The changing face of a transfer agent

Industry participants from RBC I&TS, UMB Fund Services, Fenergo, HSBC and Thomas Murray discuss the changing role of the transfer agent

How has the role of the transfer agent changed? What do clients now expect from their transfer agent compared to five years ago?

Ronan Doyle: Five years ago transfer agents, in addition to their standard record-keeping responsibilities, were seen as conduits to enable distribution through connectivity to large distribution platforms globally. Now that level of connectivity is expected and while expertise around the operational details is still valued, there is an increased emphasis on how transfer agents can support asset managers in delivering a seamless and digitised investor experience.

Digital capabilities are also expected to include the provision of insightful analytics and online data features directly to the asset manager in order to support the fulfilment of their own regulatory oversight responsibilities.

Mike Huisman: Product evolution has been dramatic in recent years. We are no longer only servicing traditional mutual funds; we're seeing the desire for diversification driving growth of varied product types. As a transfer agency, it's important to stay ahead of unique investment vehicles and be innovative in our offering as we expect product evolution to continue.

We are also seeing more firms prioritise client service in their decisions to select a transfer agent. As managers diversify their product offering and launch more complex investment vehicles, they are looking for expertise and consultation from their service partners.

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> ***Mike Huisman of UMB Fund Services***

Kevin O'Neill: There is a big shift within the asset servicing industry to try to automate processes associated with the transfer agency operating model. The industry is still very manual by nature relying on fax, telephone, paper, and face-to-face meetings for client and investor servicing. Firms are tentatively leaning towards automation by working with third-party software vendors or by utilising in-house solutions to streamline operations. Combined with draconian operational processes, this makes what should be relatively straightforward, very complicated.

In addition, asset managers are attaching greater importance to high standards of anti-money laundering (AML) and know-your-customer (KYC) processing, driven by increasing regulatory scrutiny, so compliance demands have resulted in higher human capital costs.

Strong and highly personalised service levels, streamlined risk management, accuracy, and speed of delivery are all critical. Given how competitive the market is becoming, there is no room for error. Investors and clients expect and demand the same simplicity provided by the on-demand services they use in their personal lives such as Amazon, Uber and Revolut.

Sooraj Sreenivasan: Client expectations from transfer agents are shifting from a mere back-office processing agency role to one that is solutions-oriented and delivering positive client experiences. I refer to the investor in general, the onboarding process has been fragmented across the industry owing to different documentation requirements by fund domicile domiciliary; this is further accentuated in a scenario where the investor is serviced across multiple platforms. The service expectations to deliver a positive client experience is to have a single identifier and onboarding process for the investor across fund domiciliaries, domiciles and product types.

Llew Walker: The Alternative Investment Fund Managers Directive (AIFMD) and UCITS V has required transfer agents to respond to numerous requests for information and they simply were not ready. Transfer agents complained that they weren't consulted or warned of the impact these regulations would have on them. It has taken transfer agents a long time to acclimatise to the new regulatory environment where they have to satisfy the investment community that they are well run and manage risk so as not to expose the investors to losses. The memories of Bernard Lawrence Madoff are still painfully fresh.

One of our clients commented to us recently that 'more and more of our clients are looking for greater transparency and more transfer agents use openness as a selling point. I always think those being difficult are doing themselves a disservice. This statement articulates pretty well the view of most clients of our regulatory solution division (who are made of up 40 European depositary banks and management companies). Most transfer agents now accept heightened scrutiny from their clients and counterparties as a cost of doing business. Those that fail to comply with monitoring requirements are often flagged as 'high risk', even though they might have reasonably robust risk management operations.

With changes in investor buying behaviour and the demands of the investment management community, how have transfer agents had to adapt?

O'Neill: Digital transformation is starting to become more commonplace. With the rise of digital-first challenger banks, traditional brick-and-mortar transfer agents will not stand a chance unless they switch to a digital model fast. From what we are seeing, the tide is starting to turn with more and more transfer agents deploying best-of-breed solutions for automation, straight-through processing (STP) and improvements in business and operational efficiencies. This ultimately enables the delivery of a frictionless and streamlined client and investor experience.

Huisman: Transactions are happening quicker and at higher volumes, especially in a highly fluctuating market. The difference between a few minutes and a few hours is more significant now than in the past. As a transfer agency, it is crucial to innovate to solve for challenges that would hinder the speed at which we operate. In the past, it was accepted that systems would sync data at end of day or even weekly. Now, investment managers need access to data in real-time to make informed decisions.

Doyle: From an investor perspective we see more intermediation in the market place. This has driven transfer agents to engage in multi-lateral relationships with platforms or other intermediaries that are mutually beneficial in nature. Transfer agents and intermediaries tend to interact across a range of different fund families, therefore, it is sensible to collaborate to improve the overall experience for the end investor. While welcome, this has created an added dimension to the role of the transfer agent which in the global distribution support environment can be quite complex given the range of distribution platforms now available across various markets.

