New opportunities for asset servicing

Global Asset Servicing Study

Building a better working world

Introduction

The asset servicing industry is a critical but often unsung component of global financial markets. It plays a vital role in the safekeeping of financial assets, provides the infrastructure and connectivity for market participants and supports critical middle- and back-office operations of the world's investment funds.

We have observed significant change and opportunity across the industry, and therefore, our latest research seeks to highlight the key issues and opportunities within asset servicing.

To do so, we conducted 37 interviews with 23 of the top 25 asset servicing companies (by AUA and AUC) in North America, Europe and Asia-Pacific (APAC).

Our research addresses the following:

- What are the key areas of focus and greatest opportunities for growth?
- How are asset servicers developing their service offerings to meet the needs of their clients?
- How are asset servicers evolving their operating models, and what are the key trends across their technology and data architectures?
- What are the critical factors likely to lead to success throughout the next market cycle?

Summary of key findings

The asset servicing industry today finds itself in a period of significant change, with a number of trends reshaping the competitive landscape and market outlook:

- The demand for operational and administrative services remains strong, creating many opportunities for topline growth in AUA/AUC.
- Considerable margin pressure as revenues have plateaued, despite rising securities markets, is driving companies to revisit their operating models. The need to reduce costs to protect margin is increasingly important and on the agenda of most major players. This is evidenced mainly through technology rationalization, organizational efficiency and innovative new technologies such as blockchain.
- A changing and increasingly complex regulatory environment is presenting opportunities for new services, as well as a need for major investment to support the asset servicers' and their clients' compliance programs.
- There is a major focus on technology delivery and data architecture to enhance the client offering and improve control and efficiency.

The survey revealed a pervasive strain of optimism among respondents, who see growth opportunities in serving more complex fund structures, asset classes, new client segments and expanded geographies.

But underlying the generally bright outlook is a growing sense that major challenges are mixed with the widespread growth opportunities. Many companies are increasingly facing demands for custom services, and often with the cost absorbed by the asset servicer. The research results make clear that forward-looking asset servicers are assessing the impact of these drivers and determining how they can remain profitable, maintain market share and pursue the right growth opportunities.

To a large extent, leading asset servicers are following similar strategies to scale the business, seek efficiencies and drive toward standardization while determining the right client mix to achieve these benefits. In some cases, asset servicers are rethinking their operating models as they determine the types of asset managers and asset owners they are best suited to serve. Sovereign wealth funds clearly have different expectations from pension funds and insurers; for example, they demand that asset servicers provide robust data aggregation, investment and performance analytics and valuations to track internal and external managers, and middle-office support for internally managed assets.

The research reveals trends where asset servicers with custodial roots are leveraging the information-rich positions they hold – such as by supporting regulatory requirements – and investing in more efficient and effective ways to bring value-added solutions and services (e.g., middle-office services, financing and lending) to these clients. Additionally, some leading providers of custody services are expanding their direct network to realize cost efficiencies and improve customer service delivery while gaining access to local markets.

The need for investment – most notably in technology – is also clear. Companies are looking critically at their technology architecture to rationalize and standardize applications across geographies and client segments. The large, full-service and boutique asset servicers will succeed with the differentiation through efficiency and better pricing or more sophisticated value-added services resulting from these endeavors. Players not making the investments, on the other hand, may become obsolete.

The survey results also highlight the strong influence of regulatory changes on asset servicing companies. The cost focus, regulation-dictated transparency and lengths pursued to get alpha or avoid risk in the industry have resulted in greater demand for asset servicers' offerings. Companies that wish to capitalize on this outcome will need to make important strategic decisions and quickly lay the foundation for future growth. The most likely to succeed will be those that are the most disciplined in their growth strategy, diligent in addressing their data and technology challenges and responsive in meeting the rapidly changing needs of asset managers and asset owners. In other words, the companies that seize today's top line growth opportunities will be those that make the right investment decisions to manage the ever-increasing demand for outsourced services.

An interesting dynamic at play is GSIFI status and its impact on trust banks and universal banks: it raises the question of long-term viability and commitment to the asset servicing businesses. Over the last decade, many asset servicers have grown by diversifying across client segments, products, geographies and infrastructure. The cost of keeping this business model up to date has become excessive, and with regulatory change and an increasing focus on risk, many asset servicers are considering or have already exited parts of the business. And finally, an emerging technology, blockchain, the shared network substantiation of asset ownership that powers Bitcoin, is getting noticed by asset servicers. They are examining and developing strategies for this potentially very disruptive technology, including making investments in firms providing blockchain services.

Key findings: six drivers of growth

1. Asset growth and breadth

Asset servicers continue to benefit from asset growth, an improved economic outlook and a growing demand for outsourced services. A major driver has been the convergence between traditional managers and alternatives managers and the complexity of fund structures this has introduced. As their sophistication increases and cost pressures rise, asset managers are seeking greater efficiencies and relying on servicers to help them deliver new capabilities and savings. Asset servicers are responding by moving into areas that, until recently, were not considered "core" to their business. These include enhanced middle-office, post-trade compliance, regulatory reporting and data services.

2. Globalization

Nearly 60% of the top 25 asset servicers in AUA/AUC anticipates that globalization will be a strong driver of growth over the next five years. They expect managers to continue focusing on APAC and other burgeoning economies as they try to limit their exposure to their home markets, an approach that will benefit companies that have invested in a global operating model. Most respondents believe tomorrow's winners will move from point solutions and siloed services toward an integrated service model. Their global platforms will offer scale, functional breadth and comprehensive reporting across all asset classes in a way that appeals to a broader range of asset managers and asset owners. A majority of respondents also believe that developing large-scale global platforms will enable them to deliver the cost savings their clients and shareholders demand.

3. Regulation

Servicers point to regulatory complexity as equally important over the next five years. New regulatory demands are increasing costs and operational burdens for asset managers. Asset servicing executives recognize the value in creating innovative products and note that this is particularly important in APAC and Europe, where leading companies have developed sophisticated reporting and workflow solutions to navigate the diverse jurisdictional regulatory regimes.

Additionally, nearly 75% of companies see the impact of regulations as the greatest risk facing the asset servicing industry. Despite greater understanding of what the regulatory landscape will look like, many asset managers are worried about what comes next. And the prospect of their own success is also worrying: some servicers now fear that as they expand, they themselves will face increased scrutiny from regulatory agencies.

4. New products

More than 75% of companies now see enhanced middle-office services as one of the most important engines of topline growth. These companies are making considerable investments to upgrade the client experience and are also engaging their clients in the product-development process, working with them to develop second-generation client portals to improve workflow and investor reporting and to provide transparency to all service-delivery processes with operational dashboards and self-service tools. So far, however, many servicers have not seen enough growth in either revenue or margins to justify the spend.

5. Platform extension and consolidation

For many asset servicers, growth is coming through extending their offerings to new client segments. Private equity and real estate are the fastest-growing segments, followed closely by asset owners and UCITS in Europe. Asset owners acting as managers are increasingly outsourcing middle- and back-office functions, opening up tremendous revenue potential for asset servicers. As asset owners continue to increase allocations to private equity, real estate, hedge funds, credit instruments, emerging markets, infrastructure and mutual funds, they will need a platform able to support risk modeling and an integrated view of risk-weighted performance across their multi-asset portfolios. This should prove an advantage to asset servicers that can offer global asset owners and institutional managers a standardized platform that can handle multi-asset portfolios consistently across locations and regions.

6. Data integration

Servicers say their biggest challenge is integrating the ever-growing volume of complex data. Demand for timely, complete, consistent and accurate data from clients and regulators is sure to increase; therefore, most asset servicers are seeking to provide "data as a service," with over 80% of companies building solutions that leverage an integrated technology architecture to deliver aggregated, normalized data to clients. Whether with self-service tools, portfolio or risk analytics, real-time access or client dashboards, servicers see client data delivery as a core service. Several models are emerging, including point-to-point data feeds, subscribing on-demand to asset-servicer data warehouses and publishing to client data warehouses.

Regional summary

North America

Asset servicers in North America have already benefited from years of double-digit AUA growth, and companies in the region remain bullish on the future. Over the past five years, asset servicers have seen investors' calls for stricter regulation and oversight as key drivers of growth. Longer term, half of the companies in the region plan to enter new markets or pursue new client segments. We have also seen companies forming more complex "hybrid" structures, moving from traditional open- and closed-end structures to those combining the benefits, as well as the operational and administrative challenges brought on by an investor's desire for portfolio and risk diversification, and access to liquidity. The research highlights the propensity for traditional managers to use over-the-counter products in their portfolios and for hedge funds to start looking like traditional managers, with high-volume equity strategies, for instance, and heightened attention to transparency. Nearly half of the North American companies surveyed plan to introduce more fully integrated capabilities in the next 12 to 18 months. And over the next three years, the great majority of companies (71%) plan to continue developing innovative new products to grow revenues. This move toward processing efficiency, more effective data management and enhanced services will occur in an environment constrained by the limited technical and operational skills available in the market.

Outsourcing by asset owners and complex multi-strategy fund managers has increased steadily over the past 12 to 18 months. Companies in North America have been expending hefty resources on developing solutions for those segments seeking integrated custody, transfer agency, middle-office, administration and accounting solutions. Companies are meeting these needs through organic development or targeted acquisitions. In addition, more component-based outsourcing bids for services, such as trade processing, collateral management and fund accounting are occurring.

Asset servicers are starting to face competition from non-traditional market participants, such as software and business process outsourcing (BPO) providers offering stand-alone middle-office services to asset managers.

Europe

Like their counterparts in other regions, companies in Europe are responding to the challenge of regulators' efforts to impose new rules and policies on asset managers. The majority of their clients have asked for help in meeting requirements imposed by the Foreign Account Tax Compliance Act (FATCA), AIFMD and, to a lesser extent, the European Market Infrastructure Regulation (EMIR). Asset servicers in Europe already offer a wide range of regulatory reporting services and are exploring ways to provide those services in a cost-effective manner — not an easy proposition given the diversity of jurisdictional requirements. Half of these asset servicers see the US as their biggest growth market over the next five years.

Given the complexity of the market, 75% of European companies claim to differentiate themselves from the competition based on the breadth of products and services they offer. However, continuing to grow cost-effectively and maintain the differentiation from the broad product mixmay be difficult as nearly two-thirds of companies still use dedicated or point-to-point solutions for specific asset classes and products (as compared to fewer than one-third of companies in other regions).

Nearly all companies (88%) believe that liquid alternatives will be one of the fastest-growing asset classes.

Asia-Pacific

Asset servicing companies in APAC are meeting higher demand for their services from large regional asset owners (sovereign wealth funds, government-backed pensions and superannuation funds). Over half of the companies surveyed in APAC (57%) are offering new services to clients as they expand their global investment strategy and look to new and more sophisticated asset classes, including private equity and real estate. With pressure on margins increasing, however, asset servicing companies will have to strike the right balance between providing a high-quality, high-touch client experience and a cost-effective technological solution, particularly as the average size of hedge fund start-ups in APAC is much smaller than elsewhere. But such challenges are nothing new to these players: asset servicers in APAC have a history of onboarding funds with as little as US$10m to US$20m in assets under management (AUM). The breakeven for an equity long-short fund might be US$100m in APAC versus two to three times that in Europe or the US due to delivery cost structures and pricing.

To succeed in this market, two-thirds of asset servicers in APAC plan to focus on developing holistic solutions for data management and technology in the next year or two. But this will not be easy in view of the complex operating conditions in the region, including non-convertible currencies, product mix and multiple exchanges with different cutoffs, languages and cultures.

Background and respondent profile

Background and respondent profile

The purpose of this study was to develop definitive research on trends in asset servicing, aggregating views from the world's largest asset servicing companies.

Greenwich Associates conducted interviews with 37 COOs and CTOs from 23 of the top 25 asset servicing companies in North America, Europe and APAC.

The topics included business strategy, companies' operating models, data management strategies and challenges, reporting capabilities, service provisions related to regulations and pricing methods.

