BROADRIDGE CONSULTING SERVICES

Broadridge

Covid has clarified the high cost of manual processing

How work from home is re-igniting the drive to paperless

Ready for Next

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EXECUTIVE OVERVIEW

The year 2020 will be a year to remember both personally and professionally for many on the planet for many reasons. Among the many 'headliners' in financial services, it could be remembered as the year the industry finally takes that serious final turn away from manual processes and paper-driven tasks.

The last bastions of tasks and industries clinging to paper are starting to melt away as legacy processes have been among the hardest, most costly and riskiest tasks for firms to execute in the Covid era. This thought leadership will outline some of the key trends we are seeing with our clients at Broadridge during Covid, how financial services is adjusting to Covid and how the industry is lining up for the 'perfect storm' to accelerate the move to e-everything and away from paper.

This paper compartmentalizes the tactical, short- and longer-term actions financial services firms are starting to take for immediate remediation and to help position them for long-term competitiveness, with a specific focus on 'low hanging fruit' which is comprised of fragmented, manual and legacy tasks/processes.

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BACKGROUND

We certainly are not the only people who have an office somewhere, and left their favorite coffee mug on the desk, an extra pair of shoes in the desk and a jacket on the back of the door, not realizing when they last left their work environments just how long it would be until a return was on the horizon. The suddenness with which whole industries switched to working from home is unprecedented. Even more difficult to grasp (or finding an answer to) is how much longer we will be out and when will we be able to go back. The top three business challenges in the Covid-based environment we see financial services firms wrestling with are as follows:

- **The Economic & Liquidity Crisis Amidst the Pandemic.** Trade volumes are 2x or 3x higher than pre-pandemic at times; volatility does not appear to be abating any time soon, fiscal policies are bracing for a recession/depression and driving interest rates to all-time lows - and deficits are skyrocketing. Dealing with all of these factors in the most non-collaborative and non-physical-based environment (due to Covid) financial services has ever seen is a daunting challenge daily.

- **Keeping on Top of Covid-Driven Emergency Measures and Legislation.** Statistics of Covid cases locally and globally have become part of the barometer that firms are examining for action plans. Legislation is easing physical attendance-driven processes for a myriad of items from annual meetings to last will-and-testament execution, and keeping on top of those changes is challenging. Modifying policies and procedures affecting day-to-day business conduct, staff and facilities that are changing on an ad hoc basis is forcing management to drink from the firehose in trying to assess the business environment needs and opportunities.

- **Acknowledging the New Reality and Taking Action with Remediation to 'Win the Recovery'.** The early days of the pandemic saw many folks 'waiting' for things to get back to normal. The slow acknowledgement that things will never go back to pre-Covid environments and engaging in action has been a difficult hurdle and concept for many folks to wrap their heads around. Exacerbating the situation is that many managers are not sure what actions to take – there are no playbooks for the type of extraordinary events we are experiencing. Trying to determine what actions to take that work for now and that are not 'throw away' post Covid is top of mind with executives and managers.

FIRMS WANT TO KNOW: "WHAT ARE MY PEERS DOING ABOUT COVID?"

In our review, we have structured the pandemic and its surrounding effects into three phases to help delineate the actions we have seen and anticipate we will continue to see from our clients during/as we emerge from Covid. The 'mid-Covid' phase is the one with the greyest edges of when it started – and in particular – when it will end for most firms: we seem to be lingering without a definitive end in sight, making planning and action 'partly art and partly science'.

COVID
Immediate help right now to get through day-to-day business in unprecedented working conditions, resource issues and facility challenges

TACTICAL

MID-COVID
Planning better for next wave(s) of the pandemic, not knowing when, where the hot spots will be globally or exactly what help will be required.

NEAR TERM

POST-COVID
Planning for the new reality and better BCP/DR preparedness, eliminating some of the business and operational risk as fallout from pandemics.

