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Deloitte asset servicers survey
The age of transformation

Centre of excellence for asset servicing

August 2023

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Deloitte asset servicers survey | A message from Deloitte

A message from Deloitte

We are pleased to welcome you to Deloitte's 2023 asset servicers survey. As a global asset management industry advisor, we strive to keep our finger on the market's pulse. This is why, as part of Deloitte's asset servicing center of excellence, we run an annual survey alternating between asset servicers and asset managers. The responses allow us to gather the necessary data to grasp the current challenges faced by the entire investment management value chain, the priorities driving the transformation agenda and the emerging major trends, as well as how these elements evolve.

With 15 of the largest global players headquartered across Europe and the US taking part, this year's results summarize the views of asset servicers representing approximately 75% (USD176 trillion) of the global combined assets under administration (AuA). The respondents provide a range of traditional back office services as well as some middle and front office services to their investment management clients, and cover organizations servicing both traditional and alternative assets.

While the market has mainly weathered the COVID-19 storm, the asset servicing and asset management sub-sectors continue to face challenges such as ongoing fee pressures, growing client demand for data insights and evolving product needs, rising regulatory pressure, and the war for talent. As such, players must continue to review their operations to remain ahead of the curve.

Our analysis of Deloitte's 2023 survey has uncovered five key trends impacting the asset servicing sub-sector. First, asset servicers need to develop sophisticated data management systems to meet their client's data and insight expectations. Second, participants admit there is room for improvement in adopting innovation and are shifting towards proactively delivering. Third, asset servicers are reviewing their operating models to expand their front and middle office services while offshoring or outsourcing some services historically regarded as core. Fourth, alternative investments remain a significant source of growth. And finally, environmental, social and governance (ESG) reporting criteria are pushing asset servicers to develop their existing capabilities further.

While many of these trends were featured in the Deloitte 2021 asset servicing survey and are expected to continue in the medium term, we have identified interesting nuances in how these trends are playing out year on year.

We hope you enjoy reading this report. If you have any questions, please get in touch.

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Five key challenges and trends