Respondent profile

Total	37	100%
By domicile	Number of respondents	Percentage of respondents
North America	22%	56%
Europe	9%	22%
APAC	22%	22%

Firm profile

Total	23	100%
By total assets under administration and custody	Number of firms	Percentage of firms
Less than US$100b	7	30%
US$100b-US$500b	4	17%
US$500b-US$1t	2	9%
More than US$1t	10	44%

By asset type	Alternative AUA (23)	Traditional AUA (14)	Assets under custody (AUC) (11)
Under US$100b	39%	14%	0%
US$100b-US$500b	30%	14%	9%
US$500b-US$1t	22%	7%	0%
More than US$1t	9%	65%	91%

By number of client funds (23)		
Less than 500	7	30%
500-2,499	8	35%
2,500-10,000	6	26%
More than 10,000	2	9%

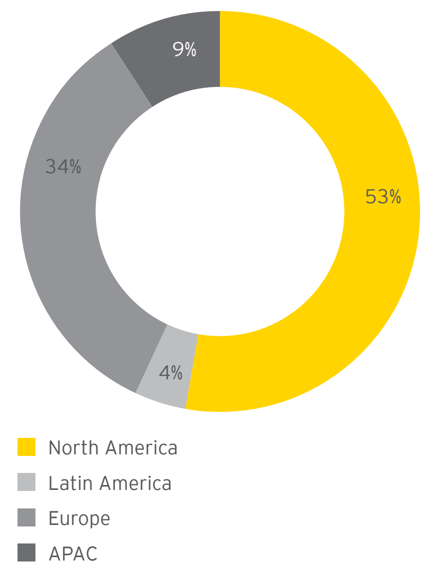
**Note: Although there are 23 participating firms, counts do not total 23 as some firms do not report the breakdown of alternative versus traditional AUA versus AUC.*

More than 50% of alternative assets under administration are in North America

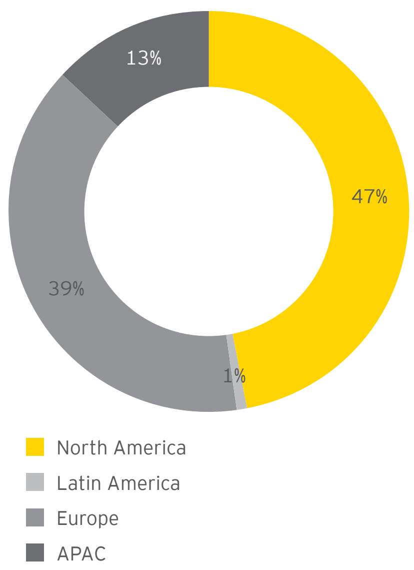
Assets under administration and assets under custody by region

Approximately what percentage of your AUA and AUC were in each of the following regions?

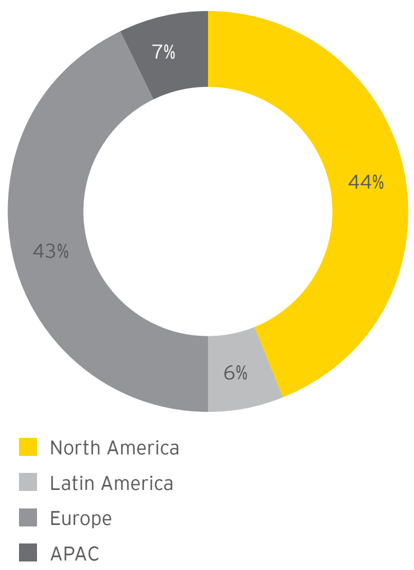
Alternative AUA (29)



Traditional AUA (17)



Custody AUC (15)

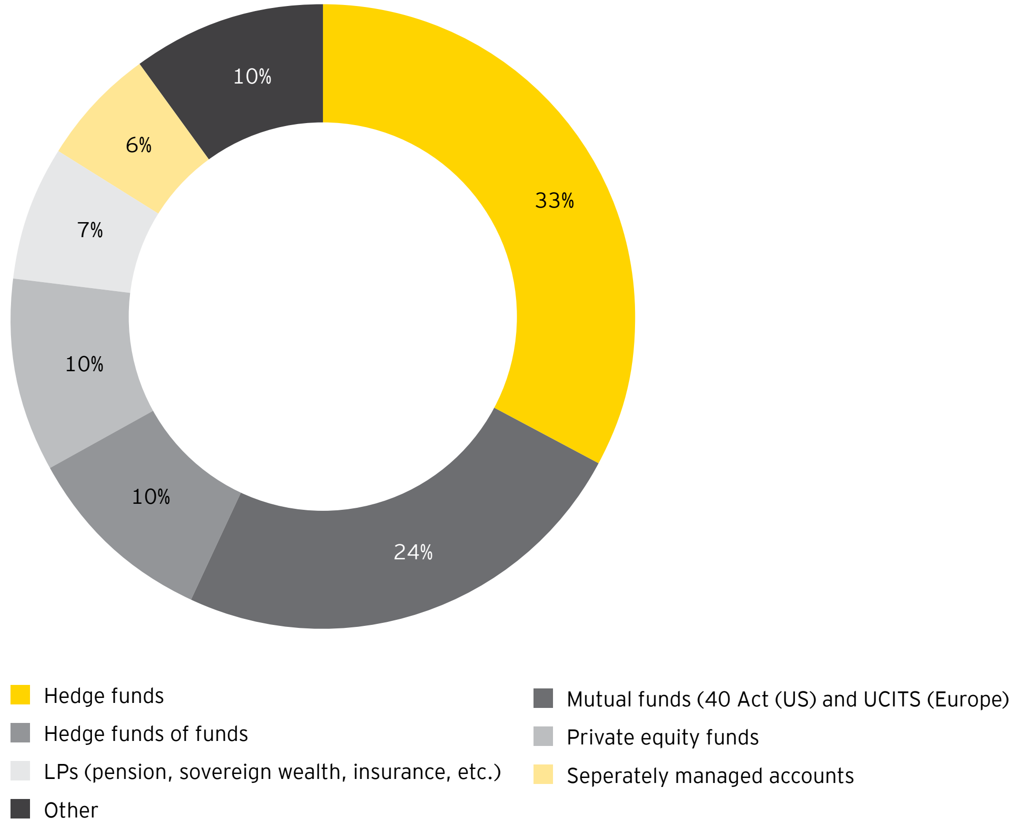


Hedge funds, hedge funds of funds and mutual funds make up nearly 70% of AUA

Assets under administration by client fund type

Please indicate the approximate overall percentage of your firm's AUA that you administer for each of the following client fund types.

Average proportion of AUA administrated by client fund type (27)



Note: "Other" includes private equity funds of funds, real estate funds, real estate funds of funds, liquid alternatives and exchange-traded funds (ETFs).

Current state of the asset servicing industry

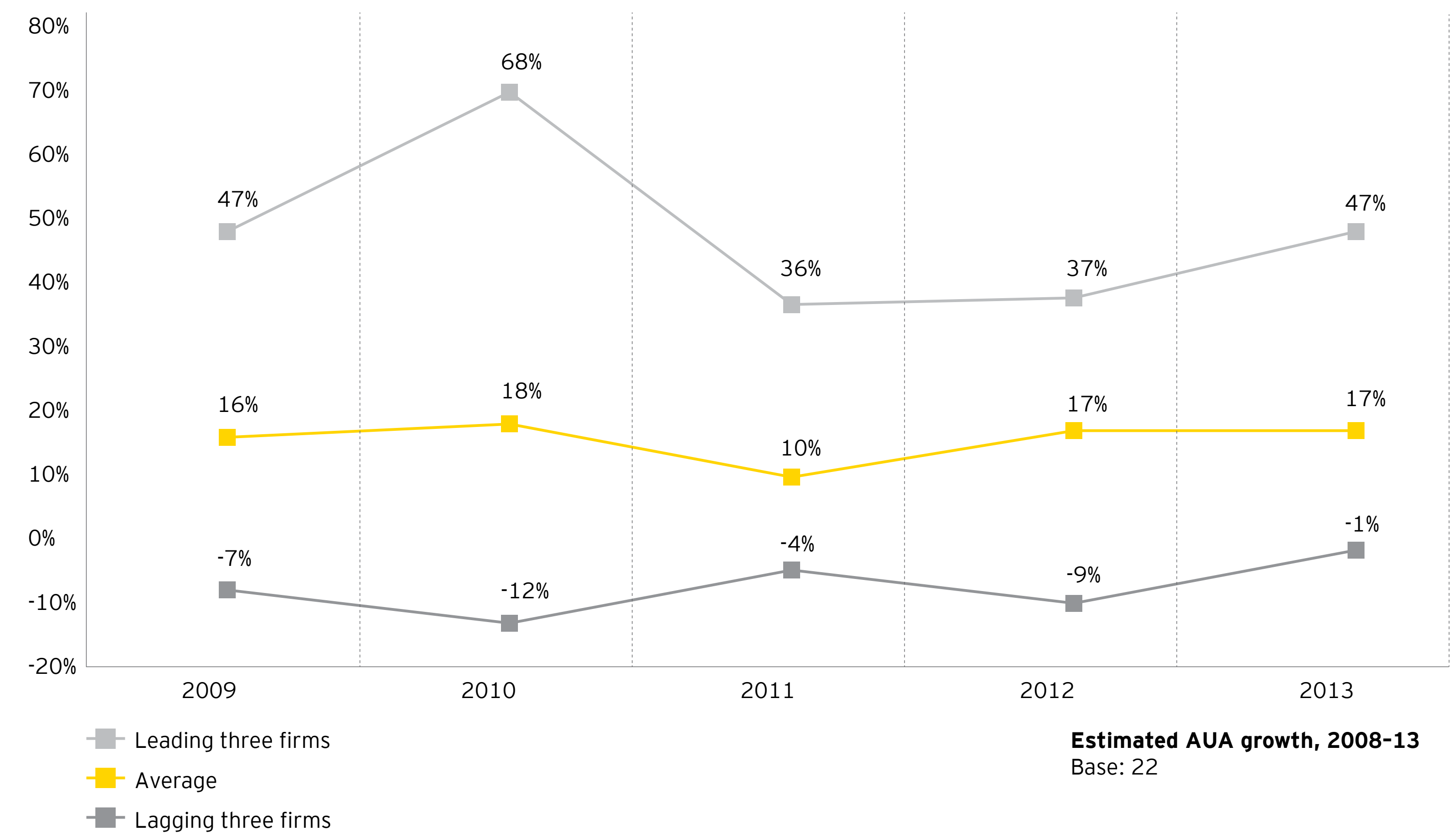
AUA has grown 16% on average in the last four years ...

Each year, there are leaders and laggards in growth (for various reasons, including M&A and client acquisitions). However, growth across the largest companies in the industry has been robust, averaging 16% and ranging from 10% to 18% year over year. Over the past five years, the industry has benefited not only from increased client demand but also from strong financial market performance.

The most successful asset servicing companies have been those that have done the best in marketing their global fund services capabilities. Many have done so by investing in thought leadership and frequently releasing widely cited articles. Others have been ahead of the curve in developing new products, such as enhanced middle-office services, new client reporting tools or real-time analytics. The importance of brand should not be underestimated either. Having a strong balance sheet and the ability to support clients in many areas has meant that investors are more likely to trust the asset servicer.

Historical AUA

What were your estimated AUA over the past five years (including mergers and client acquisitions)?



