# Keeping up the pace

## Industry participants discuss how the role of the transfer agent is changing because of regulatory and technological developments

**How has the role of the transfer agent changed?**

**Clive Bellows:** The role of the transfer agent (TA) has evolved significantly over the last 10 years or so. Custodians offering transfer agency services are transforming their models to meet the needs of their clients, while some are pulling out of the TA space entirely. However, asset managers and asset owners still want custodians who provide a core TA product offering. For some asset servicers, this will mean re-hauling or replacing legacy systems. For Northern Trust, this means creating solutions for our clients which are smarter, faster and utilise the most up to date technologies.

Clients also want the ability to engage with their TA providers on a range of ancillary services—from anti-money laundering (AML) regulations to new cross border distribution strategies. It is an important time for transfer agents as they deal directly with the end investor and are therefore a visible extension of the fund manager and their brand.

**Mateusz Derejski:** The answer depends on the time period. Over the last five to 10 years, TA processing has become bread and butter; no one complains about the complexity of TA processing anymore. Straight-through processing (STP) rates have increased to the point that 80 percent or more of transactions is now STP. The role of the TA has changed from mainly processing to value-add services, in order to provide solutions support and to provide client service. So, processing has changed from highly manual 20 years ago to fairly automated today. Global distribution has caught up with local distribution in terms of the level of automation. Global distribution has become very sophisticated; someone who can support global distribution needs to be quite sophisticated in terms of infrastructure as well because they need to support everyone from Australia to Chile. They need to be able to support order routers like NSCC, Calastone, Allfunds, Clearstream, Fundsettle and others.

AML regulation and tax regulation have changed the role of the TA significantly, as there is now a focus on AML know-your-customer (KYC) and a continuous push towards transparency. The ultimate beneficial owner (UBO) has also definitely changed TA. There used to be one person in KYC for 10 people in dealing and now it is 10 in KYC and one in dealing. There is recognition of the value TA brings to KYC now, especially in the alternative world. The next step in TA evolution will be providing KYC as a service, and in fact, this has already started happening. Certainly, on the alternative side, you have quite complex investor structures, and the value of good KYC service is being recognised.

**How are transfer agents struggling to keep up with the pace of developments in technology? And do you think blockchain or other disruptive technologies will make the transfer agency role redundant?**

**Bellows:** Innovations such as blockchain and distributed ledger technology have brought rapid change and development to the business. New entrants specialising in TA have sought to disrupt traditional custody banks, sparking discussions of disintermediation.

Despite this, it is important to note that established TAs are better positioned than newer entrants to meet the complexity and increasingly cross-border nature of clients' business and transactions. Technology must also be embraced in the same way as it is by the newer entrants. Northern Trust is currently one year into a four-year transformation programme which will provide unique client experiences. The programme will offer new services for all types of funds, particularly those offshore and provide near/real-time data visibility for all their TA activities in a format of the clients' choice, for example, desktop, tablet, mobile and app enabled.

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Clive Bellows, head of global fund services EMEA
Northern Trust

**Derejski:** Transfer agents are not struggling to keep up with technology because I do not see new technology being developed; rather there is just more automated replication of existing processes. Who does really have blockchain in production, except for in-house initiatives? There is no universal blockchain standard for a TA transaction for fund share between clearing houses or between exchanges. It does not exist yet. What do exist are individual standards, which do not add value, so presently it is better to just use SWIFT.

Lack of blockchain standard reminds me of the early days when Allfunds and SWIFT each had their own protocol until everyone agreed on a standard and started using SWIFT, which allowed us to reach 80 percent STP. So maybe we are five to seven years away from a blockchain common standard, but first, everyone needs to agree, and that will not be easy. Every big player now uses SWIFT so there is no urgent need.

No, I do not think the TA role will become redundant because of the blockchain, but at the end of the day, it is possible. If all the information about shares is kept in one place, then the registrar role may disappear. We first need to rethink what the share register will be—we need to rethink the whole structure. We are a long way from there.

A big change agent to TA role will be regulation around KYC and ownership transparency. The EU just introduced a universal register of UBOs. Another big change will be tax liability; TAs are waking up to this.

**With fintech changing the way transfer agents operate, how can transformative technologies be regulated without stifling innovation?**

**Derejski:** I have not seen fintech changing the way transfer agents operate yet. The only things that are starting to happen are data provision, automation of operations and better reporting. We are not yet at the point where TAs can provide a single, simplified, coherent view of all meaningful data to the asset manager. Hence data science and good data presentation will become very important. The regulation does not regulate the technology; regulators define requirements and control the way things are done in the financial sector. Technology itself is not regulated. It is the regulation of the industry that creates the need to adopt innovative solutions to help the TAs change the way they operate to be more efficient in meeting regulatory requirements. Innovation helps but innovation alone does not change the industry, the regulation does. Legislators and regulators will always be behind when it comes to technology because innovation as such is not in their focus.