From an investment management perspective, the demand has been for continually high levels of service and distribution connectivity, but now with an emphasis on digitisation and a more focused commercial interaction. Asset managers test the market much more frequently now than in previous years so transfer agents know that they are being continuously evaluated against their peers. They are also aware that this applies as much to their long-term strategy and investment plans as it does to their current operational performance.

In recent years, the industry has seen an increase in the use of technology, how has this had an impact on the role of a transfer agent?

O'Neill: By leveraging best-of-breed technology, transfer agency firms can provide a strong framework for governance, risk and control. By replacing manual compliance and onboarding processes with automation, employees can focus on value-added services and significantly reduce errors which have huge reputational, regulatory and cost implications.

Walker: There has been a lot of chatter about the transformations wrought on the industry by innovative technology. There is no doubt that online portals enabling transfer agents to better service funds and platforms have been on the rise. Reports of their widespread adoption seem to have been overplayed. For example, we see only about 50 percent of the 1,000 plus transfer agents we look at, offering online portals to clients!

Among the transfer agents, we monitor for clients – which is well over half of all transfer agents globally since we started looking at them in 2014 – there is a bewildering array of third-party and proprietary software used. Most transfer agents appear unwilling to migrate from legacy systems because the margins on transfer agency are simply too small to justify such a move. Until there is a clear industry-leader facilitating easy migration, automation and standardisation at a reasonable price, we are unlikely to see large-scale adoption of innovative technology. That said, the larger groups patronage and development of new technologies shouldn't be underplayed, and has contributed towards the gradual elimination of human error, which is still a common cause of failure at a transfer agent.

The use of analytics on the data as an example allows transfer agents to provide value-added intelligence to asset managers on their distribution channels

Sooraj Sreenivasan of HSBC Securities Services

Sreenivasan: Transfer agents consume and generate a lot of data; its use has been confined to transactional and registry processes and newer technologies facilitate streamlined processing and dissemination of data. The use of analytics on the data as an example allows transfer agents to provide value-added intelligence to asset managers on their distribution channels.

The transfer agency technology blueprint is, however, shifting from a monolithic to a microservices architecture; it is central to our strategy to have a central data pool that is integrated with processing systems and digital delivery channels.

Doyle: We do not believe this is a new trend but technology is incredibly important to the role of the transfer agent. Supporting global distribution, in particular, requires an ability to connect with distributors and investors around the world and manage multiple, often complex, operational solutions on our client's behalf. We have done this for many years therefore for us it is not a shift, just an evolution.

Digital technologies present an opportunity to progress the work already done on automating the transfer agent value chain with the added benefit of enabling a superior experience for asset managers and investors. Given the long list of potential use cases for digitisation, engaging with clients to jointly prioritise investment, and where sensible co-invest, is critical. This allows us to ensure that our investments are delivering optimal value for us, our clients and their investors.

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>
> ***Kevin O'Neill of Fenergo***

Engaging and partnering with other firms, from platforms to fintechs, is now also of great importance. In the past, transfer agents could build technology solutions almost exclusively in-house and, while in-house development is still important, it needs to be combined with expertise and insight from partners who have the same overall view of how the industry can develop and how digital solutions can be delivered. Trying to do everything in-house does not take advantage of the opportunity to leverage technology optimally.

Have recent regulations created challenges or opportunities for transfer agents?

Huisman: The need for transfer agents is only becoming greater due to increasing and ever-changing regulations. With each new regulatory requirement, investments must be made in internal processes and system development. Smaller in-house operations are finding it advantageous to look at a third-party transfer agency to handle scale and lower their costs.

O'Neill: The challenge is in the sheer volume and complexity of the regulations that are in effect, yet it is critical for transfer agents to keep up and remain compliant. The requirement to adapt and streamline processes to adequately meet regulatory obligations is both a threat and an opportunity. With the right technology that automates KYC and AML compliance processes, transfer agents can manage risk by exception and digitally onboard the lower risk cases. This approach will not only streamline client due diligence and accelerate onboarding but will deliver differentiating customer experiences and enable faster time to revenue.

Walker: The impact of AIFMD and UCITS V is still working its way through the industry and fund centres, such as Luxembourg, continue to further harden up regulatory monitoring requirements on regulated entities. There were certainly challenges at the outset – transfer agents were not consulted about European regulation and were loath to respond to questionnaires because they simply felt that they were not directly impacted or didn't have the resources. Most have now softened in their approach to scrutiny, however, recognising that there are benefits to providing greater transparency to fund management companies, fund platforms and depositary bank.