Estimated AUA growth, 2008–13
Base: 22

… propelled by changes in the regulatory environment and the investor demand for oversight

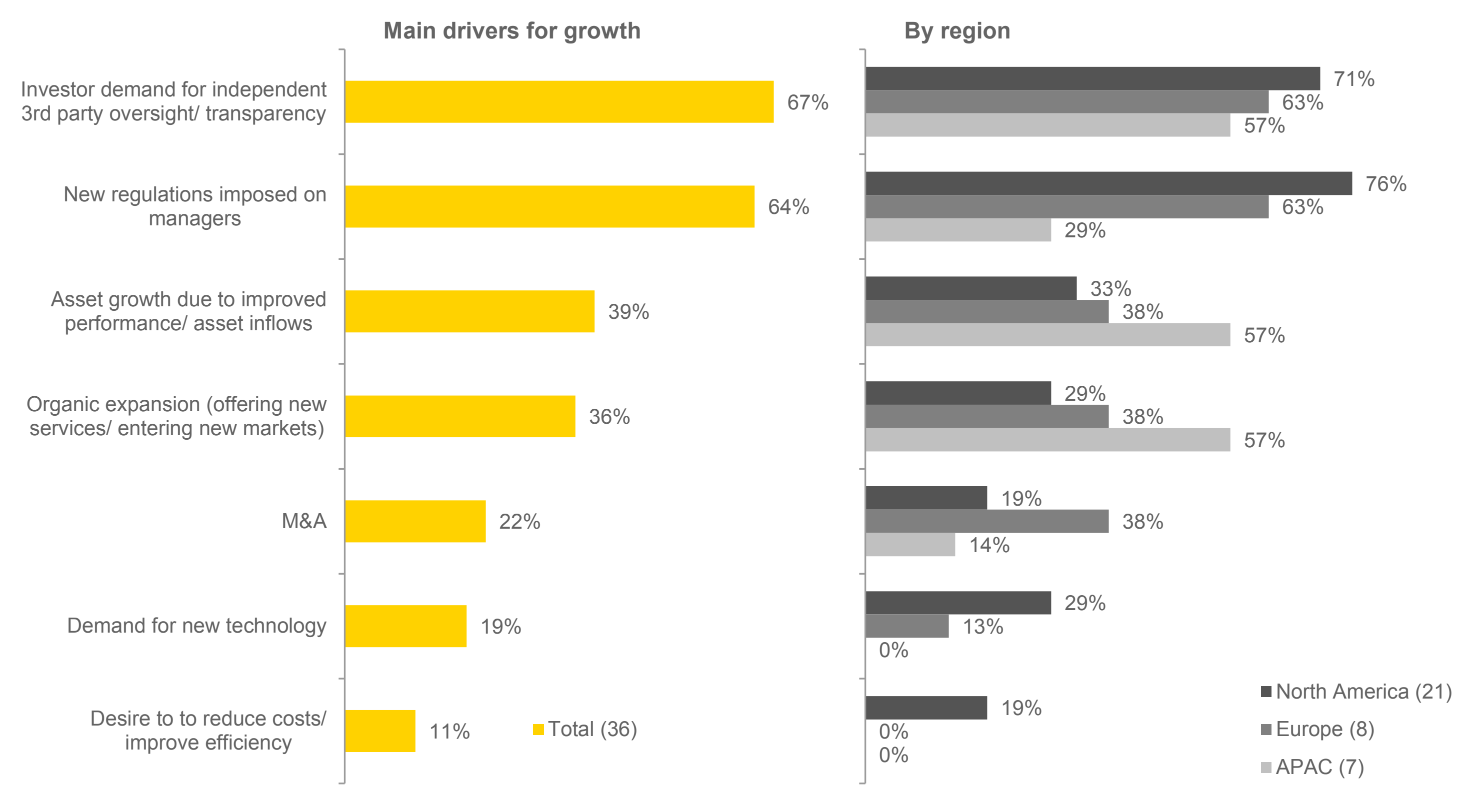
The evolving regulatory environment, with new requirements for managers, has created demand for asset servicers' offerings. This and investor demand for third-party oversight have been key drivers of industry growth in recent years.

As one North American asset servicer put it, "The main drivers for growth over the past five years have been regulatory requirements in the US, particularly around Form PF and CPO-PQR, and around AIFMD in Europe … and then, institutional investors and the managers that they're investing in, and their requirements to have independent third-party oversight."

Within APAC, asset servicers are also seeing growth due to strong performance and organic expansion.

Drivers for growth in asset servicing industry

What have been the main drivers for growth over the past five years?



Meanwhile, companies have invested across a range of services to differentiate themselves from competitors …

A high proportion of asset servicers are adding middle-office services as managers now comfortable with back-office outsourcing seek external help with their middle-office as well.

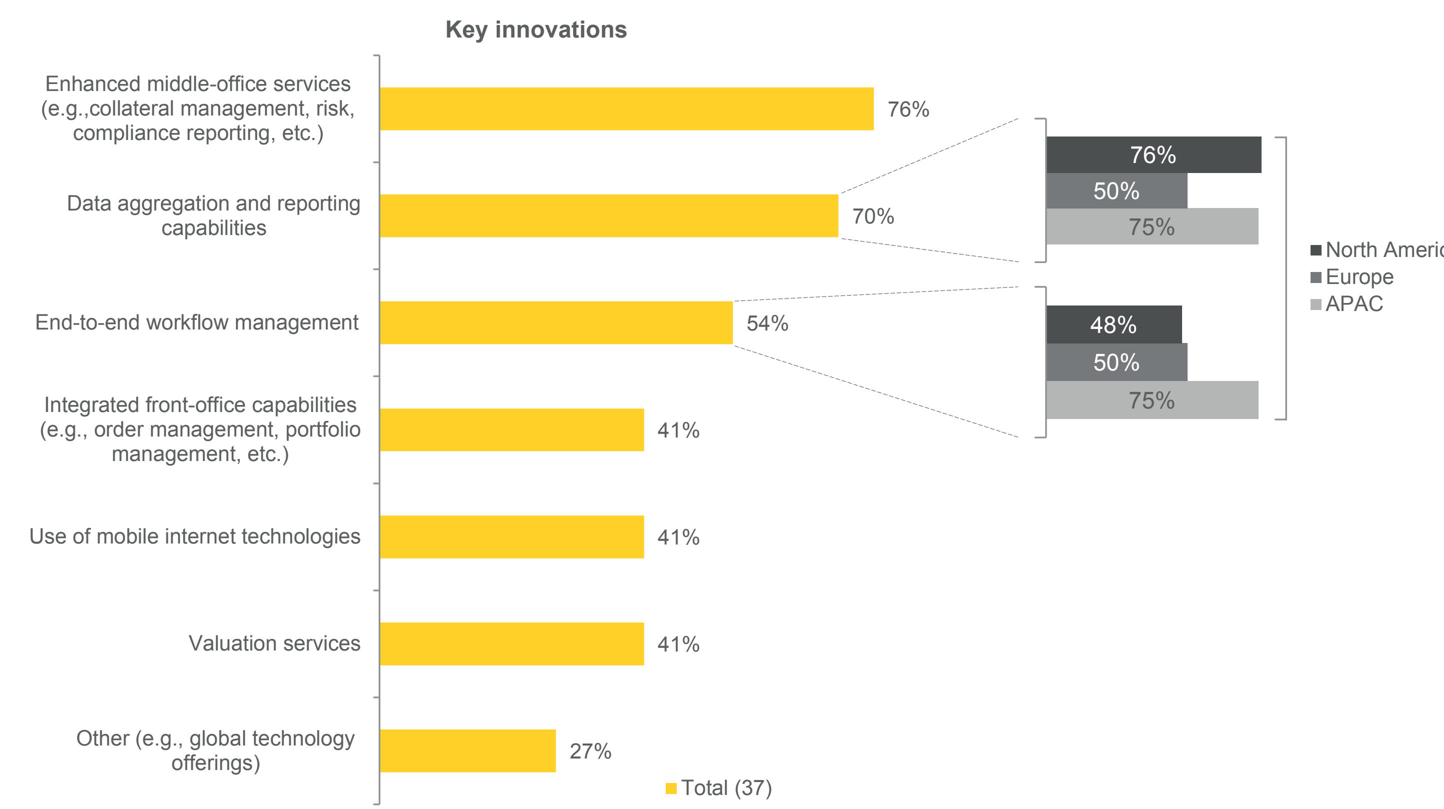
Further, given the regulatory imperative for additional reporting and clients' demands for increased transparency, it is not surprising that companies are also focusing on data management and reporting capabilities.

Asset servicers see advances in their data aggregation and reporting capabilities as a competitive advantage to support future growth. Reporting across asset classes and creating portals for communication with managers and investors are two key areas where companies are looking to add value for their clients.

Within APAC, the myriad regulatory regimes, combined with the complexities of working across numerous time zones, have driven asset servicers to develop end-to-end workflow solutions to help their clients manage their compliance challenges.

Innovation in the fund administration business

What have you developed from an innovation perspective in the fund administration business that has been a differentiator over the past one to two years?



Base: North America (21), Europe (8), APAC (8).

... and see high-quality client service, along with best-in-class technology, as key competitive advantages

The majority of asset servicers see client service, broad product offerings and best-in-class technology as fundamental differentiators. Client service has moved beyond simply picking up the phone and responding to client requests. As one administrator in Europe said, "You really have to listen to what they're saying, understand their needs and behave accordingly." Asset servicers must ensure that their client-facing personnel are able to tap into their knowledge of individual funds' needs and access systems and information. This is spurring innovation in offering cross-product, integrated client service.

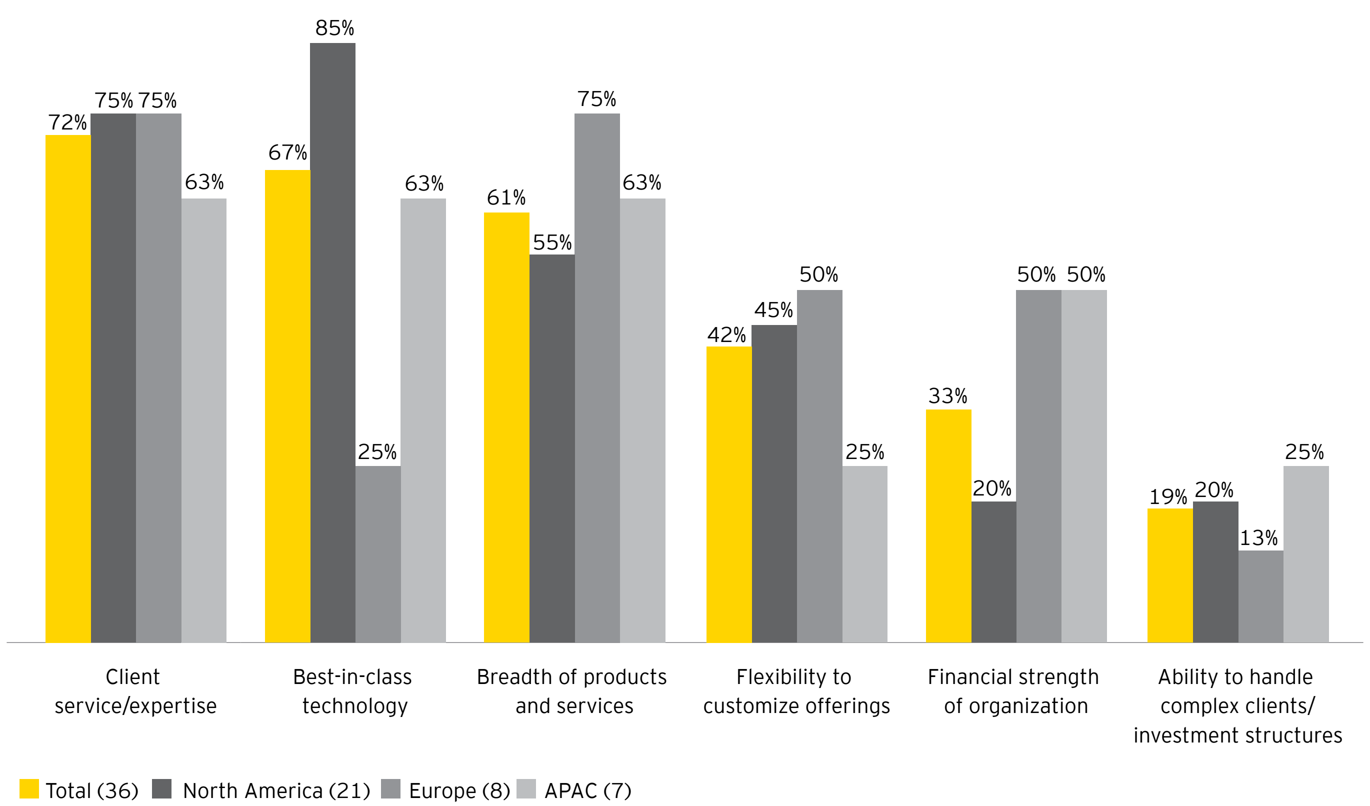
The most progressive asset servicers are focusing their technology integration on data normalization, quality and transparency — furthering customer service with improved data access for customer "self-service."

Although servicer cost is an important consideration for asset managers, very few companies report they differentiate themselves as "low-cost providers." Instead, the chief differentiator is service. "Our technology is purpose-built around how managers operate and how traders think," one US administrator said.

Differentiating from competitors

Please describe how you differentiate your service offering(s) from those of your competitors.

