Capacity, Scalability and Agility: the new principles of Corporate Actions in 2020

61% of firms in our industry have paid out more than US$2 million in corporate actions compensation in the last 24 months - according to the latest ValueExchange / Broadridge "Asset Servicing Innovation" survey (run in cooperation with The Network Forum, ISSA, ASIFMA and Global Custodian).

In an era of extreme cost control and risk governance, few areas of our businesses are allowed to sustain such huge losses without very serious scrutiny. Yet somehow there is a collective fatigue around the corporate actions space. We've seen the big numbers many times before and yet we've managed to survive this far – so why would we put corporate actions at the top of our investments list now?

The answer: because 2020 has seen the world of corporate actions change significantly.

"This year's COVID-19 pandemic has combined with regulatory triggers (such as SRD II, SFTR and UMR) to create a 'perfect storm' of pressures on a part of our industry," according to Mike Thrower of Broadridge. With new technologies and new standards now readily available, the corporate actions industry has more opportunity than ever to transform.

But how are we reacting to that transformation? After decades of inaction, are we now transforming as fast and fundamentally as our shareholders would expect to remove these exposures? And what is the right level of response? Can't we just hire more people like we did last time?

A new look at old truths

First let's recap on what we think we know about corporate actions.

A. Your corporate actions are a multi-million dollar risk centre
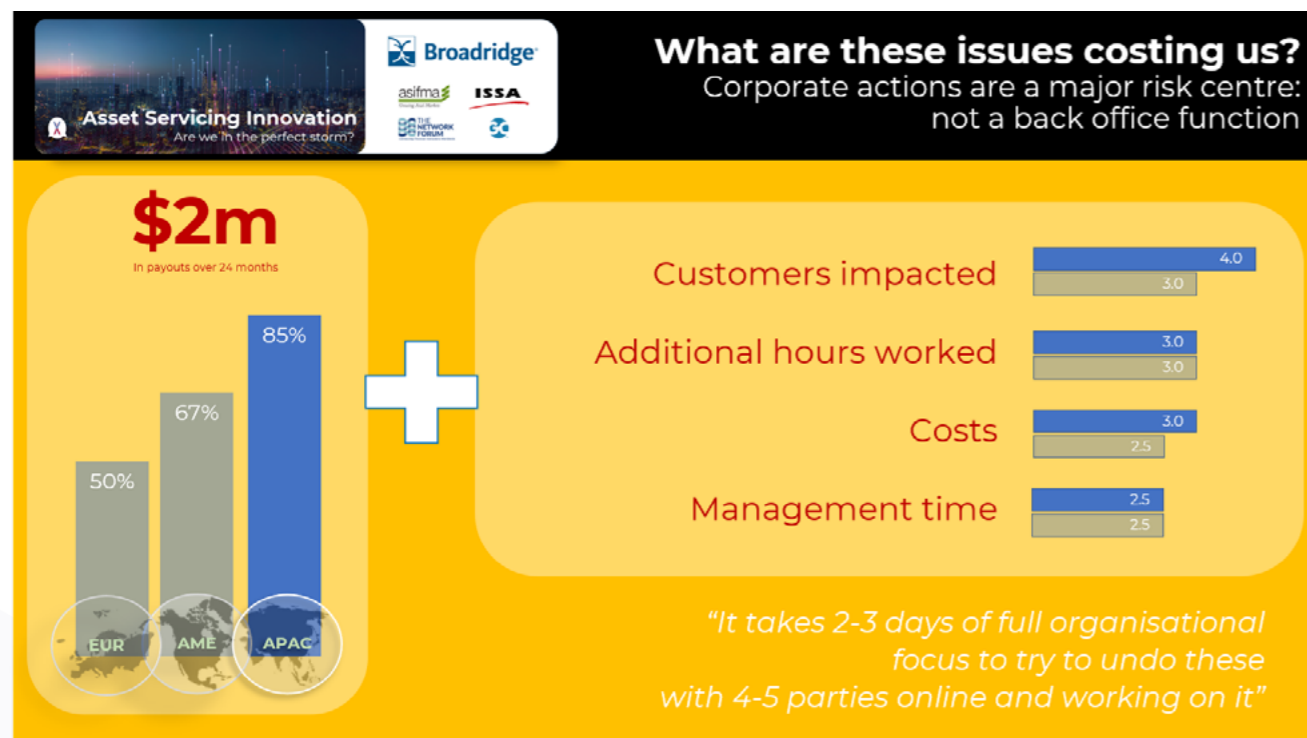
Calculating the costs of our corporate action risk is a dark art but it is clear that the total costs we each carry far exceeds the FTE costs of those processing our events in an offshore centre.

