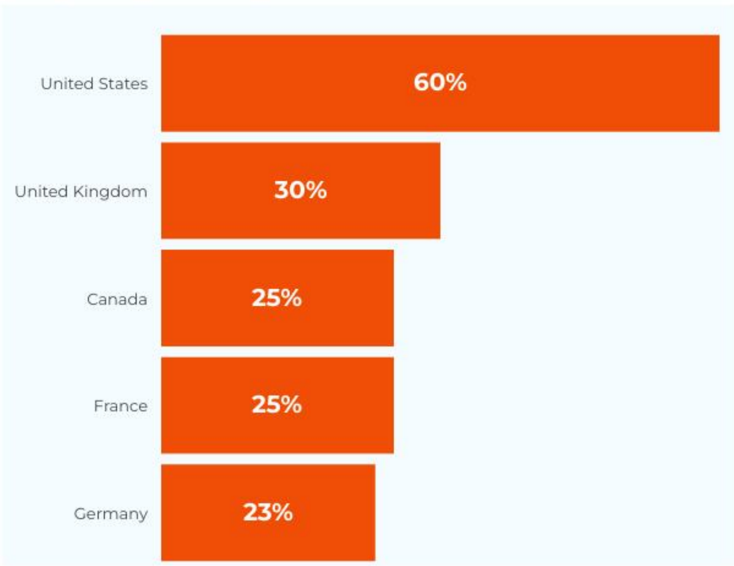
In 2024, the world is spending to maintain its automation levels - not to improve them.

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



Top 5 markets for asset servicing change

(% of respondents by market with change projects planned)



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Where are we driving change?

System change and data are our core answers.

The majority of this change investment is profound and costly.

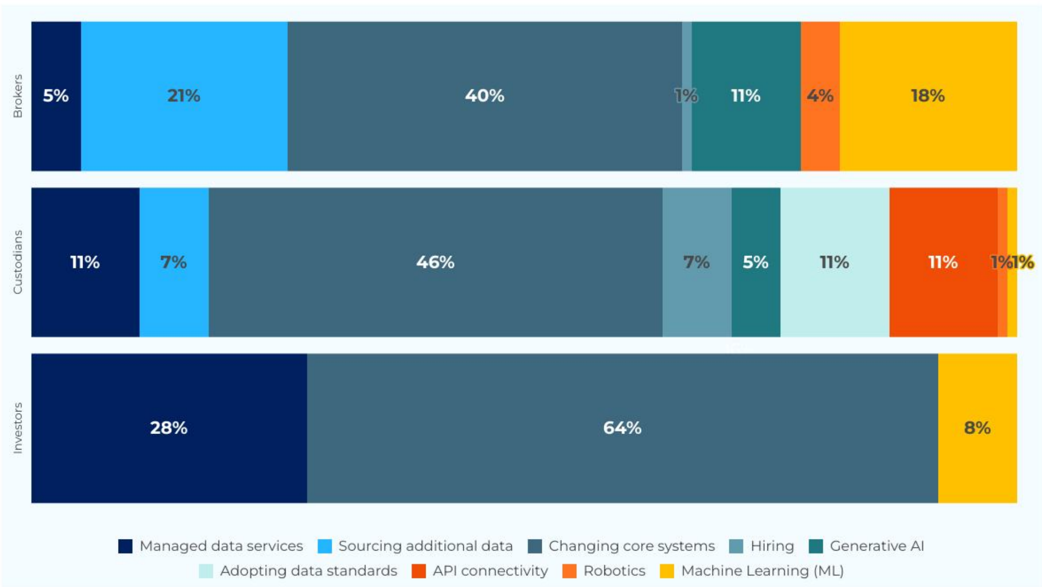
With the leading automation option in 2024 being a change in core systems, asset servicing automation appears to be an expensive endeavor that stretches across the enterprise. For every major system change, interfaces need to be replaced and processes changed, causing a multi-year transition management burden that makes only the most pressing and wide-scale projects viable.

But what alternatives are there? Data sourcing solutions make up between 18-28% of ongoing change activity - with the majority running on a managed-services basis. In an effort to avoid costly deployments and system overheads, the appeal of bureau-style solutions for sourcing and event management is clearly growing, particularly as an enabler to cost-efficient scale.

On the process side, machine learning and generative AI are also playing a role, as new pilots increasingly demonstrate the viability of "teachable" technology solutions in reducing manual processing risks over time.

Overall, **the asset servicing automation plan appears to be multi-faceted in 2024 - and largely based around a new, empowered, central processing platform.**

Main solutions for corporate action automation



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Is changing the core system the only solution?

What are the challenges for financial institutions in automating?