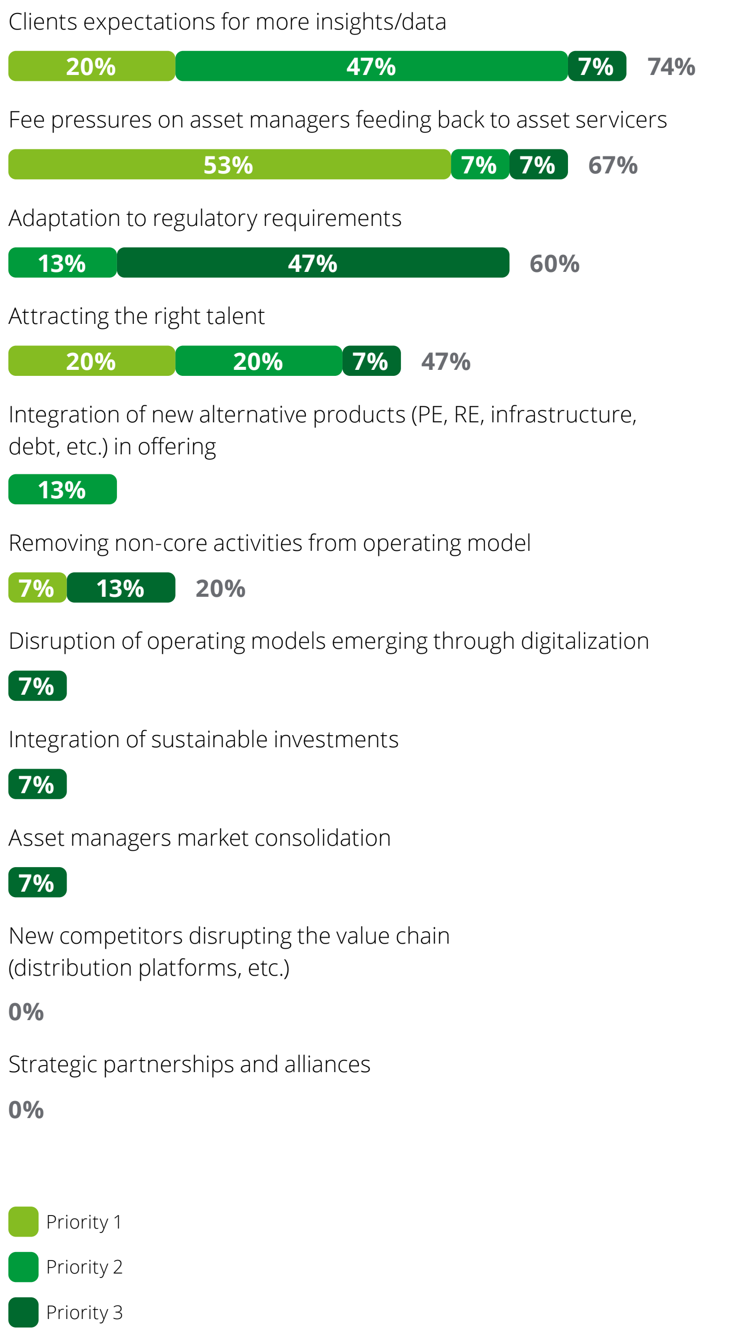
ARISING FROM THE SURVEY

KEY CHALLENGES AND TRENDS

While asset servicers face a wide range of challenges, most participants prioritize the same issues.

What are the asset servicing market's main challenges?

Top-three priorities



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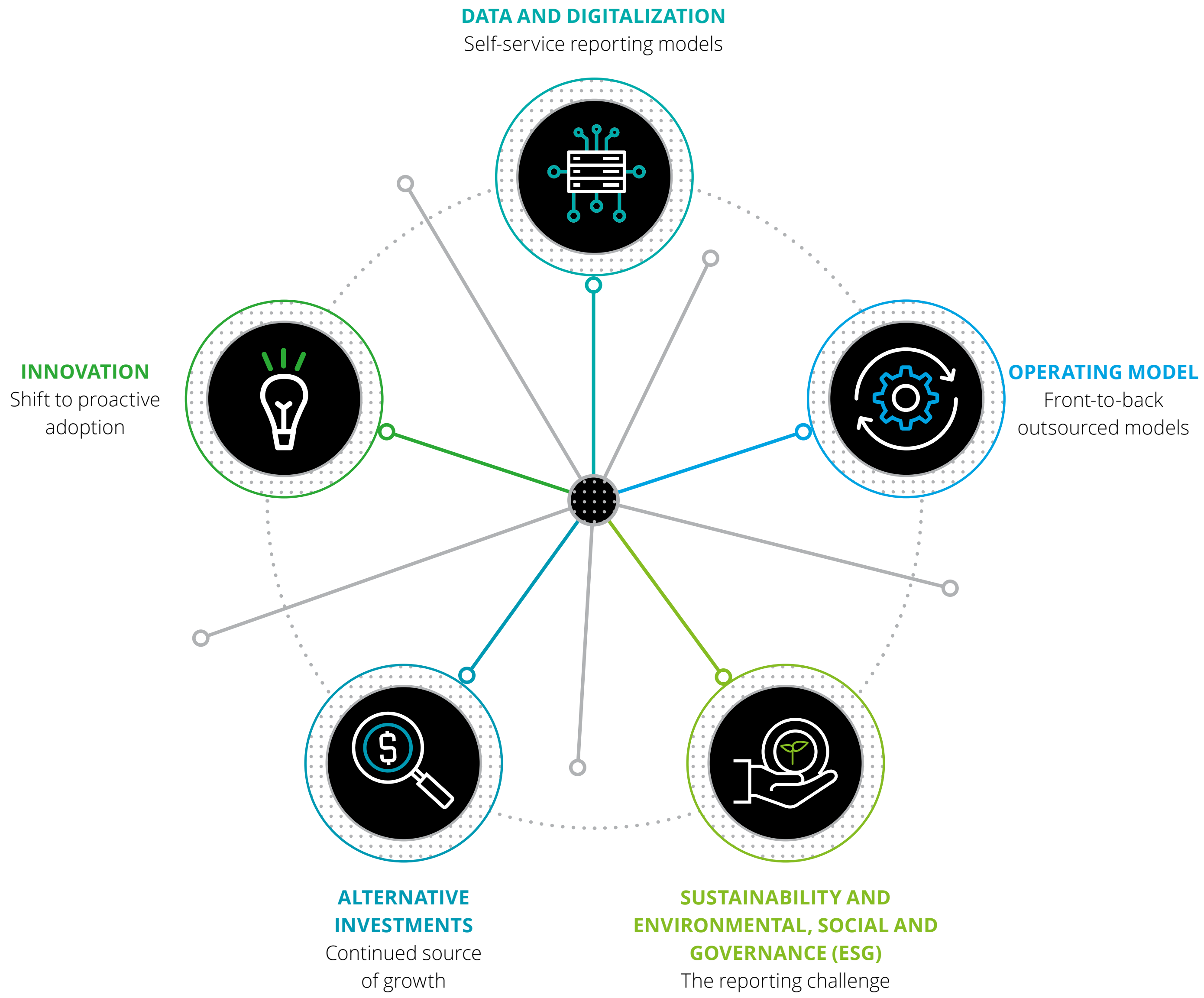
Five key trends emerged from the survey



