Feature

THE NEW NORMAL IN SECURITIES SERVICES (CUSTODY) AND OTHERS: TSSAG MEMBERS' VIEWS FROM ASIA, AFRICA, AMERICAS, EUROPE AND INDIA

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India Perspectives, Viraj Kulkarni, India

In the new normal

India's Benchmark Index BSE Sensex crossed the magical 50,000, just as assets under Custody breached the $ 1.7 trillion and India's market capitalisation crossed $ 2.7 trillion. FPI and FDI inflows witnessed continuous rise, in value terms as well as number of investors. Investor accounts at the two depositories NSDL and CDSL cumulated at an over 40 million accounts, with CSDL emerging as the new leader wrt number of investor accounts. Spikes in volumes have tested the resilience of the Infrastructure, Exchanges and Intermediaries, with occasional hiccups. Technology prowess for one, enabled such a rapid upscaling.

This whilst SEBI introduced stricter norms especially regarding upfront Margin payment (at time of purchase/ sale). The budget of 2021 did not have any unpleasant surprises, while announcing incentives to promote the growth of the Infrastructure segment!

All of the above and more as the WORLD worked from home over the last 12 months!

The drivers of the significant inflows(local/cross border) were:

1. Increased digitisation facilitated by Regulators, Industry and Client requirements
2. Effective management of COVID scenario along with kickstart of economic initiative
3. Improved global ranking in ease of doing business- 63rd
4. Enabling FPI Category I from Mauritius
5. Enabling FPI Category I from Emirates
6. The launch of VCC system by Singapore reduced the cost of entry
7. Increased inflows through Cyprus
8. Increased liquidity flows from other markets into Capital markets
9. Emergence of IPOs accompanied by significant interest by investors
10. Government's announcement of disinvestment plans
11. Developments of IFSC at GIFT City gets a thrust with the setting up of IFSC Authority
12. Increased visibility through on-line Conferences, Webinars etc

Digitisation assumed importance especially regarding market access, tax, account opening, enabling Corporate Actions , esp Proxy Voting. The question is: will these changes become permanent, or is it back to old undesirable practice, after some time? Industry together with Regulators should endeavour to ensure permanency of the new enabling best practices to reduce costs and improve efficiency.

Focus also has been about assisting Custodian Clients and their end clients to adapt to the new normal. Transformation and disruptions are the new consistencies, while Standard-isation will get disrupted. However, these come at a cost, as these primarily are market specific, driven by strong drive for automation and the use of disruptive Fintech.

A new breed of investors(with strong play in Quant and Algos) have emerged, as have new products and asset class. Change management, including talent and HR is uniquely requiring investment. Investment in new technologies will vie with investments in excellence in core segments. Sales and Ops will together have to understand the different needs of clients and ensure an alignment with the client's objectives.

Increase in liquidity in capital markets is also an outcome of a significant number of first-time investors invested in the Capital markets, with little or no knowledge of the markets. Increased Capital market literacy initiatives, especially in the case of new investors will improve their understanding and cut down risk. Financial Literacy and Capital Markets literacy in India has a significant opportunity to grow from its present levels.

There have been liquidity inflows from other segments and markets. Such inflows at best can be deemed to be short term investments with a horizon of 2-3 years. These have potential risks of faster outflows as newer and more attractive opportunities emerge in other turfs. Focus should be to improve the attractiveness of the market - a lot needs to be done.

Development of the Bond market through digitisation to provide liquidity opportunities and alternatives will be beneficial.

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COVID has been an enabler of opportunities, market innovation and digitisation. Meantime Regulators will continue to ensure an orderly maintenance of the markets, while remaining unaffected by the methodology of tech applications.

Capital market inflows in South East Asia: Roger Harrold, Singapore

Capital Market Inflows in South East Asia have also been impacted by the Pandemic which has seen, like in many other market's countries, borders closing to all international travel. Although the emergence of online communication and the proliferation of choice of channels, have significantly helped the ability to keep in visual communication, it has impacted investor mobility and decision making. It has not stopped but simply changed in its behaviour.

In the early days of the pandemic, investors were assessing the impact and trying to predict a time for recovery – this in turn created a move from those industries that are beneficial business growers (online merchants, services supporting online merchants such as logistics and financial services) versus those that are business losers (Airlines, Hotels and Entertainment). As the Pandemic developed and it became clearer that an end date cannot be assumed, industries that are intricately connected with Government Support measures have had incremental investor boosts. Government sponsored infrastructure development (helping construction companies) and the many support packages have been created and introduced to support industries and workers during the downturn.