Current solutions are being set up to fail:
we need to find a new way to deliver on automation

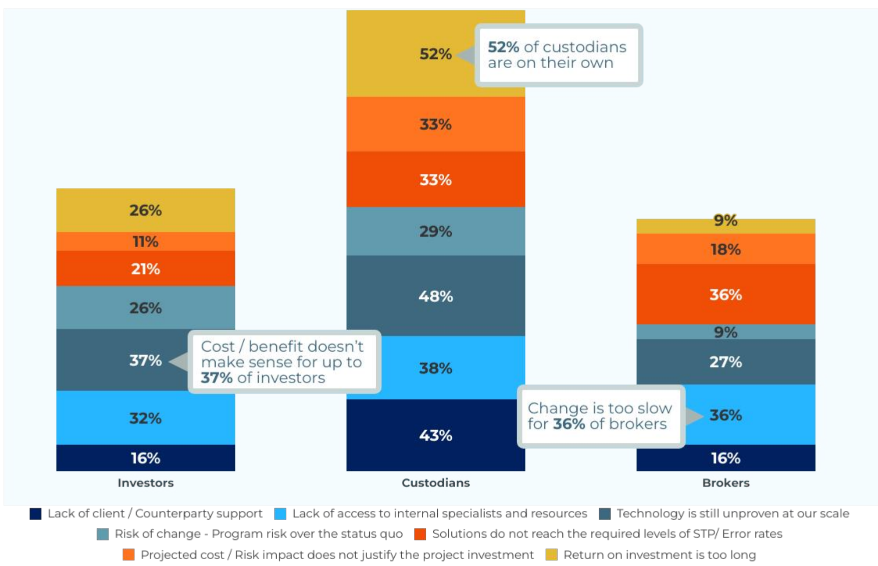
> **"The long lead time for corporate actions projects introduces significant risk to business case approval."**
> (Transformation lead, Wealth Manager)

The core challenge in realising this automation plan today is that it is hard to secure and maintain the organisational commitment to see the project through to conclusion.

Focusing on changing core systems means a slow return on investment, and the risk that solutions won't meet required STP/error rates introduces significant project risk. Add to this the fact that 36% of brokers see system change as being too slow and 52% of custodians struggle to gain client and counterparty support for their transformation efforts, and you have a very strained case for transformation.

To counter this, **many successful organisations are working to drive asset servicing automation as an enterprise priority today**. With many universal banks running multiple corporate action units (across retail, wealth, private banking, asset management, investment banking, brokerage and custody divisions), the scope for consolidation is huge. And with many of those different divisions currently servicing each other, this consolidated approach can reduce not only cost duplication but also unnecessary gaps at a data and processing level.

What are the biggest challenges to automation



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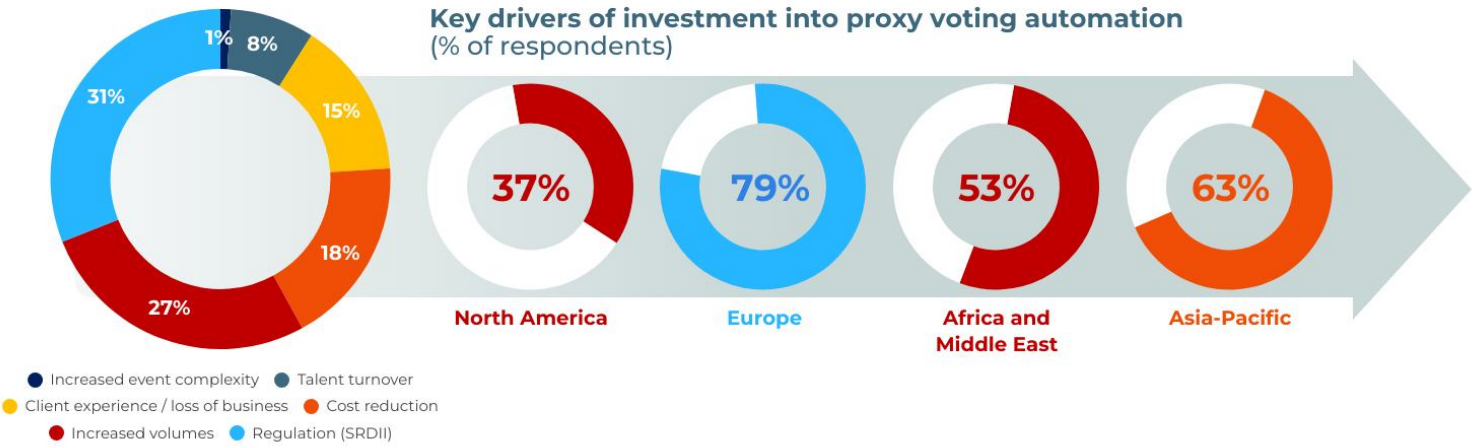
In Europe, the core driver of proxy voting automation has been and is SRD II. The new compliance obligations were intended to increase transparency between issuers and their shareholders, as well as to encourage investors to engage more actively in shareholder voting activities. However, given that SRD II came into force in 2020, it is important to question why we are still implementing related projects four years later.

There are two considerations here. Firstly, the absence of stringent regulatory sanctions may have resulted in a lack of incentives for quick implementation. Perhaps inserting penalties similar to those experienced under CSDR would give more of an incentive. Secondly, organisations may have initially addressed SRD II compliance through additional resourcing rather than through automation, delaying the broader adoption of automated solutions.