First come the payouts. Over US$2m in our survey but, anecdotally more likely to be in the range of US$5m to US$10m annually (particularly in Europe and North America).

Second come the extensive, hidden costs. Our survey found that each corporate action error triggers significant customer revenue impact (cited by 80% of respondents); additional hours worked (cited by 60% of respondents); increased costs (60%) and each failure draws on senior management time (50%).

"It takes 2-3 days of full organisational focus to try to undo these with 4-5 parties online and working on it – often including the CEO".

B. It's a long way from the front to the back office

There are many weak links in our corporate action infrastructures – but one of the biggest challenges that we face is agreeing on what matters. Whilst CEOs believe that around 95% of their corporate actions are processed automatically (supported no doubt by Sales and Relationship managers – who believe in around 90% automation); those in back offices and operations believe their automation to be closer to 40% of corporate action flows. It's hard to agree on how to fix a problem when we don't all acknowledge that it exists.

C. There is no single corporate actions problem

This variance in perceptions is easy to understand. In Europe and North America, mandatory events are perceived to be around 65% automated. In these regions it is the optional and voluntary events that cause an STP drag, owing to system limitations and the continued existence in the US of paper-based procedures. Asia faces a different set of challenges however: with much lower levels of automation in mandatory and optional events – due to significant obstacles in automating connectivity to local depositories.

Yet further downstream, all regions do share a common view of the consequences of poor data and inconsistent automation in their workflows - with cash forecasting, tax claims and client servicing all rated as the least optimal areas of the corporate actions lifecycle. In the absence of reliable data and instructions, we are all caught in a cycle of excessive re-validation and oversight – which slows us down and diminishes our efficiency from front to back.

The changing shape of corporate actions

Few of these factors are new to us and so are unlikely, on their own, to trigger a major shift towards transformational automation.

Yet 2020 has changed that. The increased volume of corporate events this year (amidst the considerations of working from home, etc.), the increased complexity of those events and then the late postponement of those same events during COVID have introduced 3 new design criteria for our corporate actions infrastructures: capacity, scalability and agility.

As the shape and behaviour of corporate action flows has changed, this year has shown us that we need to find new solutions that will free up additional capacity; give us the scalability to keep step with increasingly complex events; and give us the agility to manage when dividends behave unexpectedly.