LONG TERM

Many financial services firms are now 'mid-Covid' with the first 'wave' of virus cases behind them. They are all looking to not repeat the challenges in the early days of Covid, which caught folks off guard and unprepared. Most are struggling to estimate how long the lockdowns and work-from-home (WFH) protocols will be in place. Globally, firms are particularly sensitized to this since the pandemic is still creating 'hot spots' around the globe. The panacea for financial services managers right now is finding WFH solutions that are not 'throw away' and will help position the firm for competitiveness post-Covid.

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All countries are going through the 'waves' of the pandemic on different timelines and with different severity. To complicate matters, all levels of government globally are handling Covid situation protocols with advancement/retractions differently, making it difficult to keep on top of the rules that let getting day-to-day tasks done. In the initial stages of Covid, firms were/are just trying to get through the day in any manner possible. WFH environments have highlighted trade handling, manual processing, VPN vulnerabilities and other operational infrastructure-critical weaknesses. There are three major operational trends we are seeing within operations at financial services since early March 2020:

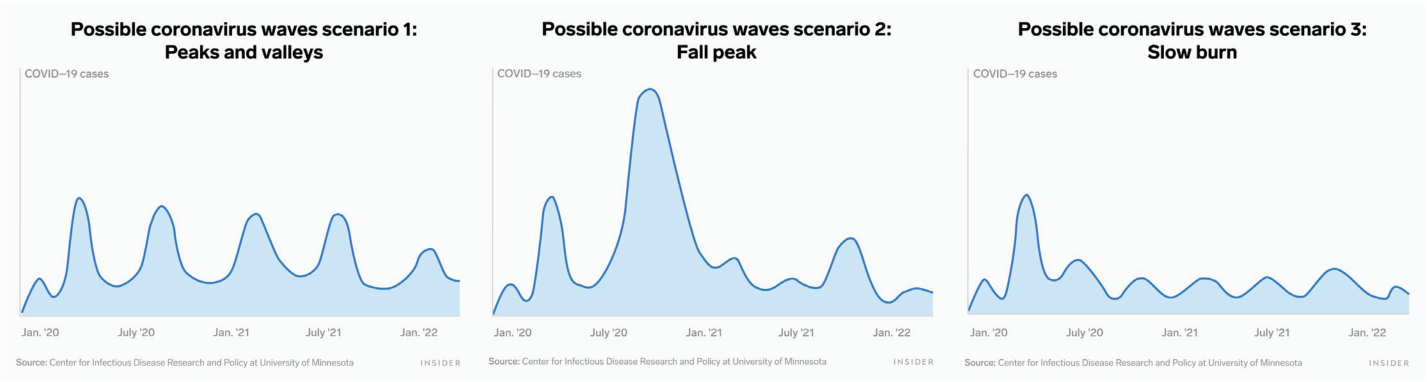
- Budgets and Prioritization are Shifting to Reflect Covid Impacts
- Pandemic DR/BCP and WFH Business Process Re-Engineering
- Cybersecurity, VPN, Business Risk Reviews, Tech Remediation

Budgets and Prioritization are Shifting to Reflect Covid Impacts. Since March 2020 budgets, P&L and forecasting have all been re-calibrated by firms – and for most, this exercise has been done more than once. There are entire categories (such as travel, conferences/events, entertainment) that have been all but eradicated from budgets, schedules and to-do lists. Other categories have skyrocketed in size commensurate with their rise to the top of the priority list for firms (such as VPN, cybersecurity, e-document handling, facilities cleaning and mobilizing projects in a WFH environment).

Pandemic Disaster Recovery/Business Continuity Planning and WFH Business Process Re-Engineering. As workplace attendance came to a screeching halt in early March 2020 for many, the back-up plan to have staffs work from home was never geared to be 100% of staff and full-time. Many firms have (and still continue to) back-fill on their VPN capabilities and are equipping employees to execute their roles from non-work locations. Paper-based and manual tasks in financial services firms are the hardest hit with many folks still having to go to the office on a regular basis to maintain core systems, issue or receive deposits and cheques or supervise onsite deep cleaning protocols. Firms are re-calibrating business processes for a work-from-home environment and looking to BPO for lift-outs of some steams of work and options for disaster recovery 'insurance' for handling pandemic hot spots. Predicting what to plan for is proving elusive. Health experts indicate there are three possible scenarios, all of which businesses need to have BCP/DR contingency plans to navigate the pandemic.