Outside of Europe, the primary driver of proxy voting automation is the significant increase in voting volumes. This growth is fueled by heightened shareholder governance activities among institutional investors, who are taking a more active role in corporate oversight, as well as a growing retail investor segment that is becoming more engaged in the voting process.

Whether driven by regulation or by rapid volume growth, there is little doubt that proxy voting appears to be undergoing significant, end to end change.



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What is the case for industry standardisation?

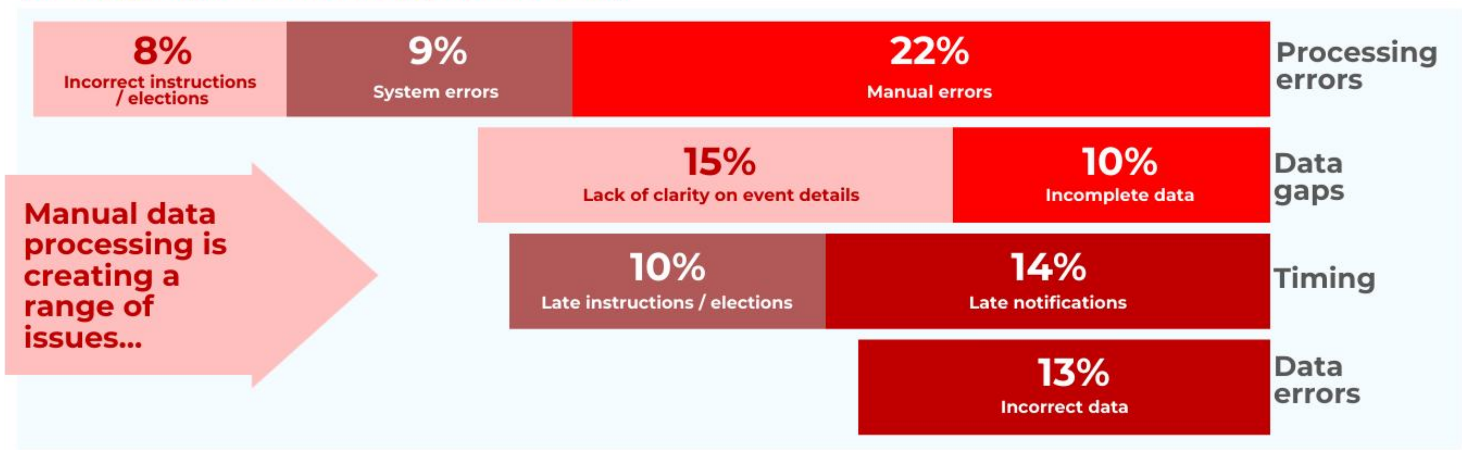
It's all about time.

If core system and data transformation efforts today are challenging and struggling to deliver against expectations, where does the industry need to be focusing its attention and investment spend in order to drive scalability? Enter the issuer and the issuer agent....

What does asset servicing mean to issuers today?

The above updates leave little doubt as to the readiness of today's asset servicing industry model to scale. With a lack of trust triggering manual validation and verification issues spanning the event lifecycle, our current model is triggering significant processing errors, data gaps, delays and data errors.

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



But what does this mean for the issuer? Whilst high industry costs may be regrettable, they ostensibly have no direct impact on the issuer's ability to raise capital - so why should they feel accountable for these costs?

The core point is that issuers are strongly feeling the negative impacts of the industry operating model today - but not in their costs. **Instead of dollars, the time delays that issuers face in their shareholder engagement are the true cost of today's asset servicing model.**

In a world of manual sourcing and interpretation, investors and their service providers need significant amounts of time to verify, revalidate and retransmit their event information across the event chain - and only after all of this has been done do issuers finally receive receive their shareholders' elections.

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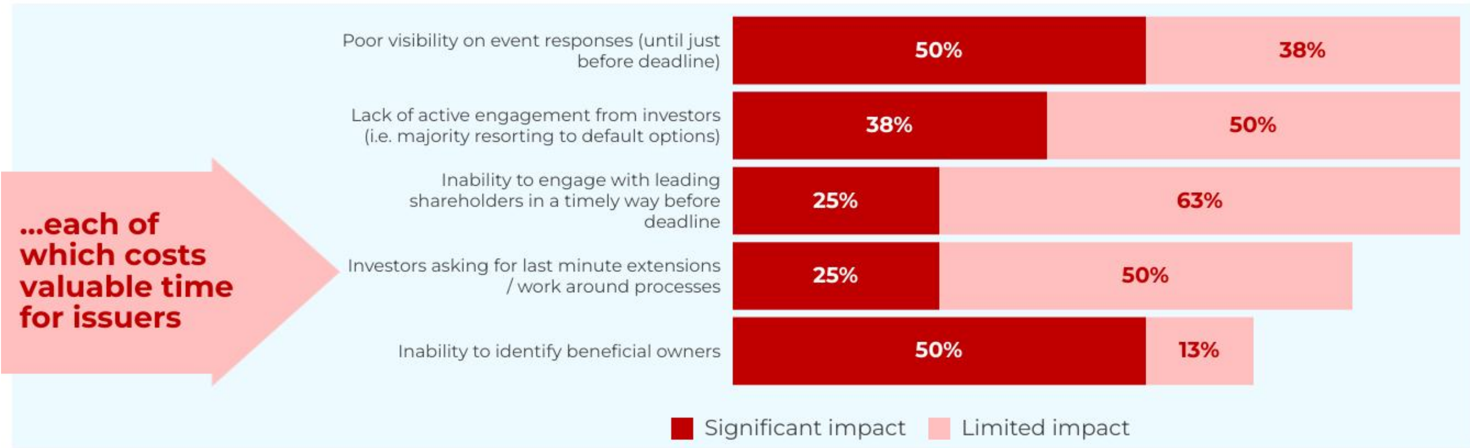
As a result, issuers get instructions late or in fragments, they don't have enough time to figure out who the beneficial owners are, and they can't engage with shareholders after they've sent in instructions. This all stems from the issues faced by custodians and investors. **Process issues and time pressures are squeezing asset servicing from initiation to execution, and at every step along the way.** (In Corporate Actions - an Investor's perspective, we found that while issuers may provide for a 5-day turnaround or deadline on key events, investors often find themselves with only 1-2 days to engage with the issuer.)