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KEY CHALLENGES AND TRENDS

#1 Data and digitalization

A KEY DRIVER FOR TRANSFORMATIONAL CHANGE

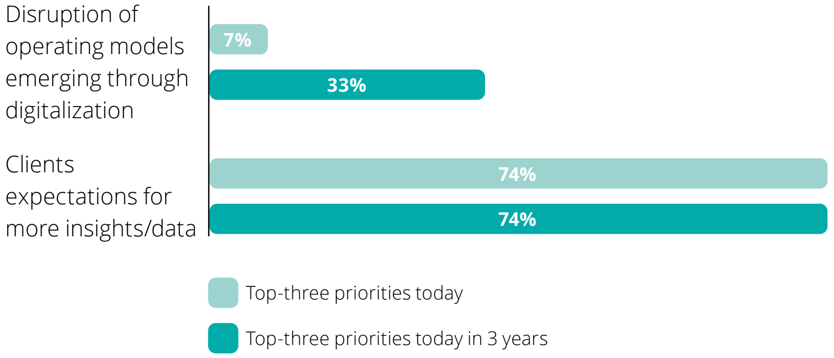
KEY CHALLENGES AND TRENDS

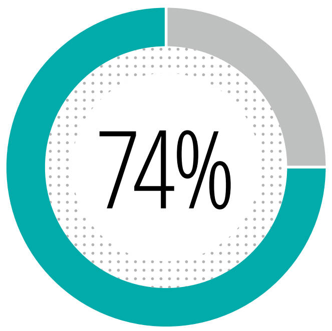
#1 DATA AND DIGITALIZATION

Respondents' main challenges revolve around **client expectations for data and insights**, with digitalization being a major trigger for disrupting current operating models.

Data and digitalization are clear challenges to asset servicers both today and in the future

What are the asset servicing market's main challenges today and in 3 years? Top-three priorities





of respondents view **client expectations for more insights/ data** as a priority.

The role of data and data management continues to be a priority for asset servicers as they develop and introduce more value-add services to asset managers. With data being the engine that drives the value chain, asset servicers' main challenge still revolves around client expectations for real-time data analytics and the demand for superior data insights.