**Bellows:** Transfer agency is an area that has benefitted from innovation and it is only right that we leverage the latest technologies where possible to improve the client experience. Much of the innovation we have seen in recent years has been at least partly due to regulation. The two must work together and the best solutions are those that have practical, compliant applications. Regulation to protect the client should not be at the expense of innovation and development and if technology can provide a more secure and efficient client experience then regulators should also benefit.

**Are you seeing transfer agents merge with software firms to keep up technology developments and innovation?**

**Derejski:** Not really. There have been some transactions over the past few years, but I do not see a trend yet. However, one notable exception is SS&C Technologies which offers both services and software in a SaaS model. They have grown through acquisitions with some sizeable transactions over the last ten years or so, and have recently acquired DST Systems. There were also some recent direct investments in fintech companies by large asset managers, but these are exceptions rather than the trend. Look at banking, traditional brick-and-mortar banking is dead. It shows you how quickly the world has changed. So I think that many big players in the asset servicing industry are now considering what their role will be in this new world. Some players are trying to catch up, and some are not there yet. The problem is that TA is not high on the priority list of big banks. The question one needs to answer is: do I buy because I want to change the business model, or because I want control? In the long run, however, I think that there will be a trend towards large groups absorbing interesting fintechs or at least working very, very closely with them.

**Bellows:** We have found working with best-of-breed partners to be an effective way to lead on industry innovation. It also brings new ideas to the table as well as new ways of working. For example, Northern Trust's technology transformation programme started with the launch of a new TA portal—'UX2020'. In short, it will offer enhancements including paper-free onboarding, enhanced functionalities in online dealing, enquiries, reporting, electronic document storage and data, as well as improvements to oversight, compliance and security. This development has worked to the scale it has due to the right partnership.

**With increasing levels of manpower and cost associated with regulatory compliance, it may become difficult for the smaller transfer agents to keep up. Will this result in a concentration of the transfer agency industry?**

**Bellows:** Balancing the need to innovate with the equally important requirement of regulation can be a challenge. We have seen some providers sell their TA businesses in recent years, in part due to the cost of necessary compliance measures and others due to changing business priorities. Northern Trust remains dedicated to finding the right technologies within a regulated landscape. The test will be whether clients want to engage with smaller transfer agents and have the additional burden of managing multiple vendors.

**Derejski:** Yes and no. For example, just because you're a bigger agent does not mean that you can do manual regulatory compliance cheaper or faster, as it is still a manual process. The bigger agents have to train people and have controls in place. The cost of regulatory compliance is finally being recognised and appreciated. If you're a small agent, you can still do it better than a large agent, especially in the alternative space. Some smaller transfer agents found their niche in private equity because of the need for specialised (still manual) service and also because the cost pressure is a bit less intense there. So, this may result in the concentration of plain vanilla services, but for specialised services no, I do not see it. The only way large transfer agents can effectively automate manual processes around KYC, KYD, and transparency is to use technology to transform those processes in the first place. This is costly and requires going out of your comfort zone, so only a very few are doing it. There are not many small TAs left anyway.

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Mateusz Derejski, country head of Poland
Metrosoft

**How do you see the transfer agency role changing over the next five years? And do you think it will still exist in five years' time?**

**Bellows:** TA providers should be able to offer strategic insight into market nuances for clients around the world. They should be considering cross border distribution and a truly global model that can be delivered locally via real-time services. Speculation of TA's disintermediation or even extinction is exaggerated. Investors want to work with custodians who not only provide the solutions they need, but who are strategic partners. They want to see service providers integrate systems, standards and people to create tighter and better efficiencies. They want their providers to be flexible, responsive, and attentive.

**Derejski:** The role will not change dramatically; the increasing focus on regulatory compliance will continue. On the transactional side not much will change, STP will increase a bit but will not reach 100 percent. Some percentage of manual transactions will remain because of new markets one goes into or because of some immature buyers. On the registrar side, the main change will be in regulatory compliance: there will be more work, more transparency requirements, and more reporting. I do not think that industry standard blockchain is going to happen in the next five years.

Yes, I think that TA will still exist not only in five years but in ten or more, because someone needs to perform AML, KYC and onboarding. Eventually, there needs to be recognition of the value TA adds to be compliant with regulators. There is really no choice, you are either compliant or not. AST