The investor and the issuer – the two most important parties in every asset servicing event – are both faced with the least amount of time. Today, approximately **90% of the time is taken up by manual processes, deadline buffers and other inefficiencies,** from the issuer through the TA, custodian, vendors, investors, etc.

This leaves little time for issuers to undertake and really optimise their own shareholder engagement - creating a core business issue for 50% of them today. **And with volumes growing by almost 50% in key markets, these delays are set to grow exponentially.**

Issues faced by issuers and transfer agents in 2024



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What would standardisation-at-source do?

"Corporate action announcements are not central to an issuer's core business. Therefore, we shouldn't expect them to understand the tangible benefits of investing in automation in this area"
(Operations manager, regional wealth manager)

Data automation at source: a major P&L driver for issuers and investors

So what's the answer?
Producing standardised event notifications at source (i.e. by the issuer) is widely recognised as the key enabler to eliminating a vast amount of event lifecycle inefficiencies.

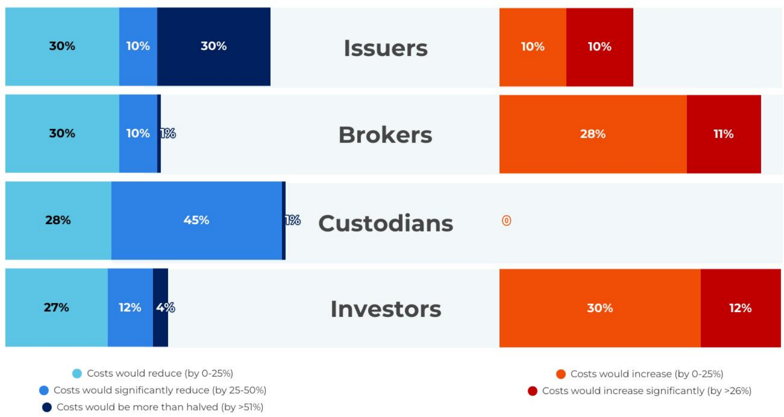
For financial institutions, the distribution of "golden copy" event notifications (and instructions) would greatly reduce the need for revalidation, second sourcing and other manual processes - triggering a massive reduction in the manual overheads identified above. 46% of custodians believe that this alone would reduce their asset servicing costs by more than a quarter.

And issuers agree. Through greater automation and more time, issuers also see transformational savings (with 30% of issuers expecting their costs to halve through the automation and standardisation of event information). Time means earlier visibility of event responses, it means better engagement with beneficial owners and it means less time reconciling and chasing information across the chain.

On the other hand, brokers and investors anticipate a sharp increase in costs, likely due to the short-term implementation expenses associated with adapting systems to accommodate the new standardised format. With comparatively low levels of messaging automation in place today, both of these segments would need to invest significantly in order to reap the benefits of machine-readable event messages.

However, these implementation costs would be dwarfed by the direct and indirect savings generated by eliminating inefficiencies across the chain, and would also give investors the benefit of more time to make election decisions.

Expected P&L impact of real time, golden copy, standardised event notifications
(% of respondents per segment citing level of change



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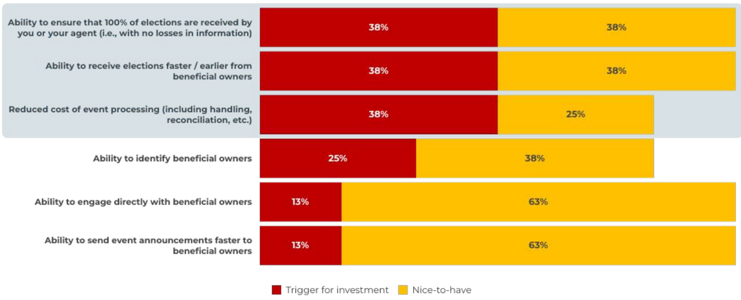
What is the case for logicised event data?