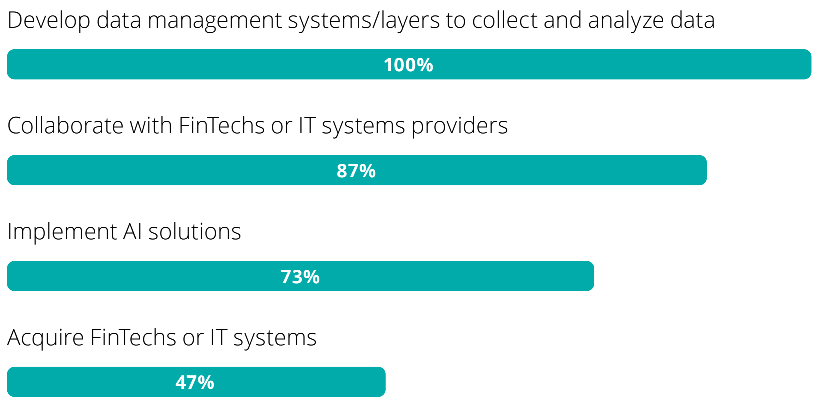
In Deloitte's 2021 asset servicing survey, only 40% of asset servicers ranked providing investors with a seamless customized experience and access to real-time portfolio data as a high priority. However, the 2023 survey uncovers a significant shift in approach, with 74% of respondents now believing that client expectations for more insights and data are a critical driver.

The disruption of new operating models emerging through digitalization remains stagnant, with 30% of 2021 respondents believing it to be a priority and 33% of 2023 respondents ranking it as a number one priority.

To tackle these data and insight challenges, all respondents plan to **develop sophisticated data management systems**, with some also collaborating with third-party FinTech players (via acquisition or partnerships) and implementing artificial intelligence (AI) solutions.

Acquiring or collaborating with FinTechs are popular strategies to tackle market challenges

How do you plan to face the main market challenges?



Asset servicers are continuing to be focused on data and advanced analytics to provide asset managers with real-time insights into their portfolios. The convergence of AI, data analytics, and cloud computing is rapidly transforming how asset servicers service their clients—the asset managers. Therefore, adopting these technologies early on will enable asset servicers to become more knowledgeable and agile, while increasing the sophistication and efficiency of their operating models.

To achieve their goals, respondents are investing heavily in new data services such as data management systems, collaborating with IT system providers or FinTechs, and implementing AI solutions.

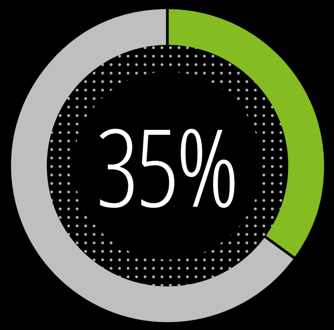
In the 2021 survey, 23% of respondents planned to acquire solutions within the next 5 years, while in 2023, 47% of respondents are considering collaborating a FinTech or IT system provider.

One interesting development is that 87% of today's respondents plan to collaborate and form partnerships and strategic alliances with FinTechs and IT system providers instead of building in-house capability. In comparison, only 50% of 2021's respondents were committed to collaborating with a third party.

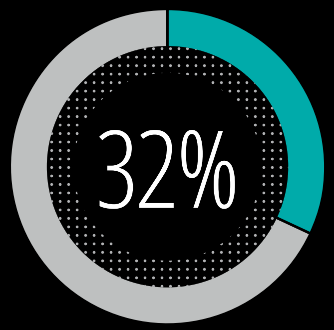
This demonstrates a mindset shift around future operating models and addressing barriers to digitalization, with FinTechs viewed as digitization enablers rather than value chain disrupters. Asset servicers are partnering with tech firms to offer real-time insights and data to their clients, allowing them to benefit from a faster speed to market than with in-house builds.