Methods to differentiate from competitors



Growth opportunities

Asset servicers point to globalization and demand stemming from regulatory change as key drivers of future growth

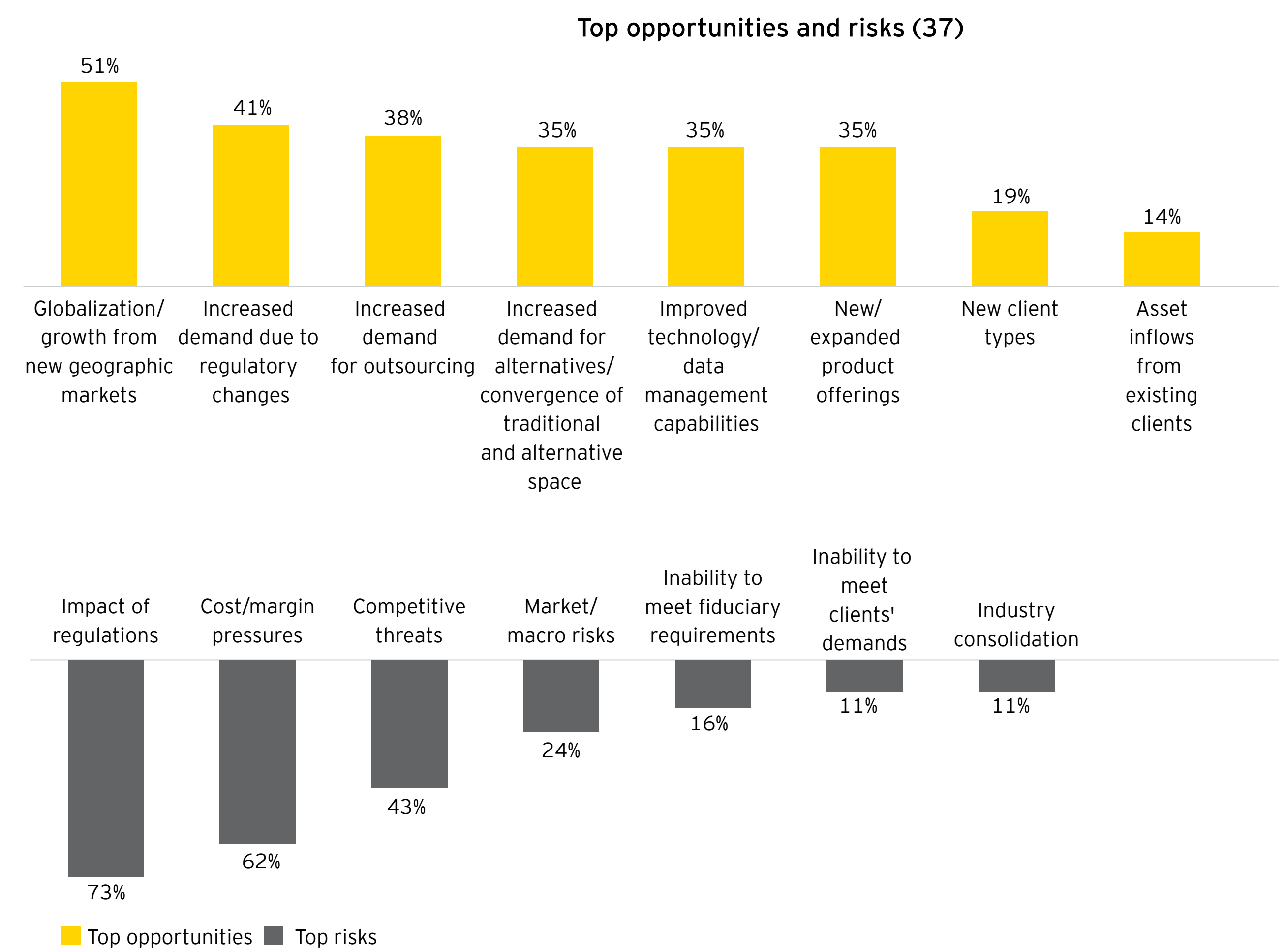
More than 50% of asset servicers see globalization as one of the prime opportunities for future growth. They expect increased investments in the US from overseas funds, as well as growing interest in markets such as China, as investors look for market diversification. Moreover, distribution is expanding globally, presenting opportunities for companies able to leverage and capitalize on their global capabilities and expertise.

The regulatory environment is seen by many (73%) as a significant risk, but also as a significant opportunity (41%).

Uncertainty and fluid requirements due to regulatory change have made strategic decisions tougher for asset servicers. They point not only to the regulatory burdens on managers as a risk but also to potential oversight of the asset servicers themselves.

Opportunities and risks in asset servicing

Taking all factors into account, what do you perceive as the top three business opportunities and top three business risks for the asset servicing industry over the next five years?



Strategic focus will be on expanding product offerings, new technology and client service and, in the longer term, growth in new markets ...

In the next three years, companies will seek to round out their service offerings, ensure they have best-in-class technology and deliver superior client service to capitalize on growing demand from managers.

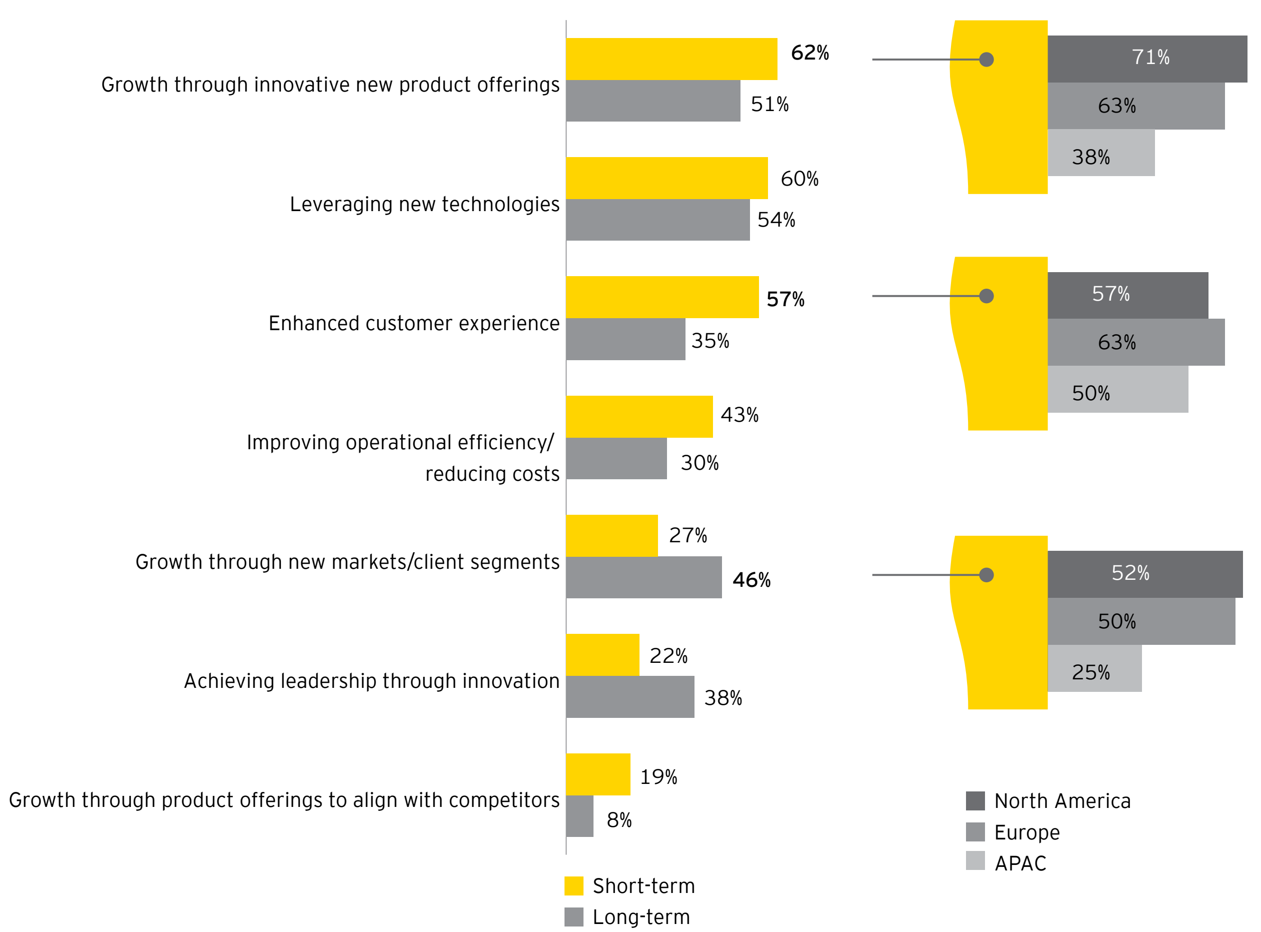
However, asset servicers are not looking exclusively at enhancing their offerings without an eye toward reducing costs and increasing efficiency. This is hardly a surprise as managers have been successfully negotiating down fees as their asset base grows. Companies are responding by working to improve efficiency and reduce costs over the short-term.

Looking further ahead, asset servicers see finite revenue opportunities in their client base. They hope to grow by expanding their global presence and adding capabilities to target new client segments — not unlike what managers themselves are aiming to do.

Short- and long-term key strategic business objectives

Please rank your top two to three key strategic business objectives for the short- (one to three years) and long-term (three to five years).

Key strategic business objectives (37)



Base: North America (21), Europe (8), APAC (8)

... but asset servicers are aiming first for quality, accuracy, transparency and easy access to data

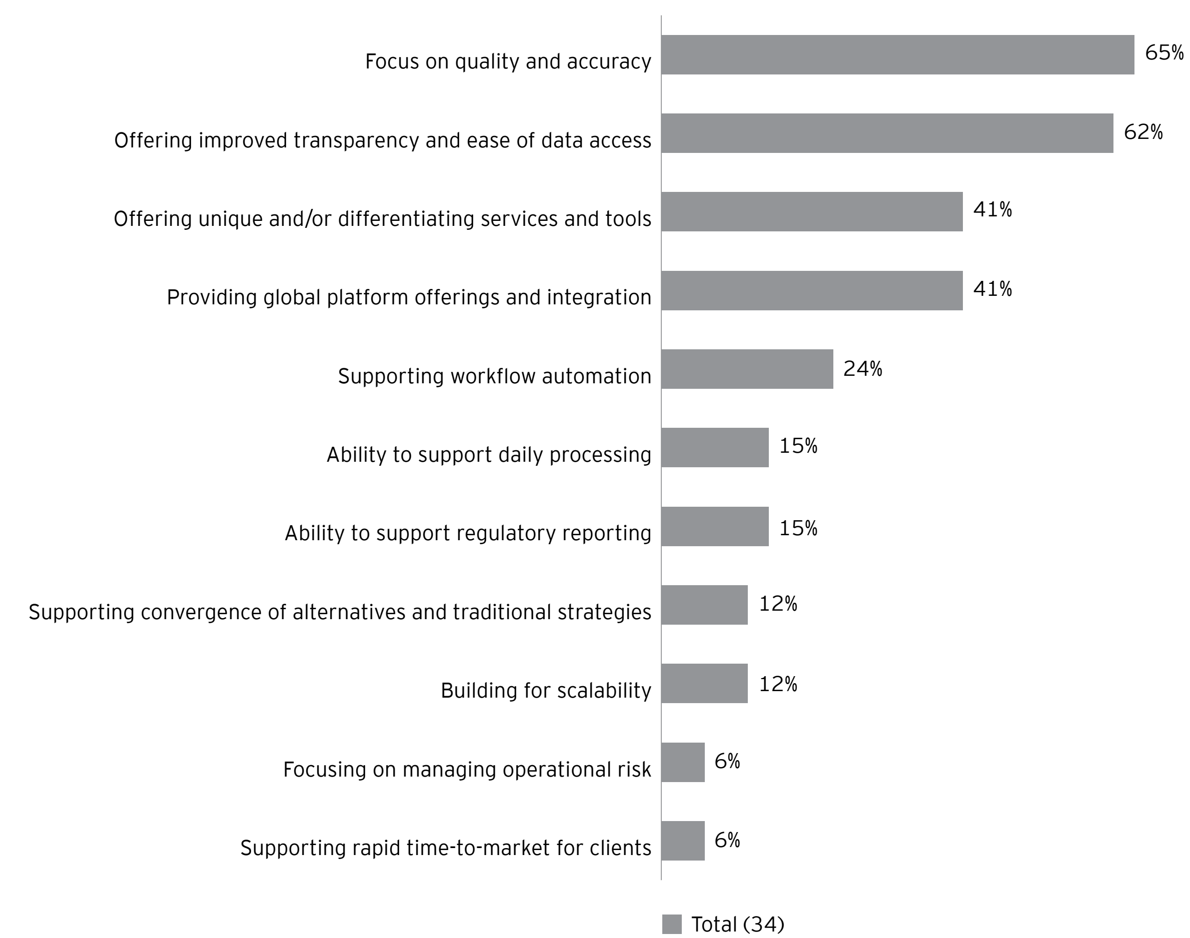
Given the high cost of errors, the majority of companies report that they have designed their operating models to center on quality and accuracy.

Beyond that, asset servicers are laying the foundations for the next generation of tools and services. In order to succeed at this, data must be consistent and easily accessible. Once a data strategy is in place, companies will be able to roll out investor portals, self-service tools and advanced analytics to give clients the power to do more with their data. Developing these capabilities should also help counteract some of the fee pressures asset servicers are facing.