Key drivers for issuer automation
(% of issuers citing each issue)



Given that lack of time is the constant across the biggest challenges faced by issuers today, it's fortunate that gaining time is the key trigger for investment into automation projects. This should allow for a relatively straightforward business case.

Automation projects aligned to ensuring 100% of election data is received, and that those elections are received earlier, are most likely to be successful in gaining budget approval.

Providing logicised event data while meeting the needs to trigger investment would also cater for some of the nice-to-haves by providing additional time to engage with beneficial owners.

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

The impact this standardisation could have is substantial, not only in terms of cost reductions but also, and perhaps more importantly, in error reduction.

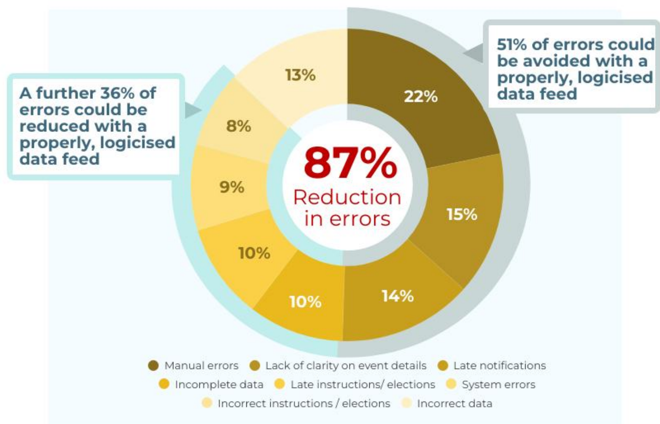
If errors account for up to 10% of today's operating costs (not including the potentially substantial, hidden costs), the automation of event messaging at source could help to drive an 87% reduction in those costs.

By simply removing the manual dependencies on event processing, the scope for misinterpretation and then the need to seek out missing data elements, firms could avoid 51% of errors. For an average global broker, whose error costs are currently around USD 1.6 million per year, this means savings of USD 800,000 each year.

In addition, automation could then help to reduce the incidence of around 36% of events (mostly due to improved tracking and identification of data errors in notifications or instructions).

Whilst many may struggle to make a case for asset servicing automation based on business-as-usual costs, the case for transformation as means of eliminating errors is highly compelling.

Root causes of corporate action errors



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

If we convert those savings into dollar terms, it becomes evident why this issue is garnering so much attention and highlights the urgent need for transformation.

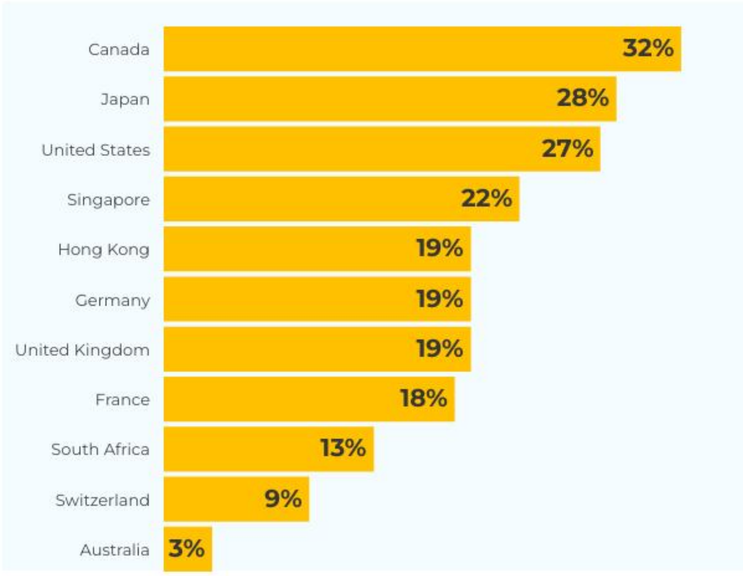
Custodians are poised to reap the largest financial benefits, potentially saving over $7 million in business-as-usual costs annually due to the vast number of asset servicing events they manage. The direct benefits to investors are also significant, with a potential 5% annual reduction in costs, However, the additional savings from indirect costs could be even more impactful.

The cumulative savings of $13 million, if passed down through the chain to beneficial owners, could be profound.

These country-specific savings are based on securities and reflect respondents' expectations of where the biggest gains from automation could occur. Canadian market participants, who saw the steepest decline in automation rates over the past year, stand to gain the most, followed by markets with high event growth rates or low levels of automation and STP.

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

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



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What are the challenges for issuers in automating?