KEY CHALLENGES AND TRENDS
#1 DATA AND DIGITALIZATION

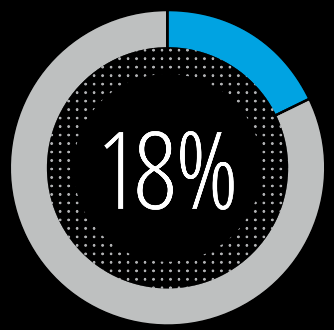
Top 3 budget allocation areas for the next 5 years



Data management



Core platform



Exponential technologies

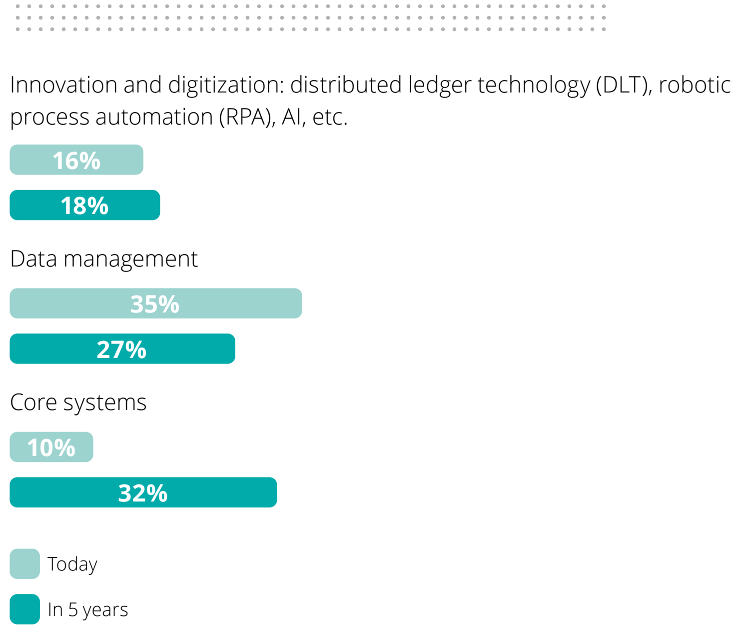
Asset servicers realize **digitalization and data management are long-term plays** and are committed to investing a significant portion of their budget.

In only 2 years, asset servicers' investment spending has shifted significantly, with data and core platforms now a priority.

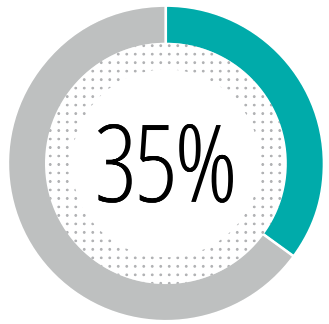
All respondents are planning to develop sophisticated data management systems. As a result, their budget allocation in data management has jumped from 14% in 2021 to 35% in 2023, highlighting its importance in the asset servicer ecosystem.

Further, core system investment is set to surge in the next 5 years to absorb over a third of the investment budget, mainly because their legacy business and technology architecture is unfit for purpose and not cloud compatible. Respondents now plan to invest 32% of their budget in the next 5 years, compared to only 14% of 2021 respondents.

Average percent of investment budget allocated to these activities



Although spend in data management services is predicted to decrease in the next 5 years, it remains **a leading consumer of investment budget**.



of 2023's respondents have allocated their budgets to data management as a top priority, compared to **14% in 2021**.

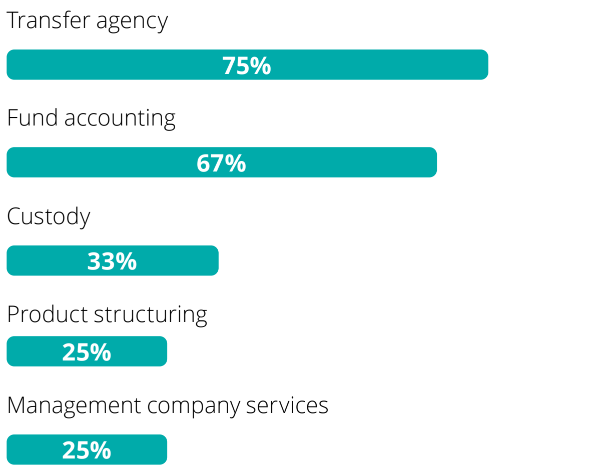
KEY CHALLENGES AND TRENDS

#1 DATA AND DIGITALIZATION

Respondents believe **digitalization can provide the most benefit** to transfer agency and fund accounting areas—this is aligned with planned spend, particularly in the back-office-system space for alternative players.