Cybersecurity, VPNs, Business Risk Reviews, Tech Remediation. These areas are seeing the most attention as core focus for attention and action. Many firms were/are not equipped for the majority of its staff to work from home and have set up solutions as fast as they can, sometimes not with optimal cybersecurity in place or policies/procedures for employees using VPNs (such as tokenized access). Migrating annual shareholder meetings to virtual shareholder meetings has seen a huge uptick in 2020 – luckily, it was one of the physical/manual areas of the industry that had a 'tried and true' solution lying in wait (as are e-signatures for a wide variety of financial services' needs). Other areas have been trickier to solve. Even with e-solutions, tech adoption must come with business process re-engineering to ensure the new manner of doing business dovetails into the old manner firms had for executing administration and paperwork to minimize business transition risk of migration.

POSSIBLE CORONAVIRUS WAVE SCENARIOS



Source: Businessinsider.com, May 2020

STP: CLOSER TO REALITY AS COVID PERSISTS?

Both sides of the street have talked about straight-through securities processing (STP) and looked toward moving to settle on trade day (T) for over two decades. The industry generally agrees nothing good happens between execution and settlement and that reducing the risk window is beneficial to everyone. While the window is inching its way down the T+n scale to achieve this goal, there are still outliers for many processes and instruments. Given the slow pace at which STP has moved, it is no surprise STP has also become known to mean straight to paper.

With trade volumes 2x to 3x higher than normal during various parts of the liquidity and economic crisis amidst the pandemic, trade breaks are also at very high levels. This has been an area particularly hard hit as firms try to execute 'business as usual' in a WFH environment. Notorious for being the costly part of doing trades, firms initially ramped up staffing to handle these volumes in a WFH environment in the early days of Covid but are now looking for a sustainable solution to alleviate these challenges once and for all.

STP for both sides of the street has been an elusive goal for two decades – perhaps between Covid elevating it as a priority and technology today, the industry can actually advance the ball to T after many decades of T+n. Solving STP has long been a problem of batch processing dependency. While that is still on the horizon for accounting reconciliation and trade confirmation, confidence levels in settlement accuracy is much more attainable due to blockchain, DLT and AI than ever before.

MINI-CASE STUDY: CLOSER TO STP BY ADOPTING AI FOR TRADE BREAKS DURING COVID

With trade volumes spiking and entire operational units in WFH environments, many firms have supplemented with addition remote staff to handle operations issues, such as trade breaks. In addition to operations assistance, which Broadridge Consulting has stepped up and provided to clients during Covid, the firm has also started to help clients examine and adopt longer-term e-solutions, DLT, blockchain and AI technology tools.

One global bank asked if Broadridge Consulting could help reduce their trade breaks using AI with a permanent solution. Using a proprietary matching engine that was customized for the client's needs and interfaced to Intellimatch to review all unmatched trades, it is adopting AI for suggested remediation, locating trade breaks and developing new matching rules it develops in the rules-based engine. Requirements were gathered, customization and testing done, and the AI break matching process was brought in production inside three months.

The AI platform is garnering better matching daily, facilitates improved predictive rules/analytics for future breaks and expedites the matching/resolution process. Starting with a 70% matching rate on Day 1, the platform increased in a few days to over 86% trade breaks reconciled with Intellimatch, and the rules-based engine is becoming more sophisticated daily. The platform has an AI version of the "four eyes test" and performs a two-layer stage review in quick order (see table below).

STAGE	TEST	AVERAGE TIME/1 MILLION TRADES	TASKS
1	Recommender (AI/Machine Learning)	42 minutes	Mines and extracts rules from data
2	Rules Engine	15 minutes	Runs the extracted rules against the breaks and performs allocation

The longer social distancing and WFH are in place, the greater the change will look like to 'the new norm' post pandemic.