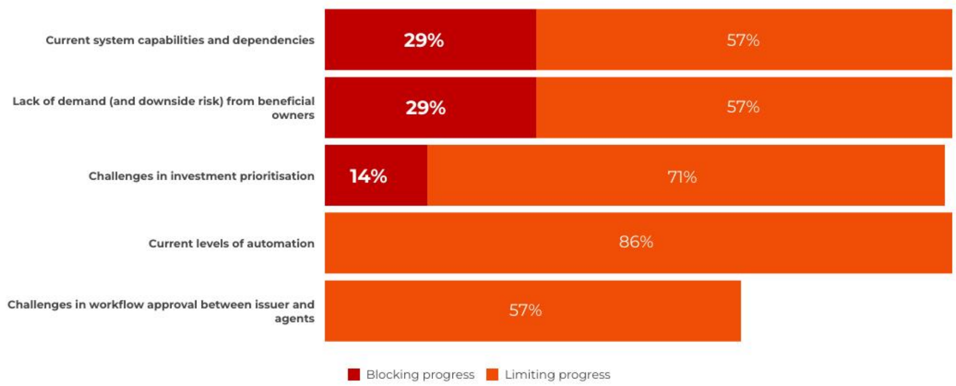
Current infrastructure is creating inertia – which there is little need to overcome

While the case for automation of events at source is clearly desirable (given the impacts of error reduction and time improvements on P&Ls across the industry), the journey toward automation is not an easy one for issuers.

Shareholder engagement is not a core activity for issuers today and so it is no surprise that system investment into this space has historically been limited. For this reason, current system capabilities stand out as a core blockage to automation for 29% of issuers and a challenge for a further 57%. A deeper generational change appears necessary than just in messaging.

Undermining the likelihood of that change is the lack of urgency amongst issuers to invest in this space. Despite all of the growing pressures, time-delays and P&L opportunities, the challenge in securing investment remains a significant hurdle, given that their investors are not demanding change today. Faced with a big ticket-investment that no one is asking for, it is no surprise that transformation is not a priority for issuers in 2024.

Issuers' biggest obstacles in driving automation
(% of issuers citing each issue)



This is where a one-size-fits-all approach falls short. The industry must offer a diverse range of tools tailored to issuers and their agents, taking into account their varying sizes and levels of sophistication. As the DTCC have demonstrated, automation at source can be driven by a blend of tools - including simple GUIs for some, spreadsheet uploads or APIs for others. Automation can begin with many small steps.

What is the case for industry standardisation?

It's all about time.

If core system and data transformation efforts today are challenging and struggling to deliver against expectations, where does the industry need to be focusing its attention and investment spend in order to drive scalability? Enter the issuer and the issuer agent....

Who do we rely on to automate?

Are transfer agents a key point of concentration?

But, is it even the issuer's responsibility to drive the automation of event notifications at source?

Our research highlights that two-thirds of issuers expect their transfer agent to be responsible for driving automation in event processing, highlighting a critical point of industry concentration in the automation project.

Given that each major market today is serviced by only three to four transfer agents in total, the industry's reliance on a small number of service providers to unlock millions of dollars in efficiency per firm is massive. Existing market concentrations can mean that the technology investment decisions of one (transfer agency) firm can impact over 70% of a market's participants - meaning the difference between millions of dollars in industry costs or savings.

And with transfer agents in no way accountable to investors or to banks today (in revenue generation terms), the ability of those suffering to directly engineer a positive outcome is minimal.

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

Asset Servicing Automation 2024

Survey key findings and expert insights

What is the case for asset servicing automation in 2024 and where are firms focusing today in reducing cost and risk across corporate actions and proxy voting? Drawing on the latest statistical insights from our "Asset Servicing Automation 2024" industry research campaign (led by Broadridge, DTCC and ISSA), **John Kirkpatrick (of Broadridge), Scott Grant (of Broadridge) and Patrick Barthel (of DTCC)** discuss today's challenges, ambitions and change journeys in the specific context of spiraling volume and cost growth in 2024.

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Does regulation work?

SRDII case study

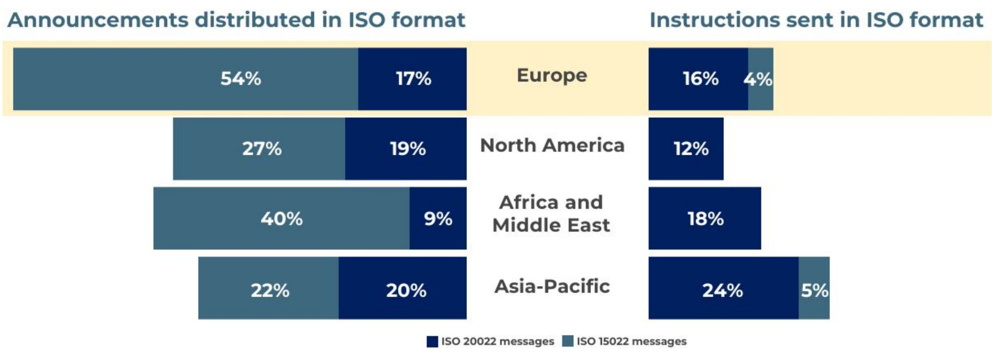
> **"SRD II probably needs to go further and say, if you don't follow these standards we are going to penalise you."**
>
> (Asset Servicing Operations Manager, regional custodian)

The European Shareholder Rights Directive II (SRDII) is an excellent showcase of how regulation can be a potential driver of industry automation.