Regulatory reporting is a lower priority, likely because managers have already made investments to help them meet their regulatory requirements.

Most important operating model objectives

Which of the following are the three most important objectives of your operating model?



Though asset servicers are planning for growth in new markets, most feel North America continues to hold the greatest potential …

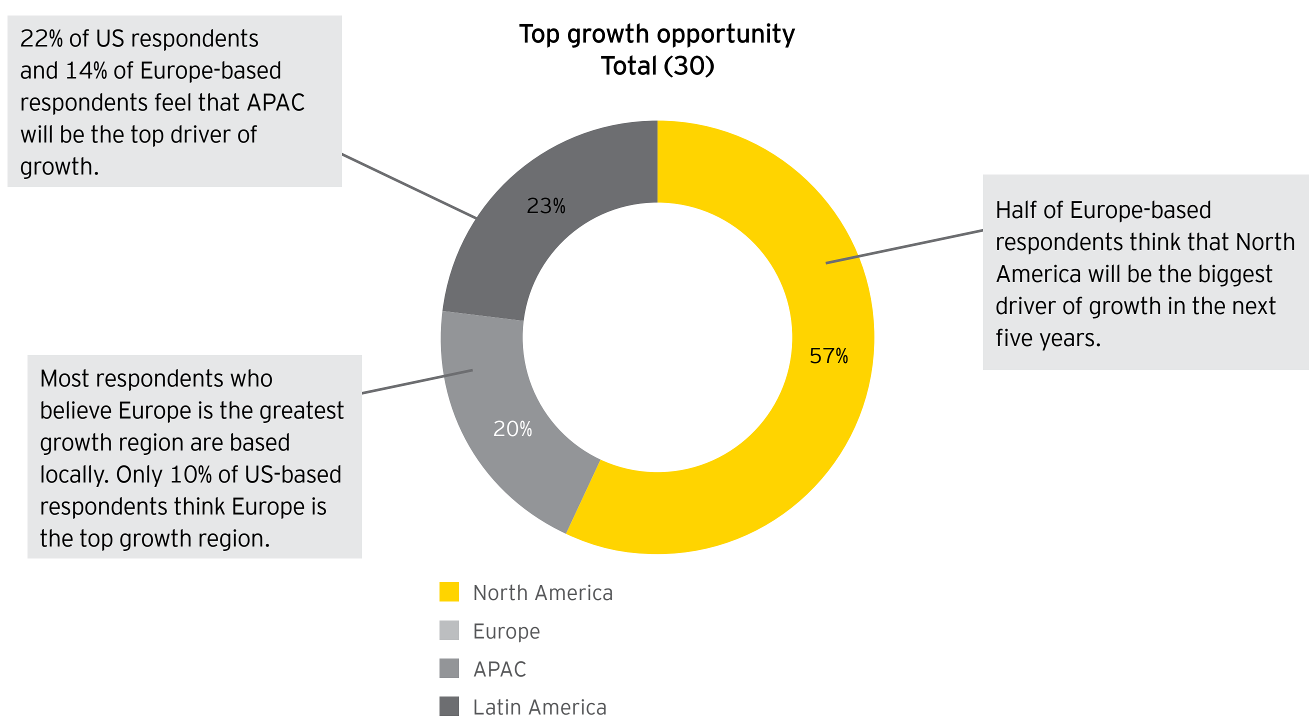
More than half of those surveyed feel that North America still holds the greatest revenue-growth opportunity in the next five years.

Given the operational complexity and fragmentation within the region, APAC offers the second-largest opportunity. Asset servicers have seen increased demand from the big regional asset owners (sovereign wealth funds, government-backed pensions and superannuation funds), which themselves are driven by a more global investment strategy and greater sophistication in allocating to alternative asset classes, including private equity and real estate.

Revenue growth opportunities

In which of the following geographies do you see the greatest growth opportunities (from a revenue perspective) in the next five years?

Geographies with greatest growth opportunity



Note: Total includes two interviews in APAC. No one reported Latin America as being a top growth opportunity.

… and believe growth will continue to come from hedge funds and private equity

Hedge funds represent the best prospects for growth. More than 75% of respondents see hedge funds as the leading revenue-growth segment over the next five years.

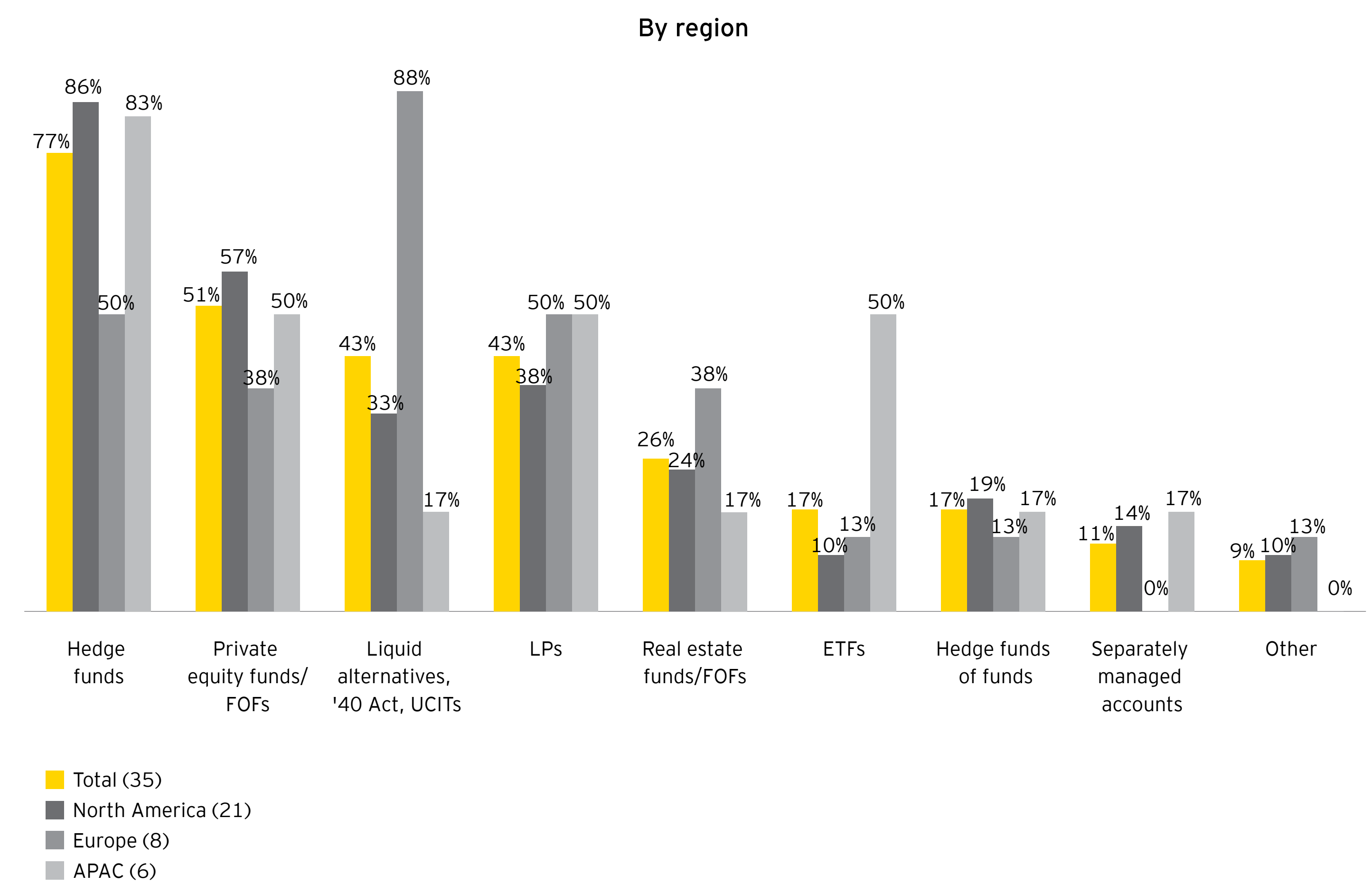
Private equity now represents just 10% of AUA, but more than half of the respondents see this segment as a major growth opportunity, chiefly because of the increasingly large and complex investments being made by pension funds and other asset owners.

Asset owners will continue to increase allocations to private equity, real estate, hedge funds, credit instruments, emerging markets, infrastructure and mutual funds. This will lead to distinct risk modeling needs and require an integrated view of risk-weighted performance across multi-asset portfolios.

Regionally, nearly all asset servicers in Europe believe they will see revenue growth from UCITS, while APAC has the most asset servicers expecting growth in ETFs.

Top three revenue growth opportunities — client segments

In which of the following client segments do you see the greatest growth opportunities (from a revenue perspective) in the next five years?



Technology and data management

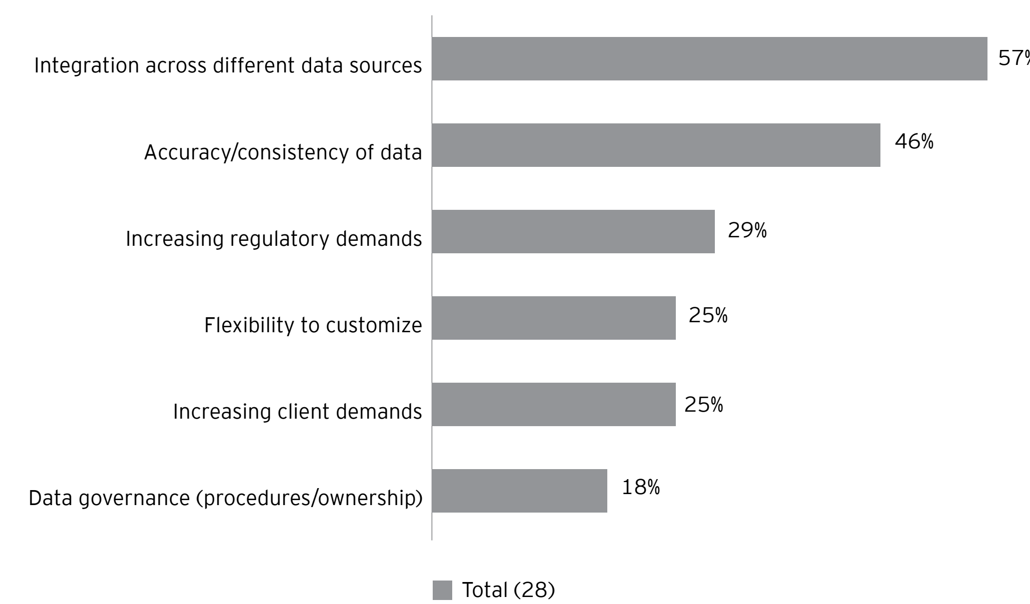
Companies grapple with data integration and the accuracy and consistency of data

As the volume and complexity of data have increased, nearly 60% of respondents face challenges with aggregation and integration, and nearly half report they cannot rely on the accuracy and consistency of the data.

Furthermore, a number of asset servicers say the demands from regulators and investors are placing a strain on their current data management policies and procedures. According to one Asian executive, "The demands on data have increased significantly over the last three to four years, driven primarily by regulatory requirements and client demands. While regulatory requirements mandate these, there is not much clarity on market-wide consistency in terms of how they will be delivered."

Internal and external data management challenges

What challenges have you faced with data management, both from an internal and external perspective?



Note: Total includes three interviews in APAC.

Companies are thus seeking to improve reporting, data integration and quality and to streamline data collection

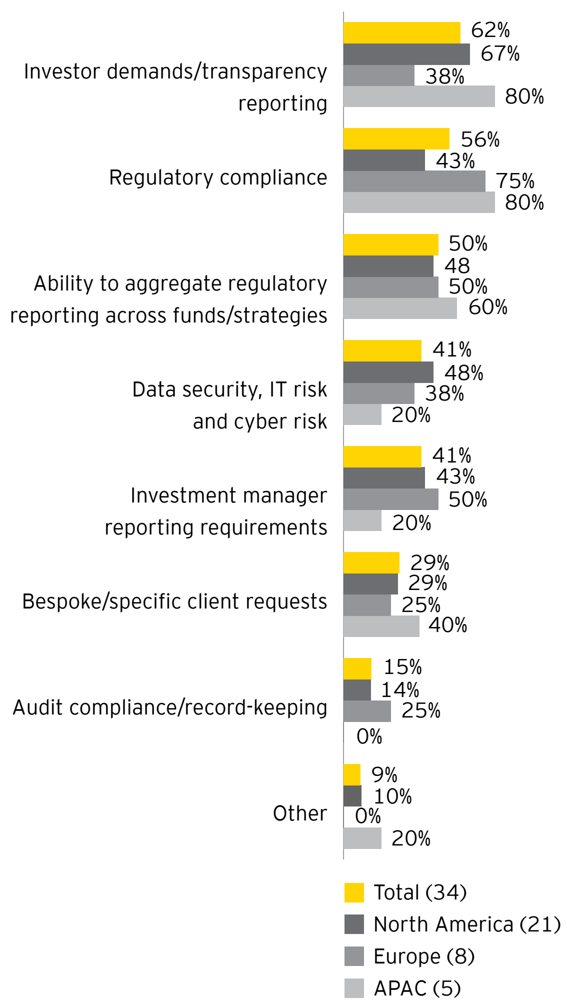
Investor demands for transparency will continue to be a key driver of the way companies approach their data management challenges, along with regulatory compliance and the aggregation of performance, risk and regulatory reporting across funds and strategies.