Some countries have introduced several new initiatives to create jobs and support new start companies. Many countries offer job incentive schemes, retraining opportunities tax breaks and funding for business research in promising new areas such as technology and bio-chemistry.

Critical to the recovery will be widespread vaccination to re-enable international mobility. This will help large swaths of the national economy (hotels, transport, and entertainment) but also encourage greater investment and M&A into capital intensive projects and initiatives.

The ability to meet companies and physically see assets and undertake due diligence, to meet business owners and pioneers face to face, to interact with key government officials and understand policy will all provide a catalyst to substantial investment.

International travel will allow those entrepreneurs that were funded and support through government programs during the pandemic to monetize investments and / or seek new capital injection.

Recruitment Dynamics on a Global Stage, Paul Chapman, UK

Whilst the oft-quote proverb 'may you live in interesting times' is usually attributed to the Chinese; it actually has English origins - the nearest Chinese translation being 'better to be a dog in times of tranquillity than a human in times of chaos'. Whatever its genesis, and whether your proclivity is more towards the canine than the human, it has never been as relevant as currently, in that we remain in the midst of a pandemic which has touched every part of the world to some extent. The final cost, in both human and financial terms, will be vast, and its impact will reverberate down multiple generations to some degree.

Whilst most of the issues caused have negative connotations, there have been some positives, not least that the forced requirement to Work from Home (WFH) has given a turbo-boost to the adoption and usage of technology, primarily through the use of video conferencing such as the ubiquitous Zoom but also its sisters Skype, Webex, Bluejeans, Whatsapp etc. The resilience of the global internet system has been both astounding and reassuring, confounding the doom-sayers who suggested that a global internet meltdown was 'only hours away' back in March April of 2020.

From an employee / employer / recruitment perspective, there have actually been multiple benefits:

WFH has eased the requirement for subterfuge when attending interviews, which can now be achieved by the click of a button and the allocation of anonymous hours in a calendar as opposed to multiple, underhand 'doctor's visits'.

As employees don't need to be physically in their office they can work from literally anywhere - Barbados even has a 12 month 'Welcome Stamp Visa' allowing people to work remotely in order to offset loss of revenue from tourism. On a more serious and hopefully permanent note, people with physical disabilities who had previously been barred from the workplace by virtue of their inability to commute now find themselves in demand.

Onboarding processing has improved to the point that many employees have been interviewed, accepted, joined and have spent several months being productive in senior roles without having ever physically met their colleagues or managers. This challenge to this, of course, is that it is very difficult to gain a sense of a firm's culture via a laptop screen, and we have seen several instances where employees haven't integrated to the extent that they would otherwise have done in a more physical environment and have left their new employer after a short period.

From more generic technology perspective, positions that did not exist a decade ago now account for an increasing proportion of all jobs. Roles such as data analysts, AI and machine learning specialists, designers, and people who work in innovation roles now account for around one in five financial services jobs globally, but this proportion is expected to increase to almost one in three by 2024.

Speaking more generally, a recent survey found that 60% of fintechs said that attracting suitable talent was their biggest challenge, more than raising equity capital or driving customer adoption.

In summary, technology has continued to be a facilitator, disinter mediator and enhancer of roles, a trend which will only continue in the years to come.

Improving margins through Data, API, Collaborations, Consolidations - Mark Kerns, UK and South Africa

The financial optics of the securities services business have been under pressure for some years and this is well documented. This will continue in 2021 and we expect to see providers looking to improve margins through data, API and broader technology related services that enhance decision making and operating efficiency for clients and internally. Additionally, services that support the overall requirements of a client including integrated execution and custody and, notably, crypto currencies and broader digital asset classes will gain further momentum given a rise in institutional demand and clarity in regulation. The agenda demands an increased level of collaboration and partnering and selected consolidation where firms are sub scale and acquisitions bring new capability, geographical reach, technology solutions and economies of scale to acquiring firms. Working from home practices will continue post the current crisis and we expect deeper reviews of operating models supporting client engagement and business efficiency.

Investor behavioural patterns - Jim Harris, Canada

With only a single news item for the last eighteen months, it's not surprising that we are looking for some relief with some good news, but it's in short supply. One area that has caught investors attention is the impact of E.S.G. Link these with withdrawal from Climate Treaties, Floods, Hurricanes etc., with the rise of Climate Action groups, increased social media and we have a growing need for sustainable, responsible and ethical investment.