The AI platform reviews one-million trades in 42 minutes in the Rule Recommender and just 15 minutes in the Rules Engine, alleviating hours of investigation the former eight- to 10-person team did daily. A dashboard facilitates end-user and manager supervision views to quickly assess testing results. The reduction in matching remediation to operational costs on trade breaks has dropped over 60% and the firm is one step closer to STP. This initiative is also decreasing resource effort in this area by 60 to 80%, allowing the staff to focus on other strategic areas of the business.

The mandate has been so successful that the client has initiated a move to launch the same AI platform with another line of business and is considering two others as phases 3 and 4. This is one example of Covid budget spend and re-prioritization of projects to deal with the challenges the pandemic and WFH environment home have presented. In comparison, moving to remediate trade breaks and towards STP is all 'behind the scenes' and is a simple risk/reward ratio to examine compared to the next topic: interaction with clients.

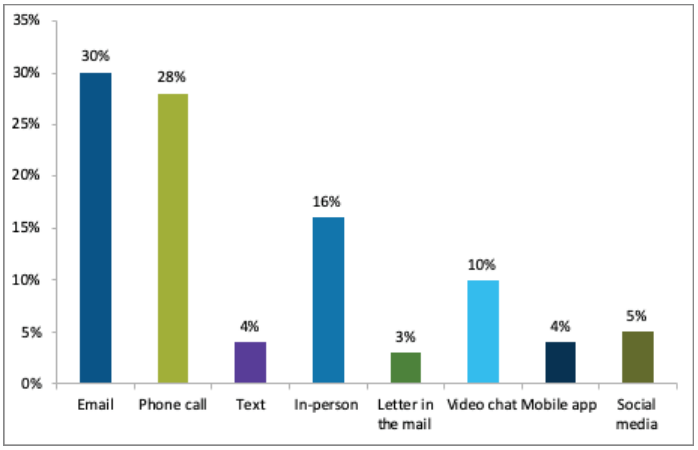
MOVING TO DIGITAL: HAS COVID SHIFTED CLIENTS' MINDSET ON PAPERLESS?

Since Covid, many firms have discussed the challenges of determining spend and prioritizing a move to paperless for interaction with their clients. Broadridge Consulting has worked with clients across core lines of business (capital markets, asset management, wealth, communications) in addition to many areas of need (staffing/training/project ramp-up remediation, BPO and DR insurance for handling pandemic 'hot spots' going forward and cybersecurity/cloud/VPN tipping points for business risk in sustained WFH environments). This is not an exhaustive but a more representative list of the assistance firms are seeking for budget allocation, prioritization and trying to determine 'how is everyone else handling the Covid environment'. Digital is just one of those areas being explored for solutions.

The spotlight for this section is on client mindset during Covid and how their attitudes and priorities on interacting with their wealth management is shifting. This includes all types interaction, contact and paper that comes with managing the wealth facets and how wealth clients want to engage with their financial advisor. Many firms fear losing a customer over changing a process (read: boomers). Others fear losing a client NOT changing a process (read: millennials), so therein lies the dilemma and the question firms are asking: has the gap between boomers and millennials and how they want to interact in the financial dealings narrowed as a result of Covid?

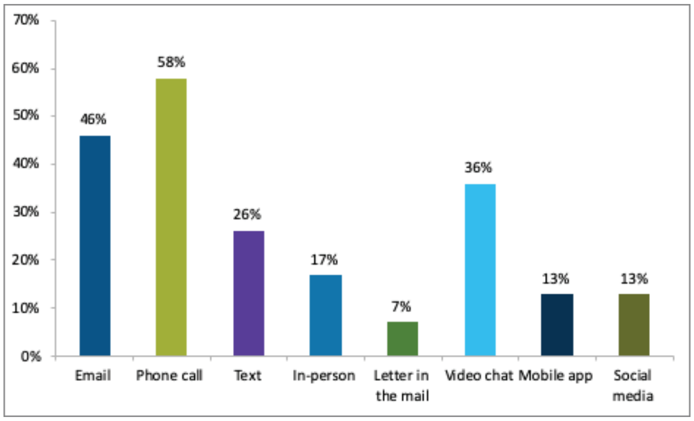
The survey below taken during Covid in late Spring indicates status quo preference for e-mail and phone. Even in person is preferred to video conferencing in the early days of Covid, which is interesting given social distancing policies. The numbers vary on this 1,000-person survey between boomers and millennials but looking to adapt better Webcast tools appears to be a top-drawer item to upgrade for the need to service clients, especially older/boomer clients.