With investor demands at the forefront, companies are providing enhanced data analytics and reporting capabilities. Given the large number of regulatory bodies in Europe and APAC, over 75% of companies see regulatory compliance as their main impetus to invest further in data management capabilities.

However, few asset servicing companies see improving data governance and/or appointing a chief data officer as a top priority.

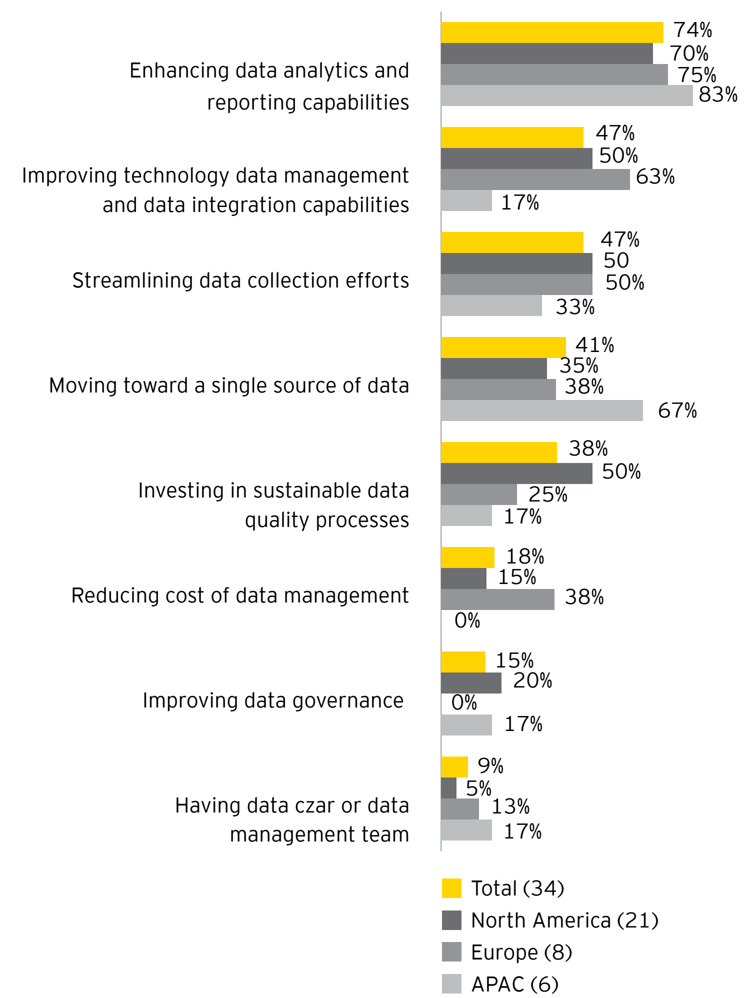
Data management

Which of the following are the three most important drivers impacting your approach to data management?



Data strategy priorities

Which three of the following statements best represent your priorities as they pertain to your firm's data strategy?



Beyond simple data management, asset servicers are aiming their broader technology investments at improving reporting capabilities ...

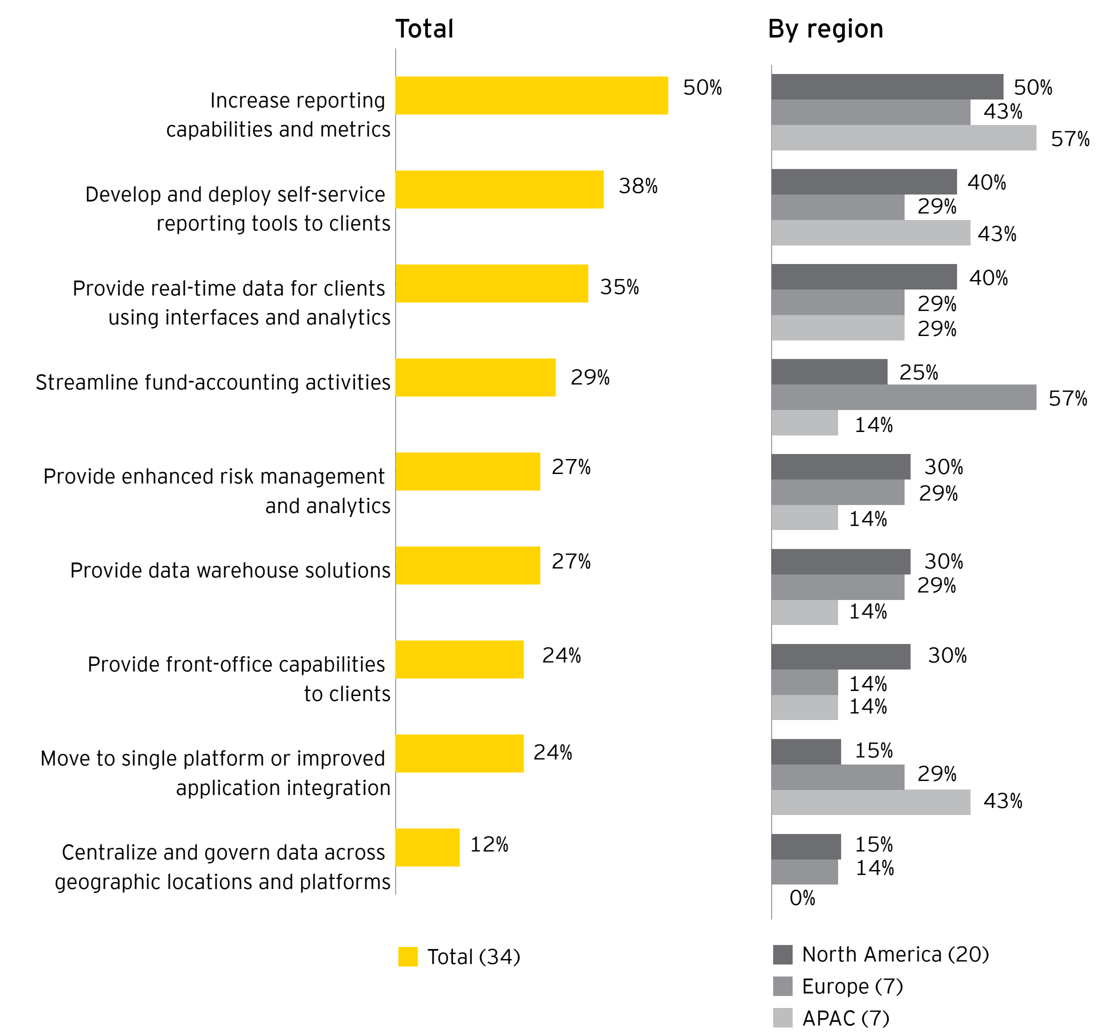
Along with data management priorities, half of the asset servicing companies are now pursuing technology initiatives to expand their reporting and analytics capabilities. As one large asset servicer in the US explained, "Aggregating across multiple sources of data and doing it in a timely fashion is a challenge. So, it's not just aggregating, but how quickly you can aggregate."

Beyond that, companies are looking to add further value to clients by offering self-service tools and real-time analytics to round out their "data-as-a-service" offering. One US asset servicer noted that their client portal "enables single sign-on, real-time, online access to information on securities portfolios, fund and investor summaries, and cash balances via a single interface. It delivers an extensive suite of leading-edge tools supporting a full range of investment activities covering transacting to reporting."

Europe and APAC have their own concerns. In Europe, servicers want to make investments to streamline fund accounting activities. In APAC, a number of companies are looking to move to a single platform.

Top technology initiatives

Please select the top three technology initiatives being deployed over the next 18 months.



Note: Fewer than 10% of respondents are deploying collateral management tools or mobile applications.

… and targeting an integrated application architecture model

In order to support their goals of improving their reporting capabilities and better integrate their data, nearly half of all firms want a single platform to support clients around the globe.

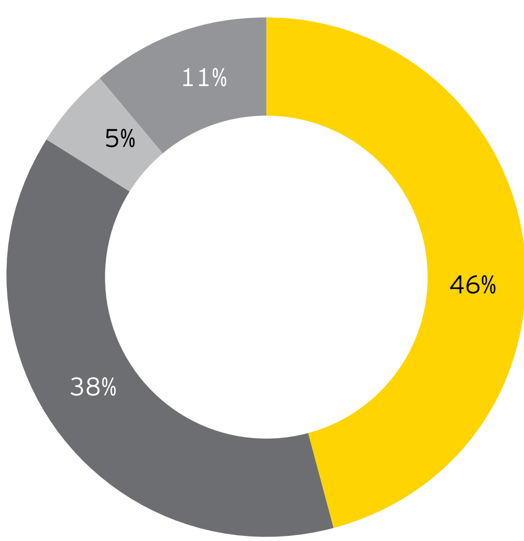
Of those firms that are not seeking a single platform, most are looking for an integrated application architecture with some product-specific solutions. This model is particularly prevalent in Europe, where nearly two-thirds of asset servicers surveyed prefer point-solutions tailored for a particular product or asset class.

Asset owners will continue to increase allocation to direct private equity, real estate, hedge funds, credit instruments, emerging markets, infrastructure and mutual funds, requiring distinct risk modeling needs and an integrated view of risk-weighted performance across multi-asset portfolios.

"Target" application architecture model

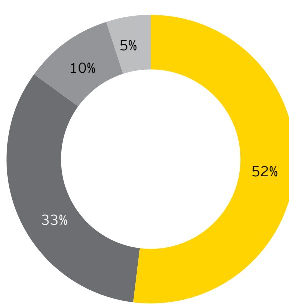
Which of the following best defines your "target" application architecture model?

Total (37)

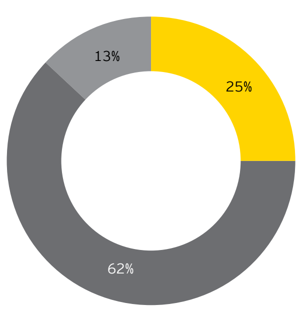


- Single platform and operating model across asset classes to serve global clients across locations
- Intergrated architecture with point-solutions specific to each product or asset class
- Limited application integration with consolidation/aggregation via data warehouse

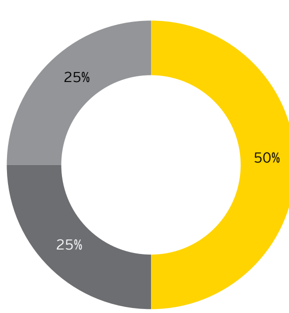
North America (21)



Europe (8)



APAC (8)



Reporting and regulatory solutions

Scores of regulations have spurred client demand for new products and services

As managers take on ever-heavier regulatory burdens, asset servicers can offer value-added solutions to meet the demands. One executive from an asset servicer in the US said, “Over the last 12–18 months, we’ve been working with our clients to understand the kinds of services they will require under Form PF, AIFMD, FATCA, etc. Those are real opportunities for us to show thought leadership and offer products and solutions to our clients to really enhance our relationship with them.”