The entire value chain can benefit from digitalization, especially the transfer agency and fund accounting spaces...

Which value chain element do you believe has the highest digitalization potential? Top-three priorities



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Transfer agency

In 2023, a staggering 75% of respondents tagged transfer agency as the function with the highest digitalization potential, compared to just 40% of respondents in 2021.

While the focus was on digitalizing documents until recently, this has now shifted to digitalizing the know-your-customer (KYC) and anti-money laundering (AML) processes. The significant growth in regulatory requirements over the past 10 to 15 years has ballooned the financial crime cost of the transfer agency function. Digitalizing the onboarding process, including e-signatures and the automated screening of prospective investors, is critical to helping reduce KYC/AML costs, while also driving key efficiencies within the process.

Fund accounting

This year's respondents voted fund accounting as having the second highest digitalization potential of back-office functions, surging to 67% compared to 20% in 2021.

Advances in AI, including exponential technologies—such as RPA and the training of algorithms via machine learning—have led to improvements in the automation of core fund accounting that were not previously possible. The digital capabilities of real-time dashboards as part of the NAV calculation lifecycle also enable asset managers to track and analyze the NAV process.

Custody

The custody function's digitalization is more advanced compared to transfer agency and fund administration. The account opening process is the activity most transformed through technology, closely followed by proxy voting, corporate actions, and messaging processes.

That said, 33% of respondents believe that custody still has potential for digitalization, compared to only 10% in the 2021 survey. Most notably, as the sector's demand for digital assets grows, developing digital custody solutions will be critical. Today, most custodians are in the process of developing the capability to support the servicing of digital assets.

In 2023, **64% of respondents plan to develop services enabling asset managers** to identify investors' most popular strategies.

KEY CHALLENGES AND TRENDS

#1 DATA AND DIGITALIZATION

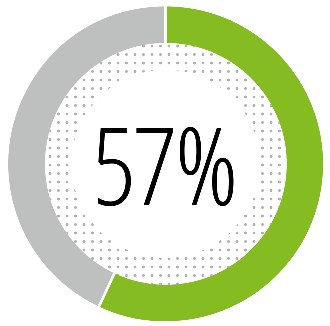
...with firms planning to develop reporting tools to support their digitalization efforts

Most respondents are continuing to develop real-time self-service reporting models alongside real-time dashboard capabilities on investment attributes, up from 80% in 2021 to 86% in 2023. More specifically, transfer agents intend to enrich their digital offerings by developing dashboard capabilities for clients to view inflows and outflows, while fund accountants are eager to develop tools that allow their clients to analyze NAV variance.

Due to transfer agents' key positioning between asset managers and investors, they can provide superior data insights on investor behaviors to asset managers. In 2023, 64% of respondents plan to develop services enabling asset managers to identify investors' most popular strategies.

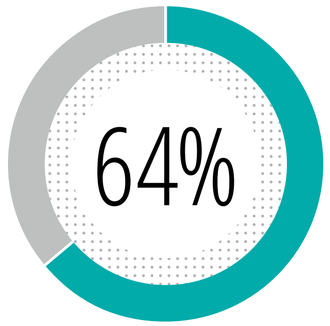
In addition, 57% of respondents are looking to develop distribution support services that create more value-added products and services in the transfer agency space, an investment that will generate higher margins compared to vanilla products.

Services respondents plan to develop



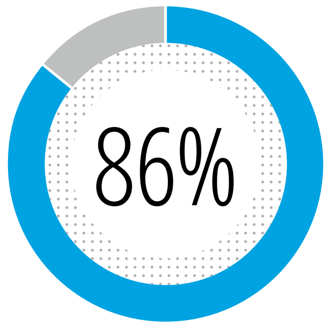
Distribution support services

Over half of respondents are planning to build services that support distribution, believing there is a key growth opportunity in expanding transfer agency services within this space.