Following SRDII's implementation in 2022, Europe now has the highest levels of automated distributions of any region in the world. With over 71% of European AGM / EGM announcements now being distributed in ISO20022 or ISO15022 formats, there is little doubt that SRDII has made a significant impact (even if the standard prescribes only ISO20022 message formats). By championing the needs and interests of the end-investor, the European Commission has driven an improvement in automation that can now enable better and more cost efficient shareholder participation - to the benefit of wealth investors and pension holders everywhere.

It's an uneven success story, though. Inbound communications in Europe have been less affected, and still appear to trail over regions in their automation levels. Similarly, anecdotal evidence points to a continuing apathy towards ISO20022 adoption for proxy notifications across each step in the intermediary chain - driven partly by a lack of penalties in SRDII and partly by a massive diversity in the range of rules and requirements driven by each local market regulator across the European Union. Against this backdrop, thousands of beneficial owners are submitting manual instructions to the custodian, who might then aggregate and automate them into a single ISO message, depending on the market in question.

Can we say that SRDII has worked? Whilst it has clearly demonstrated the potential for regulation to drive progress where purely commercial considerations have not, it is clearly not the "silver bullet".



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Where does the industry need to come together?

Building a solid chain of accountability

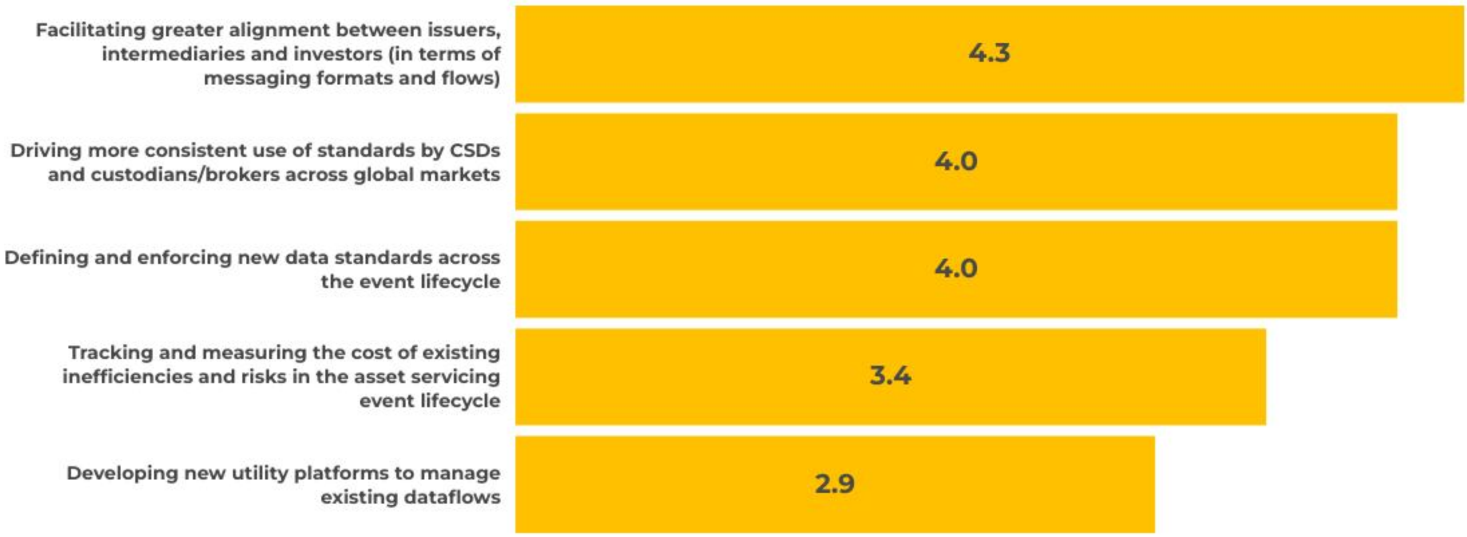
This report has clearly demonstrated that change is not just necessary—it's urgent. The current landscape, characterized by inefficiencies, outdated technologies, and misaligned priorities, cannot sustain the increasing demands at the scale required.

Yet these considerations are not new. The critical question is: how do we move from discussion to meaningful action in a way that avoids the impasse of the last few decades?

The message from stakeholders is unequivocal: before we can change platforms, we need to change the industry dialogue. There is a pressing need for a new industry conversation and closer alignment between issuers, intermediaries, and investors in a way that we have not structured in the past. At its core, this challenge is as much about people as it is about technology.

What's required is a renewed conversation focused on enforcing the consistent application of existing standards and, where necessary, driving the adoption of new data standards. By taking this approach, we can create a win-win scenario that benefits all parties involved across the entire corporate action life cycle.

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



Where does the industry need to come together?

Building a solid chain of accountability

What if we do nothing?

“How do we create a win-win for all parties across the ecosystem? Especially where the issuers are potentially required to make the most investment to drive automation, yet might not be immediate benefactors of the improvements.”

(Scott Grant, Broadridge)

Over 75% of issuers and investors agree that there is minimal downside to inaction.