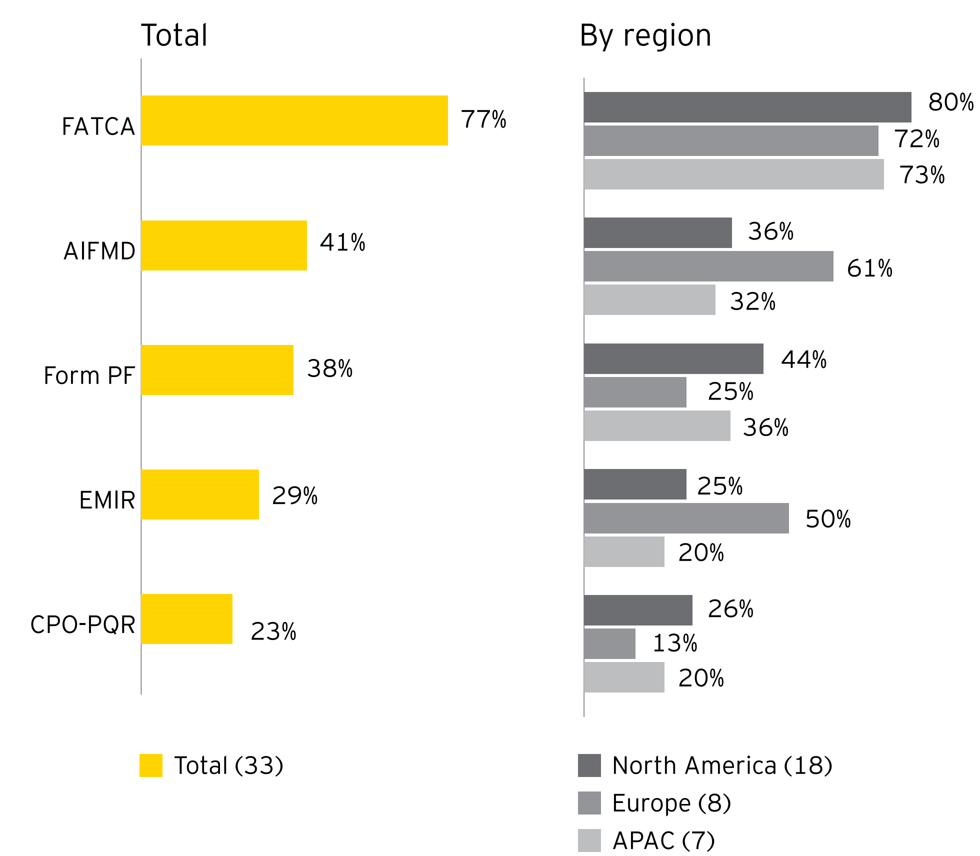
Solutions related to FATCA are in highest demand. On average, 77% of asset servicers’ clients are askingfor them.

For AIFMD and EMIR, European asset servicers are sharply focused on developing jurisdictional solutions to meet client demands in individual countries. In addition, US asset servicers are developing solutions for US clients that market funds in Europe.

Regulatory solutions

What percentage of your client base is seeking regulatory solutions from your organization to respond to each of the following regulations?

Proportion of clients requesting regulatory solutions



Asset servicing companies typically offer a wide range of regulatory reporting services required under AIFMD

Companies across all regions offer regulatory reporting services required by AIFMD. Although regulatory requirements for alternative investment funds vary between EU and non-EU countries, alternative asset servicers aim at providing a one-size-fits-all solution. But because of the variety of requirements and approaches at the jurisdictional level, this is a daunting technical challenge; asset servicers have underestimated the costs of attempting a single solution suitable for all.

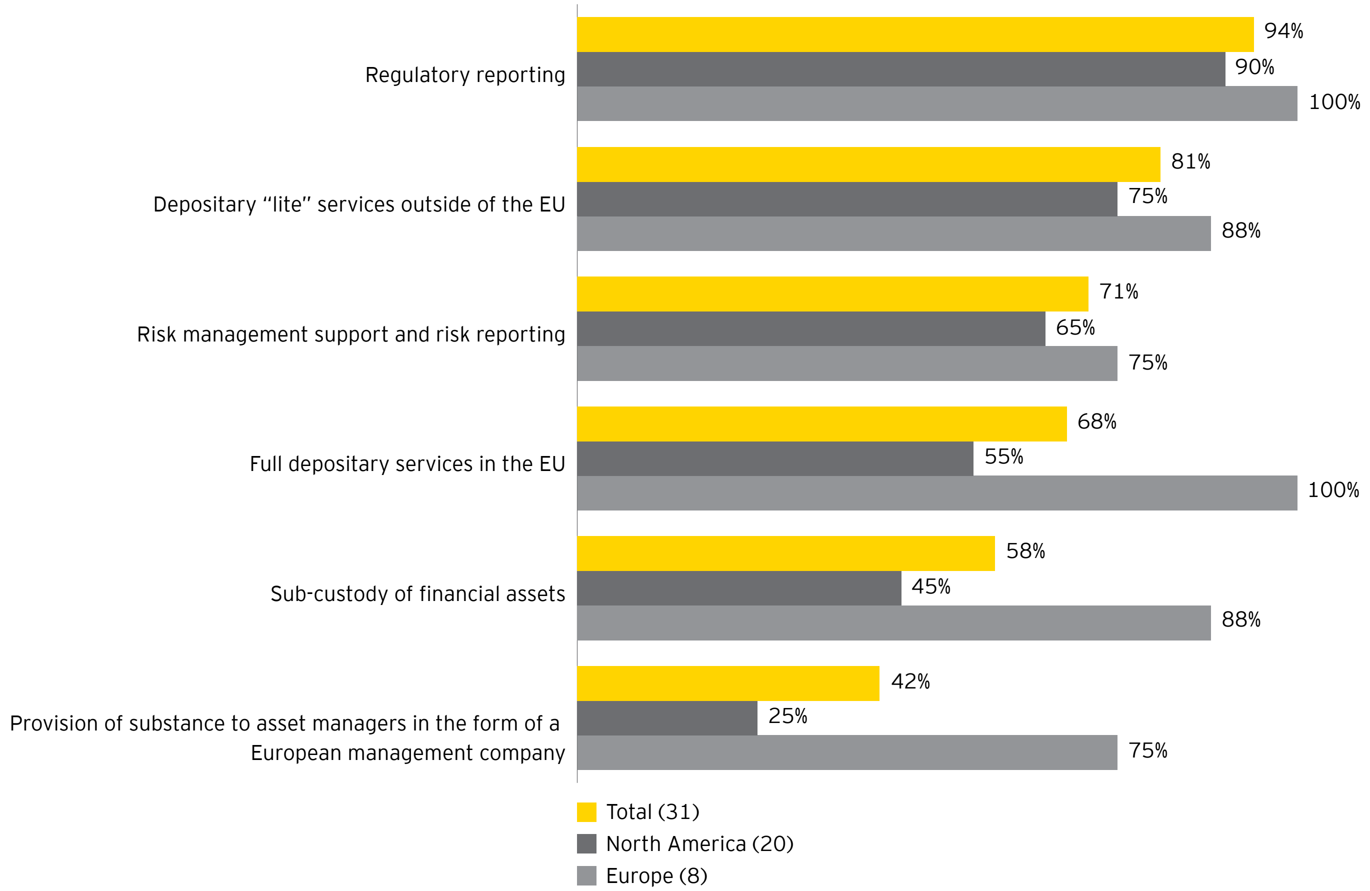
In addition to capturing the attention of European asset servicers, the European market has remained a major focal point for North American companies as well, underscoring the importance of the European market for US asset managers.

The majority of asset servicing companies also offer their clients depositary services and risk management support and reporting.

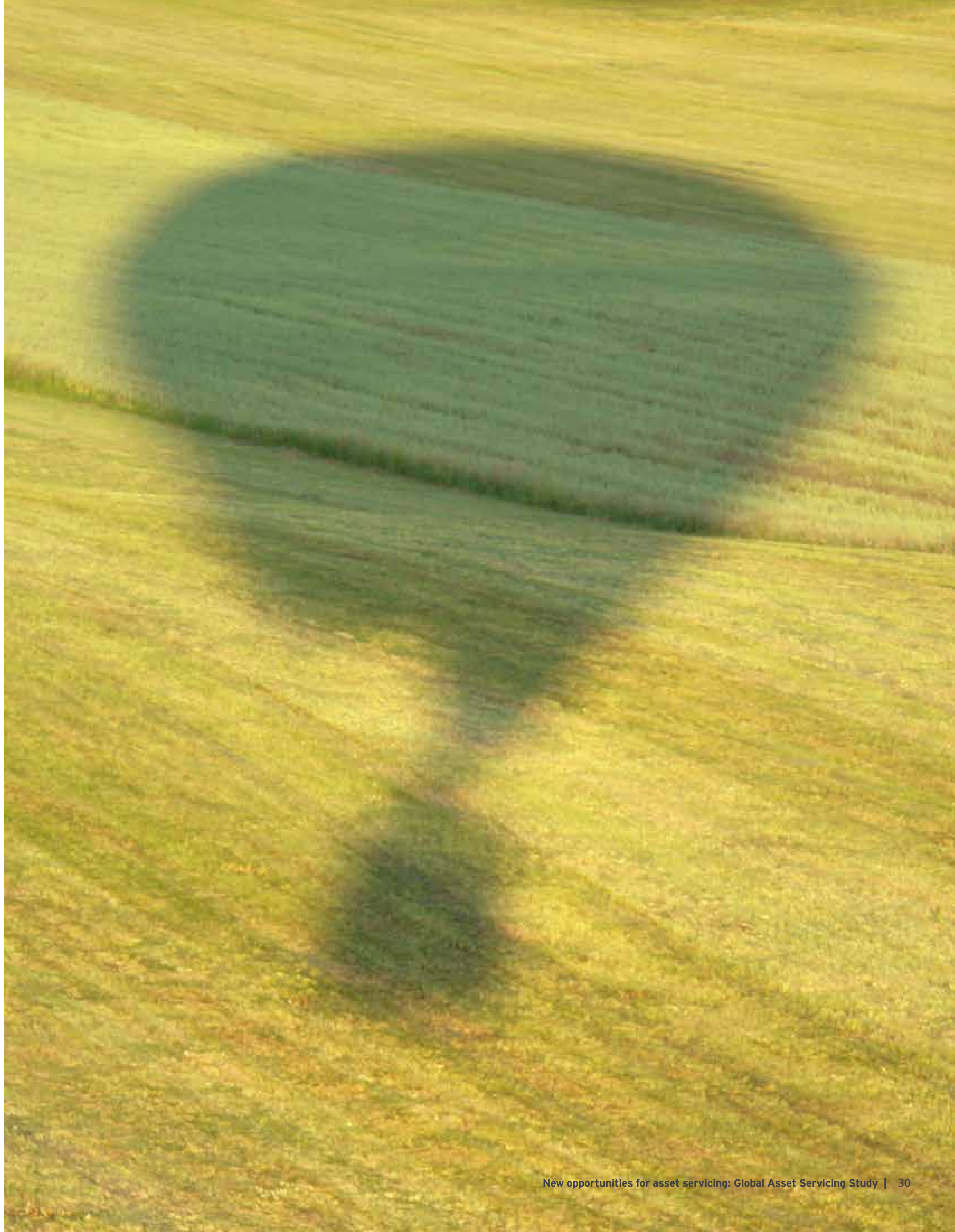
Alternative investment fund manager directive

Which of the following services required under AIFMD are you providing to your clients?

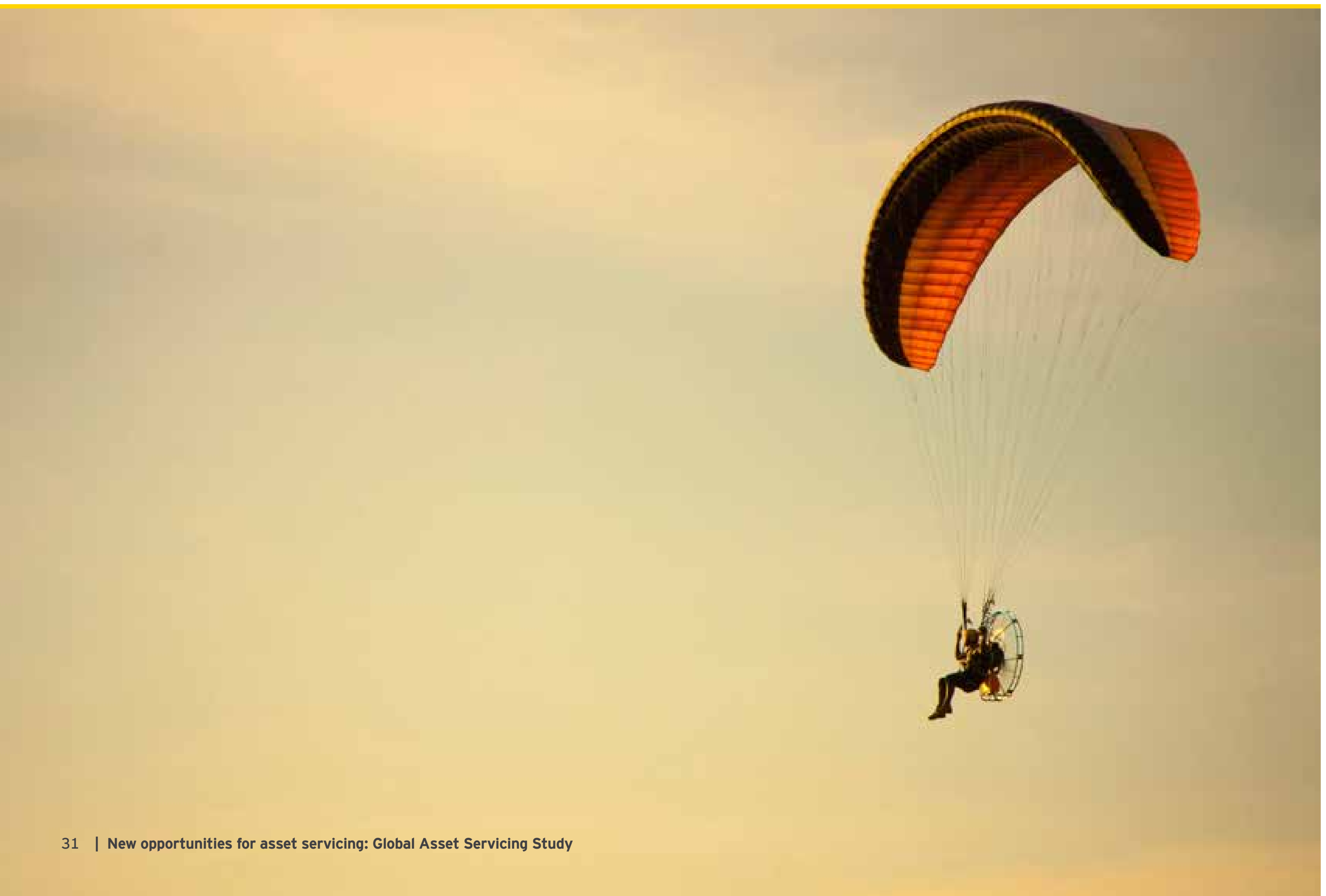
Services offered under AIFMD



Note: Total includes three interviews in APAC.