There have no doubt been opportunities. Fund platforms, and to a lesser extent the regulatory risk concentrators within the funds industry, the depositary banks, are increasingly looking to influence the selection of transfer agents, blacklisting non-compliant groups and white-listing those that they prefer to work within a given market.

Transparency will bring benefits to the transfer agents themselves as well. Increasingly, transfer agents want to know how their service measures up to competitors and if they offer a better service, although most remain entirely in the dark. Having evolved organically, from market and client demands, transfer agents had no idea of their peers' offering from a cost, risk and service perspective. They were unable to differentiate themselves.

A few years ago, the US Securities and Exchange Commission (SEC) issued a discussion document regarding plans to update the 40-year-old transfer agency regulations in the US. One of the suggested changes was transparency concerning fees. This proposal elicited much comment – many arguing against revealing any fee information, as fees were considered 'trade secrets'. This points the way to a demand for fee transparency going forward, as the sector looks to reduce the increased costs associated with the regulatory burden.

Doyle: Both. Regulatory change, in particular at the pace and frequency it has been rolled out since the 2008 financial crisis, is always going to provide a challenge in terms of the balance of investment between compliance activities and value-adding solutions.

That said, getting on top of the regulatory change agenda, being active in industry advocacy groups, and delivering effective solutions, remains a real opportunity for transfer agents to augment their value proposition.

Getting the balance right between this challenge and opportunity is not always easy (although it is made easier where the transfer agent has deployed flexible, easily configured digital technology solutions) but it is an important area that all transfer agents spend a lot of time and effort to get right.

With an increase in costs associated with regulatory compliance, do you think there will be a concentration of the transfer agency industry?

Doyle: There is an opportunity for the transfer agency industry to evolve given the availability of new technologies. The challenge for transfer agents will be to identify those solutions, prioritise and execute against them, and successfully integrate them into existing components. Those who successfully do so can re-imagine the role of the transfer agent based on a more scalable, automated model with value-adding solutions in place at client and investor interaction points. This will make the cost of compliance and other complicated aspects of the current business environment more manageable. Where larger, more established transfer agents embrace this approach there is an opportunity for them to expand their market share given their ability to influence the market to adopt the digital practices that will create the efficiencies required to drive a more commercially appealing proposition to asset managers and investors.

O'Neill: I believe that the industry will see a rise in merger and acquisition (M&A) activity especially as we start to feel the economic impact of the pandemic. Combine this with regulatory costs, shifting investor demands and rising costs to acquire and maintain investors, many transfer agents will stand to benefit from consolidation.

Walker: The sector has seen consolidation in recent years – partially as a result of increased regulation and the costs associated with it – but not nearly as much as was predicted before 2014. Even though we have tracked around 100 M&As in the last seven years, there are still over 2,500 entities of all sizes in the world providing transfer agency services. This is about twice as many as believed when the regulations were first introduced. Much of the consolidation has been strategic, rather than as the direct result of the increased administrative burden. M&A in this sector if often no more than an exercise in rebranding, where a full merger of records and systems is deemed too onerous to contemplate.

Some of the bigger transfer agents are still quite resistant to scrutiny from their clients and counterparties. The internal complexity of their business does not lend itself to easy assessment. Some are unable to demonstrate whether they are lower-risk than their peers because they resist disclosing basic data which would allow existing and potential clients to benchmark them. There is the 'too-big-to-fail' mentality, that should be a concern for everyone!

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> ***Llew Walker of Thomas Murray***

Are you still seeing new entrants to the transfer agency market?

Sreenivasan: There continues to be active commercial interest in the transfer agency space amongst services as well as technology providers. We have witnessed consolidation via acquisitions in recent past as well as new entrants that are predominantly non-bank sponsored business entities. Speaking for HSBC, we have a global transfer agency strategy that aims at providing a simplified outsourced arrangement whereby the asset manager and their investor benefits from a consistent service across geographies and product types. Geographical expansion, as well as customer segment extensions, are part of this strategy and we crossed a significant milestone last month when we went live with our UK transfer agency service. This is a new operations centre in Edinburgh and also has a retail investor servicing capability leveraging on our broader group infrastructure.

Doyle: We feel the picture varies depending on the market. In some domestic markets, we are seeing consolidation through partnerships or joint ventures. In others, we are seeing established asset servicers enter new markets where it is accretive to existing large client relationships or their wider institutional footprint.

We are also seeing fintech entrants, some who are looking to address specific inefficiencies in parts of the value chain, others who are looking to disrupt the entire value chain. In most cases, these firms seek to partner with established providers to collaborate on a new vision for the industry. What is clear to us from our dialogue with clients and other industry participants is that while transfer agency can be a complicated environment, the value it provides to asset managers (when executed well) is real and can be enhanced over the coming years, albeit how it will look in three to five years time will likely be different than it is today.