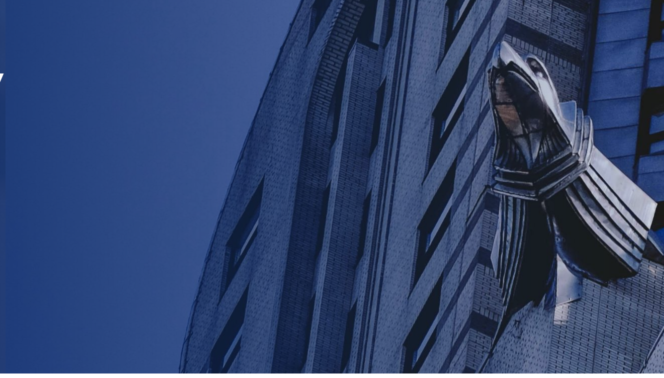
To succeed, this new industry dialogue needs to address the core challenge of industry apathy - and to create a "win-win-win" for issuers, intermediaries and investors. Unfortunately, this looks set to be very challenging.

For many issuers and investors, the perceived downside risk isn’t compelling enough to justify the necessary investment or transformation. This reluctance may stem from a lack of comprehensive data on the true costs, or from a belief that the complexities and widespread inefficiencies in asset servicing are so ingrained that individual efforts would only result in marginal gains.

However, as this report has demonstrated, the cost of inaction is both high and escalating. As transaction volumes continue to grow, the inefficiencies become more pronounced, with beneficial owners ultimately bearing the financial burden. As these owners gain a deeper understanding of the costs and risks impacting their portfolios, their investment decisions will undoubtedly change.

Issuers can no longer afford to be complacent. With 85% acknowledging that doing nothing carries some level of risk, the time has come to address the broken chain of accountability.

Working together as an end-to-end chain, we need to ensure that issuers and beneficial owners see themselves as directly accountable to each other in helping to realise significant savings in costs, risk and time. That accountability, potentially supported by well-structured regulation, can then drive a new discussion around what each end of the asset servicing lifecycle needs to realise meaningful processing improvements, to the benefit of all.



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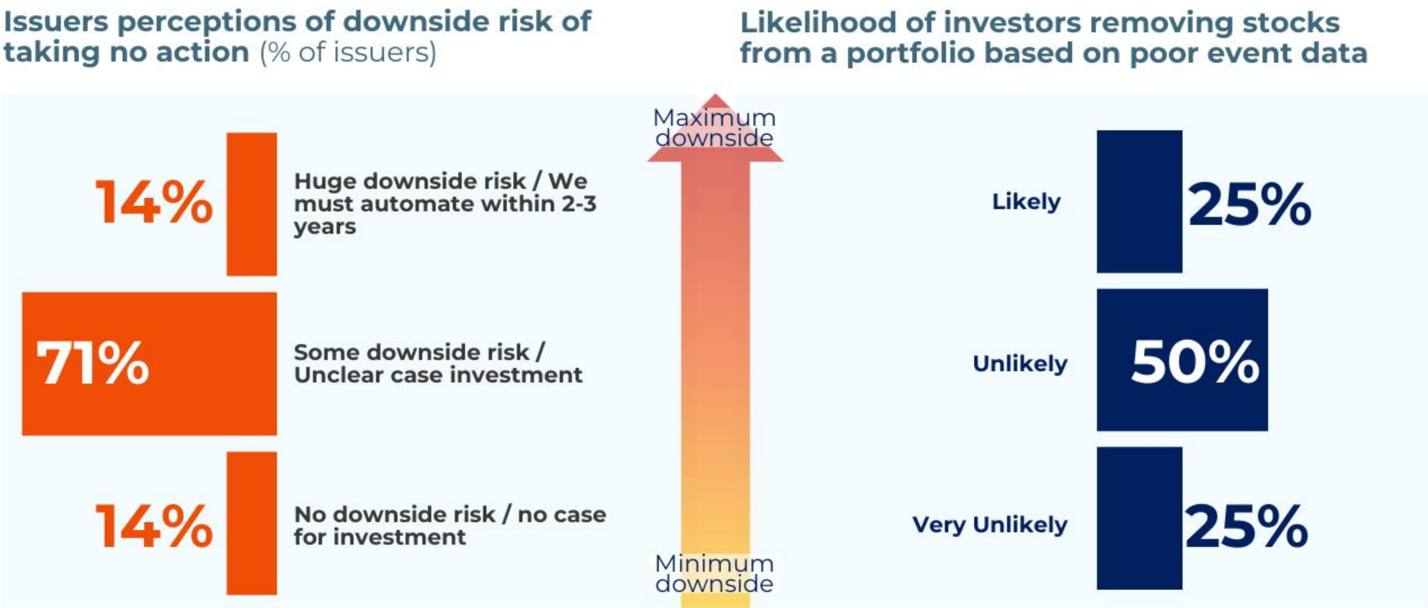

If these changes are then driven and realised by the industry's service providers (namely transfer agents, brokers and banks) they will have a far-reaching impact on the market, alleviating a persistent pain point reducing associated costs and delivering scalability to end-investors around the world.