PRESENTLY, WHAT IS YOUR MOST PREFERRED COMMUNICATION METHOD FOR YOUR FINANCIAL ADVISOR REACHING OUT TO YOU?



To reinforce, change is happening in wealth interaction preferences, just not as fast as many would hope with older clients. Another question in the same survey asked: "What new mode(s) of communication have you used with your advisor," and the feedback was interesting. The answers to this question bring more hope to the space that operations change in flight to more digital and being used with clients, perhaps accelerated by Covid social distancing circumstances. There are more folks engaged in video chats and less with in-person meetings, which is to be expected. Social media, text and mobile apps are also up, which is also to be expected, but so are letters in the mail.

WHAT NEW MODE(S) OF COMMUNICATION HAVE YOU USED WITH YOUR ADVISOR?



Workflow processes to engage with clients are moving towards digital for video chat, but an increase in mail indicates e-signature is either not fully rolled out among financial advisors or clients are resisting adoption or both.

These numbers vary with millennials versus boomers and men versus women, as to be expected, but the general trend is adoption at various rates of speed to digital. Millennials are quicker to adopt digital and go paperless, while boomers are slowly adopting some digital means but resistant to letting go of paper copies. The message is clear that financial services will need to build out digital for slow adoption by the industry/ wealth customers while maintaining paper options for clients unwilling to cut that tie in favor of digital only.

CONCLUSION

There is a lot of talk about what the 'new norm' will look like post pandemic but we are still in the early stages of this Covid pandemic and knowing when the end will be in sight and what the 'new norm' will look like at that point is speculative at best. Each day major facets of the economy are impacted by juggling the social distancing and lock-down policies.The longer they are in place the more likely that economic impacts, permanent changes to our way of life and doing business will be enormous. Financial services are adapting for today and Broadridge Consulting is helping firms prioritize, budget and adopt those changes to work for today but also be relevant for tomorrow.

There are adages that habits are changed by 21 days of doing the same new task. While not everyone agrees with the concept, the world is well past a 21-day cycle for adapting to the current environment. We can be assured the longer we are in this WFH/ social distancing environment the less likely the 'new norm' will look anything like our previous way of life or business environments. The term 'change is constant' has never felt more apt than at present.

As a Managing Director and a Practice Lead for Consulting at Broadridge, Carol brings three decades of experience to financial services mandates and helping firms achieve business goals and remain competitive. Carol has spearheaded many end-to-end transformational mandates by optimizing technology stacks, addressing data governance and migrating to more effective processes and workflows to service disruptive business impacts and demands. She has a BA from The University of Toronto, a Certificate in History from The University of Edinburgh and a Degree in Programming and Systems Analysis from The Institute for Computer Studies.
Carol.penhale@broadridge.com

Jean Reilly is passionate about creating the future and building the technology that makes the future happen. Jean's 20 years of experience in Management Consulting, Silicon Valley and the Financial Services Industry have led to the creation of highly adopted Fintech products for Broker Dealers, Financial Advisors and Investors. In addition to Financial Advisor platforms, Investor portals, digital advice products and digital delivery operation models, Jean has also created proprietary AI products for banks to manage collateral portfolios and detect appraisal fraud. Her collateral management data products developed during the financial crisis and implementation of Dodd-Frank continue to be considered the industry standard benchmark. Jean received her BA from UCLA and her MBA in Finance and Marketing from USC.
Jean.Reilly@broadridge.com

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