Capacity, scalability and agility are new challenges in the corporate actions world and so it is no surprise that this changing shape of corporate actions is the leading concern for market participants across both North America and Asia – both today and in the year ahead (although Europeans continue to wrestle with near-term regulatory pressures such as SRD II and ISO20022 as a consequence).
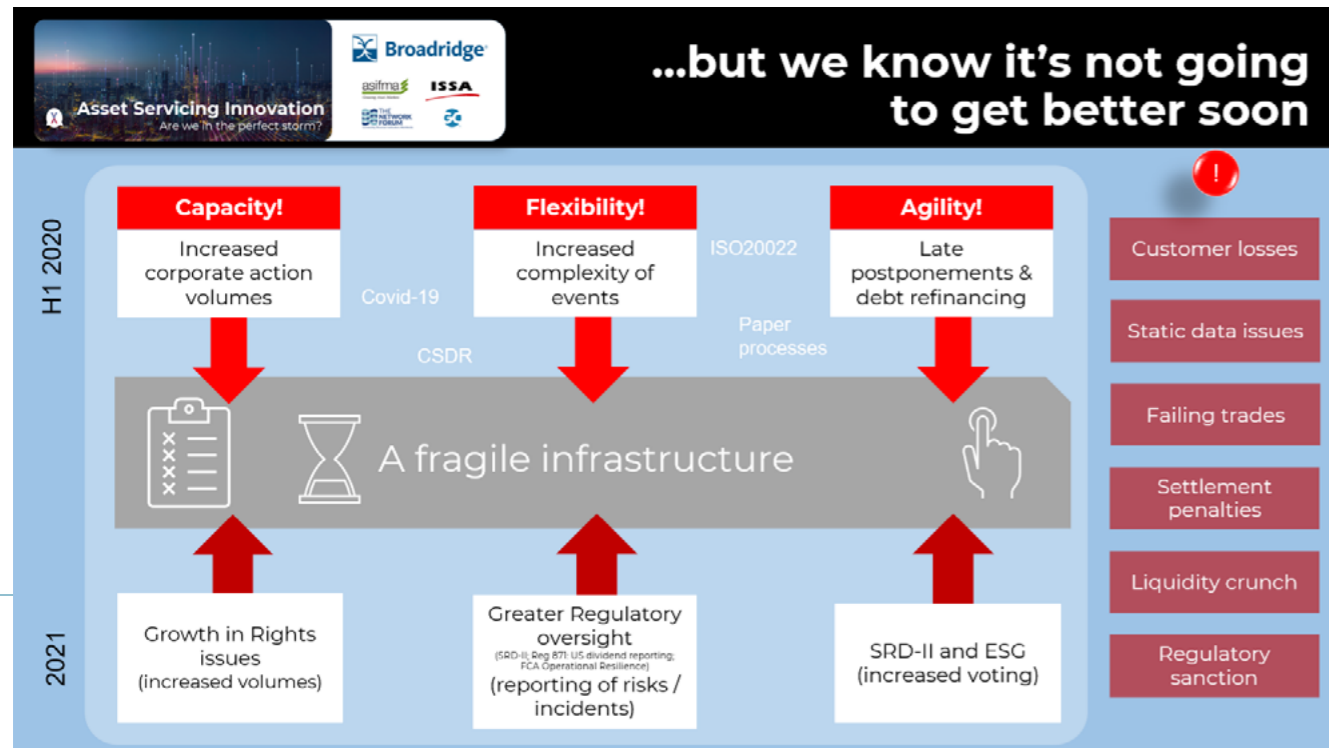

Can we get by just a little longer?

In a rare moment of alignment, CEOs, COOs, Product managers and even back office staff all agree that the leading solution to today's challenges is system transformation. Whilst increased hiring has historically helped by making more people available to process more (of the same) events –that tactic doesn't work in a world where events are behaving unexpectedly and when the reporting deadlines are increasingly tight.

For 55% of us, system transformation means changing new platforms for old systems for new – bringing in or building new technologies that can reduce risk by automating manual interactions (leveraging machine-learning or potentially DLT); accommodate the changing requirements of ISO20022, SRD II and CSDR; and help us to deal with events such as digital dividends (as we saw with Overstock in the US this year).