Green Funds aren't new. The change here is driving non-green firms to reposition Shareholders as 'rightsholders' with increased ESG reporting being developed and delivered. The pressure is evident, clean up or lose investment. To crank that up pressure groups like CERES and Corporate Knights issue surveys on firms following the ESG guidelines and by default naming and shaming those non-compliant. The journey from rightholders to the Boardroom has been shortened with Proxy Voting taking an increasingly important role. In a pincer movement, Fund owners are also adding to the mix with pressure on invested Companies to change before they update their portfolios.

In terms of legislation around the reporting and the benchmarking therein, there are a plethora of these. That said, not enough of these are joined up at Country levels, as lobbyists try to ensure that enough grey exists to cloud the issue. A true global standard would definitely help the current situation and that can only be a matter of time as the U.S. re-enters the real world.

> We are seeing economic data that indicates there will need to be increases in various countries' Government debt raising. Where will this lead investment on the institutional side ? This obviously depends on a country's ability to look more attractive in fighting Covid-19.

The challenge against ESG has always been that economies will suffer, jobs will be lost and the costs outweigh the benefits. Sounds like a pandemic. During the last year we've seen chart after chart and quite a few pictures highlight the reduced level of pollution, smog and CO2 in the atmosphere. The real challenge is getting the economies back to 'normal' without the previous detritus.

Perhaps we may have something to thank Covid-19 for after all?

Working from home and its challenges and benefits in UK and Europe - Paul D. Hedges, UK

Whilst it has been a must to continue to keep global and local economies moving, working from home has and continues to be a significant challenge for many. In the UK & Europe, businesses and staff in many industries have physically been away from their offices since April 2020. Technology has superbly supported this virtual environment, seen new skills and competencies develop, made people connect more perhaps than normal, but at what cost ? Firms have largely outsourced their responsibilities for real estate management, employee safety at work requirements, IT support, energy costs, property wear and tear and staff mental and physical wellbeing. Who is compensating the property owners ? Granted, many firms have provided equipment, occasional "treats", but what about the impact on mental health and families ? Never before have families been forced to spend so much time together, or locked out of a kitchen, dining room, study or garden shed. We all say we want to spend more time with family, but that's when it's our choice, when we can set the amount of time. In the UK, home schooling has seen a massive impact on families overall. The upside is parenting has had to up it's game and spend quality and engaged time with children. Google meets/classroom has played a massive part in keeping the future leaders of business and economies educated and connected. Teachers have seen the pressure front on. None of them were trained in universities to deliver this type of learning under these type of pressures. Those that can attend these lessons, have had different experiences.

Learning has taken on wide ranging variation. Seeing inside your fellow classmates' and teachers' homes through the video has opened up imaginations. Children learning how to use the platforms has brought intrigue and humour that would not have come in the classroom. This works for those that have parents that are or can be engaged. A large number don't or can't home school. Conflicts with their own jobs, or lack of equipment or interest, has seen a growing number of children left to Play-stations and X Boxes.

What has this all to do with investment and investors ? Well, whilst we have seen fast food franchises with enormous queues at drive throughs, increased on-line shopping, home improvement works growing, increased sales of "slouch-wear", other areas are in decline. Large retail outlets closing down. The travel and tourism industry sinking. The food and beverage industry drowning. Sales of business and formal clothing being impacted seriously by people not "going out". What about the carbon foot-print of Covid-19? Fewer airplanes, but more white vans delivering the on-line shopping and food takeaways. Governments are trying to provide some stimulus, but it's not one size to fit all. We have seen the UK provide funding for large firms to help retain staff, but it was a short term offer. Some firms used the monies wisely, others kept it for the wrong reasons, and others were more magnanimous and gave it back to the Treasury.

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The Securities Services Advisory Group (TSSAG, www.tssag.info) - is a network of independent firms with representation in 10 countries and growing. Each firm is distinguished in its areas of practice, deep knowledge and proven local and global expertise in the Securities Services Industry. TSSAG's objective is to link professionals from different lines of knowledge, create a forum for regular interaction and dialogue, to share ideas and build opportunities. Bringing together market-accomplished expertise, TSSAG works as a single voice within the industry, offering strategic direction, thought leadership, and contributing to the enhancement, reputation and quality of services in the $100 trillion+ Securities Services Industry .