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>
> ***Ronan Doyle of RBC Investor & Treasury Services***

O'Neill: With costs so high, we expect to see less new market entrants and more reinvention of existing providers as they adapt to the changing environment and market volatility. They are under increasing pressure to add value, maintain margins and reinvest in the business.

What do you think the biggest challenges will be in the next 12 months?

O'Neill: In previous recessions, recovery was somewhat predictable but that is not the case with the current pandemic. Like all financial institutions, transfer agents need to take stock and begin to digitally transform. The focus will be on providing frictionless experiences to clients and investors while ensuring they are satisfying regulatory obligations and driving efficiencies that impact their bottom line from a profit and loss perspective. Without reinvention, the outlook will be bleak for transfer agency firms.

Doyle: The COVID-19 crisis will bring about challenges and opportunities for transfer agents over the next 12 months. One of the biggest challenges for transfer agents will be continuing to digitise the investor experience as we practice social distance and work from home.

The crisis has emphasised the need for more collaboration between transfer agents, asset managers and platform providers. COVID-19 has highlighted the need for the implementation of many contingency measures and have provided an opportunity to gauge their strength for the longer term.

The uncertainty that COVID-19 has brought to the industry is unlikely to disappear in the near future.

For transfer agents, ensuring the operational changes implemented to become the new normal will be paramount. In addition, continuing to realise the benefits of digitisation and automation will need to be top of mind as we look to the future. Reimaging the onboarding experience and reducing the number of manual processes to deliver a first-in-class solution for investors and clients will be paramount in a post-COVID world.

Huisman: The evolving work environment is going to create new challenges for transfer agents, fund managers and shareholders alike. The entire investment lifecycle has been impacted and all parties are adapting to the swift changes brought by COVID-19.

Flexibility is no longer a future challenge—it's a present challenge that is being addressed throughout the industry. The good news is, transfer agents have successfully adapted to support clients in a remote work environment without disruption to shareholder service.

How do you see the transfer agency role changing in the next few years?

Huisman: Transfer agents will see increased pressure to deliver flexibility, speed and scale. Technology roadmaps that implemented digital transformations over the next three to five years will be compressed dramatically to support the new business landscape.

Clients will be expecting an ability to adapt quickly to change without sacrificing speed, accuracy or top-tier client service.

Walker: Transfer agents are to fund platforms what sub-custodians/central securities depositories are to global custodians. We see risk monitoring of transfer agents will increasingly come to the fore. The depositary banks are becoming more pro-active because of the regulatory burden placed on them and will seek to influence funds' selection of transfer agents. T

he most transparent transfer agents – those whom fund management companies consider appointing and fund platforms and depositary banks can scrutinise, monitor and whitelist – will come out on top.

Finally, with the proliferation of business being placed with fund platforms, these organisations are playing a critical role in the asset safety chain for fund investors. Exactly how the fund platforms fit into the AIFMD/UCITS V framework is still unclear, but they will likely be required to monitor the thousands of transfer agents to which they are exposed, and to whom they expose millions of underlying investors.

Doyle: The COVID-19 crisis will accelerate the inevitable change in the role of transfer agents. The crisis has demonstrated how the industry can operate by deploying new ways of working and by emphasising the need to implement digital solutions to support business continuity practices.

It is important for the industry to continue on this path and look to drive more efficient practices based on digital solutions. The crisis has shown that the use of media such as fax must surely come to an end sooner rather than later.

At its most basic transfer agency can be seen as two macro activities – one that focuses on the area of transaction processing and record keeping, and the other that focuses on investor and client servicing including data sharing, analytics and other reporting.

As the industry has grown we have seen significant automation in the transaction processing environment and this will continue, in fact, the practical implementation of distributed ledger technology (DLT) solutions at scale will materially change the way this part of the transfer agent's role evolves.

The industry still has work to do in terms of improving the proposition provided to investors and clients around on-boarding, day-to-day servicing and data/analytics.

Getting these right presents opportunities for transfer agents to enhance the value proposition and growth enablement role they can play in their relationships with asset managers and Investors in the future.

Sreenivasan: Asset managers that are transforming existing operating model to enable a digital infrastructure have a reliance on service providers including transfer agents for data on demand; this is paving the path for an application programming interface (API) delivery ecosystem. Service standards are shifting with an expectation for faster outcomes and manifests in digital onboarding or faster settlements. Generational change and associated buying behaviour are leading asset managers to experiment with direct distribution; self-service digital channels are in play with being provided by transfer agents.

A growing number of specialist technology firms are operating in this space and present different options to effectively respond to the new age contemporary expectations. In summary, a lot of transformational change is expected to take place in the funds distribution value chain and presents newer opportunities and threats challenges for transfer agents.

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