Statistics on investor behavior

Sixty-four percent of respondents want to develop the capability to provide asset managers with insights into investor behaviors, helping managers refine their product marketing to drive alpha.



Real-time data, self-service models

Most respondents are focused on developing real-time data and self-service models for both portfolio managers and investors, to help them make more informed investment decisions.

Popular digitalization efforts include **developing real-time self-service reporting models and live dashboard capabilities** on investment attributes.

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KEY CHALLENGES AND TRENDS

#2 Innovation

A BARRIER TO TRANSFORMATION

KEY CHALLENGES AND TRENDS
#2 INNOVATION

The **key drivers for innovation** are client expectations, cost pressure, the growing volume and complexity of reporting requirements, and the opportunities offered by emerging technologies (e.g., RPA and AI).

Innovation is a critical factor in the successful transformation of asset servicers. Staying ahead of the curve with the latest innovative technology allows asset servicers to continue creating scalable end-to-end solutions while enhancing operational efficiencies.

Through innovation, asset servicers will find solutions to cope with the challenges they have experienced over the last decade, especially considering the rise of AI and the proliferation of operational use cases.

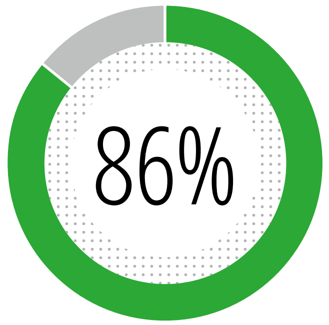
As the investment management sector's pace of change accelerates, digital laggards will struggle to catch the digital vanguards. Asset servicers are recognizing that investment in technology and the digitalization of manual processes are fundamental to their transformation journeys. Today, most asset servicers are poised between "enhancing" and "innovating" on the digital maturity curve.

Client expectations, cost pressures, and technological opportunities drive innovation

Key drivers for innovation

Driver	%
Increase in client expectations	100%
Significant cost pressures	86%
Growing volume and complexity of reporting requirements	79%
Opportunities emerging through technologies (RPA, AI, distributed ledger technology)	79%

of respondents recognize that a key innovation driver is **client expectations.**



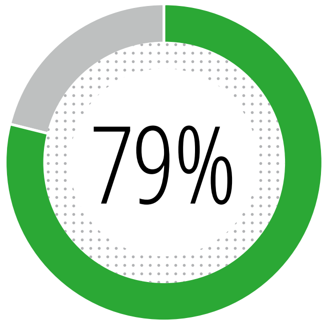
of respondents are seeking innovation to relieve **ongoing cost pressures.**

KEY CHALLENGES AND TRENDS
#2 INNOVATION

Current innovation projects

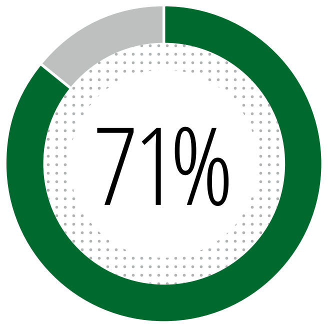
Operational technology

All asset servicers are under pressure to update part of their application landscape to keep the pace with evolution needs. Similarly to 2021, all respondents are working on innovation projects around operational technology.



Regulatory technology

The sector's focus on regulatory technology projects has risen from 60% in 2021 to 79% in 2023, particularly due to the increasing need for ESG reporting solutions.



Client engagement

Client engagement related projects have fallen from 90% in 2021 to 71% in 2023, likely due to real-time dashboard reporting now allowing asset servicers to turn their attention to other priority innovation projects.

Client expectations are driving current innovation projects to improve operations and client engagement.

Regulatory innovation projects are also a focal point due to compliance pressure on asset servicers and from their asset management clients.