Pricing methods



Most US companies have not considered moving away from BPS to fixed fees; however, Europe and APAC are more open to the concept

Globally, one in seven companies has adopted a fixed fee or guaranteed method for compensation, and about the same number is actively discussing a change. Companies in Asia and Europe are more open to the idea than those in North America. Nearly half (43%) of Asian companies are in discussion with clients, and one-third (34%) of the European companies are either discussing the proposition internally or with clients.

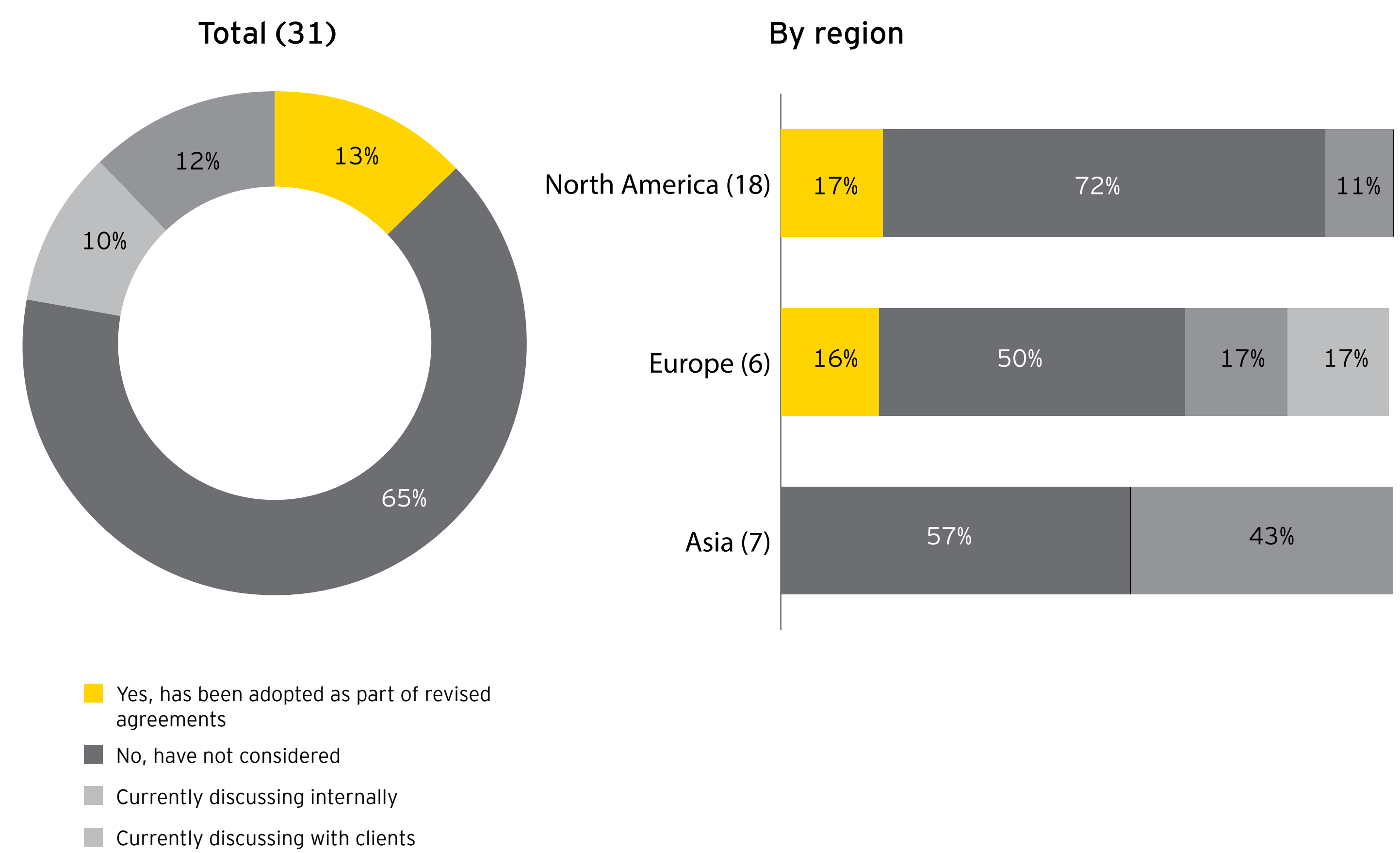
Even though the majority of companies plan to continue using variable compensation, there are many services for which clients are already charged separately. Sixty-one percent of companies charge explicitly for regulatory reporting, 50% charge for financial statement preparation and 28% charge for tax preparation. A small but still meaningful proportion charge separately for a number of other services.

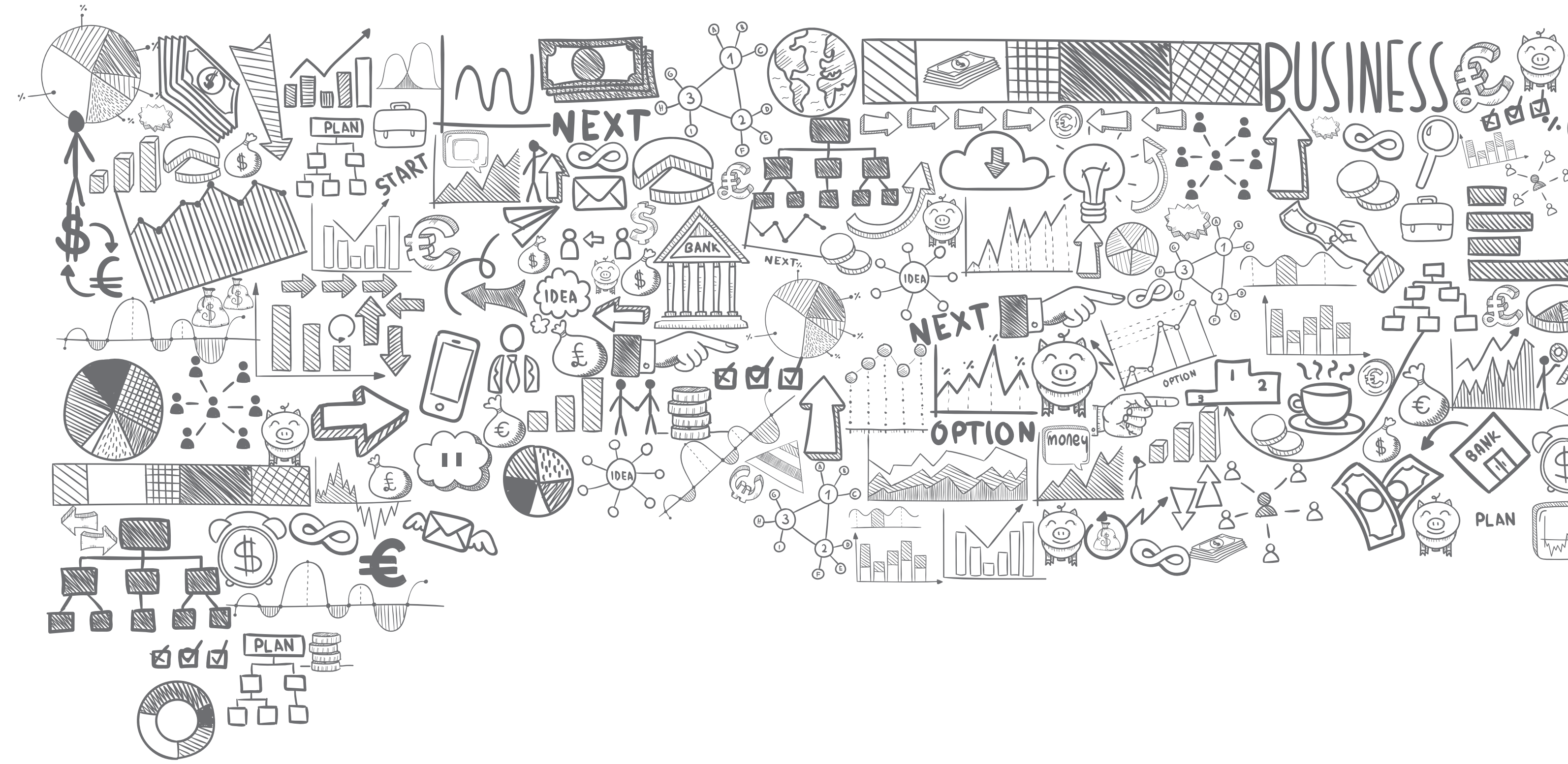
As one North American service provider remarked, "Typically, we'll do à la carte, based on client preference. Some clients prefer to have everything bundled. But regulatory reporting, financial reporting and tax reporting, we'll generally break out as separate line items." However, one Asia-based provider asserted, "Typically, we bundle all desired services into one fee."

Compensation changes

Is your organization considering moving away from BPS to fixed fee or guaranteed ways of being compensated and away from variable compensation based on AUM growth?

Plans to change compensation methods





Final thoughts

Looking out over the next few years, the future for the asset servicing industry seems bright. With a positive economic outlook and a confluence of trends nudging asset managers toward more outsourcing, the industry appears poised for growth.

To capitalize on these trends, however, asset servicers cannot afford to ignore the challenges: fee pressures, increased competition for new client business and a more complex regulatory landscape. Winning in this environment will require diligent effort. Asset servicers will need to make significant investments to enhance fundamental data and technology delivery and maintain discipline as they chart out their course for growth.

Our survey suggests that most asset servicers worldwide agree on the many challenges that face the industry. We believe that in order to win, asset servicers will need to:

- Build a globally integrated operating model and platform. This is critical given the effort in the industry to grow through onboarding new client segments, including asset owners, who are increasingly outsourcing middle- and back-office functions.
- Enable real-time data flows and straight-through processes between the mangers' front office and the servicers' middle- and back-office platforms. This will provide for operating efficiencies and differentiation.
- Serve the rapidly growing markets beyond the US and Europe. This will require a thorough understanding of offshore fund structures and jurisdictional nuances with respect to regulatory, accounting and tax treatments.
- Provide local market knowledge to assist global clients with cross-border distribution. Expanding distribution support will help asset servicing companies bring extra value to their global client relationships and help to minimize setup costs across locations.
- Develop holistic regulatory and data solutions. To cope with the huge variety of regional regulations in a cost-efficient manner, servicers will need to limit the number of siloed reporting solutions for market-specific mandates.
- Establish shared services across middle- and back-office functions in low-cost offshore or near-shore locations. This will reduce operating costs and allow for the development of shared services hubs and centers of excellence to enable scale and reinforce local market presence.

All of these changes will have to be made with considerable client involvement. To get their systems right, companies will need not only to provide advice and counsel to their clients but also to pay attention to how their needs evolve. In the end, the servicers that are the most responsive to the needs above will be the best positioned to capture the value of this rapidly growing market.

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