Yet this is not the only answer. The use of Robotics / RPA remains the primary course of action for 26% of the market – especially in Asia, where is it considered a solution for everything from event sourcing to customer servicing and cash flow management.
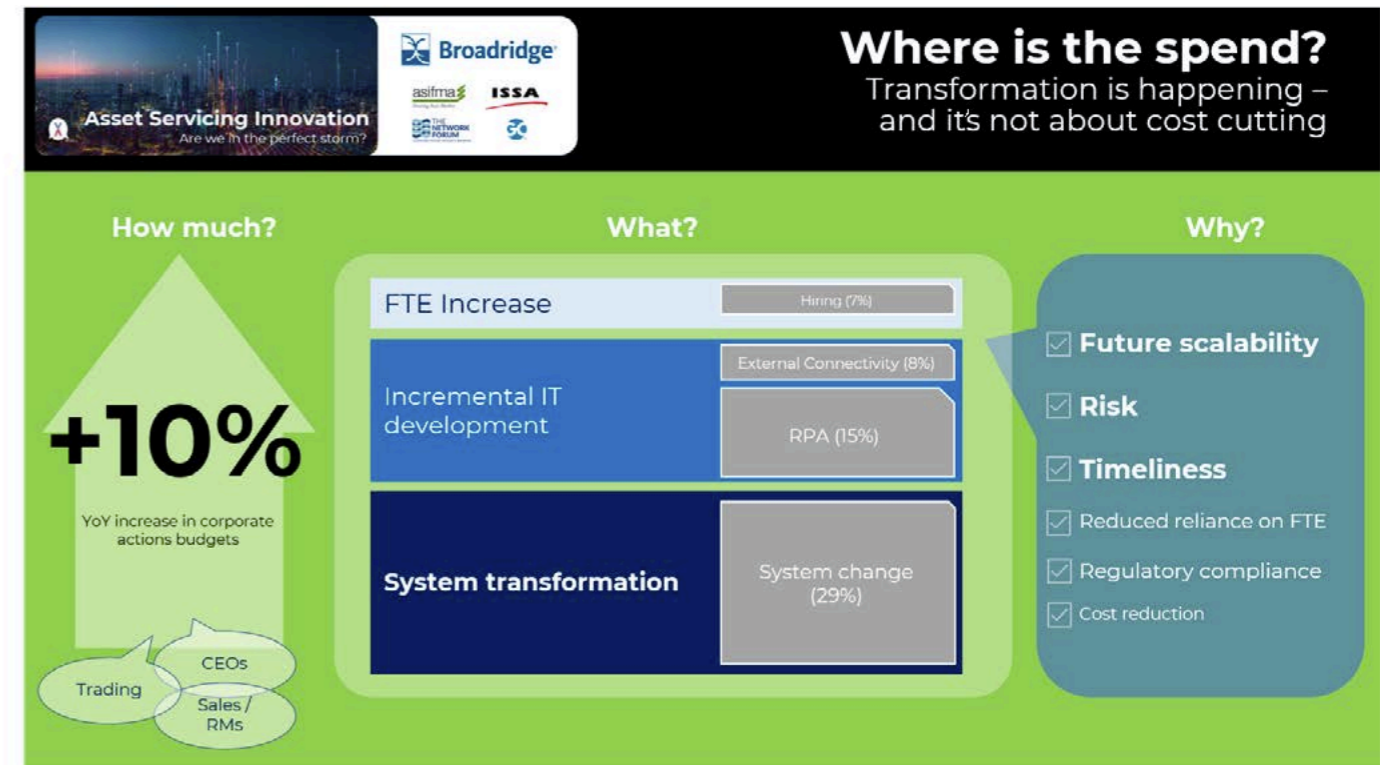
The business case for change

As the world of corporate actions processing has changed, so too has the business case that supports its evolution. What has been, for the last decade, a headcount arbitrage exercise (where we have moved our processes to cheaper locations) now needs to be seen as a self-funding, future-proofing project: ensuring survival in the face of a changing market and, more importantly, delivering tangible benefits in client revenues, income earnings (from elective events), new product development, capacity management, liquidity management….and of course avoiding more payouts.

This year, organisations are set to increase their corporate action budgets by around 10% – in what is hopefully an acknowledgement by all levels of stakeholder that this multi-million dollar risk problem not only exists but is growing more acute. There remain many major dependencies (both internal and external) in the path towards automation – but for the first time in many years corporate actions may be at the centre of our attention.

This survey has been conducted in cooperation with leading industry players and associations in order to help drive meaningful change in our markets. If you would like to explore over 200,000 data points from our survey then please contact us at info@thevalueexchange.co – and if you'd like to get involved in the industry discussion then please contact Broadridge, ISSA or ASIFMA.