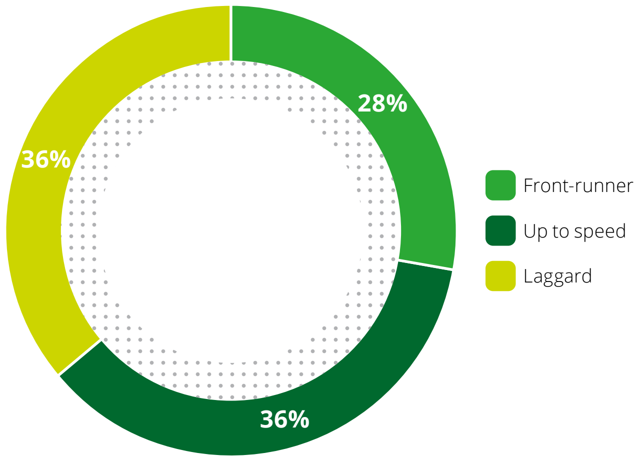
Innovation projects are centered around operations, regulations and client engagement.

Operational efficiency costs, regulatory costs, and client expectations continue to assert bottom-line pressure on asset servicers. As a result, operational technology remains a key priority for all respondents. Asset servicers are tackling operational challenges and seeking better agility—from addressing expensive technology maintenance requirements by adding layers to legacy systems, to investing in revolutionary core tech, to drive efficiency and cut long-term costs.

Regulatory technology that eases asset servicers' compliance burdens continues to be a key focus for the industry, from addressing complex regulatory requirements to implementing incoming ESG regulations. Asset servicers continue to look to RegTech partners for solutions in this space.

Asset servicers grasp there is room for improvement, with 36% believing they are innovation laggards

Do you see yourself as a front-runner, up to speed or laggard in digital innovation?



The 2023 survey has uncovered a thought-provoking insight into the sector's innovation and digital transformation trend. In 2021, asset servicers were asked if they viewed themselves as front runners, up to speed or laggards regarding digital innovation. Most asset servicers believed they were above average, with 60% up to speed and 40% front runners.

Two years later, a very different picture has emerged. In 2023, only 28% of asset servicers view themselves as a front runner, with 36% believing they are up to speed and 36% labelling themselves innovation laggards. The reality of the hurdles to digital technology adoption has dawned, and while asset servicers have been slow to embrace innovation, a shift towards proactively handling innovation has occurred.

With that being said, digital technology adoption is a crucial source of competitive advantage, with leaders in this space enjoying better margins and performance than their peers. Moving up the digital maturity curve will be critical for most asset servicers, requiring a strong strategy, a deep understanding of what is required to execute, and the ability to prioritize both digital and non-digital initiatives to ensure their operations remain cutting edge.

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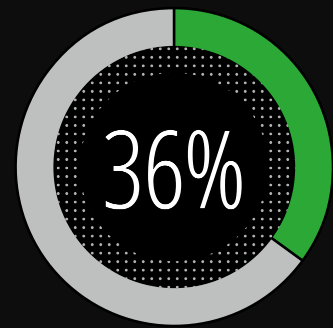
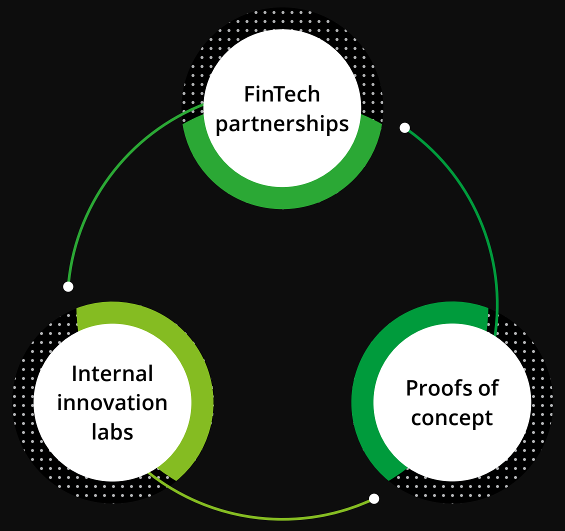
of respondents viewed themselves as **industry leaders** in innovation in the 2021 survey.



of respondents view themselves as **industry laggards** in innovation in the 2023 survey.

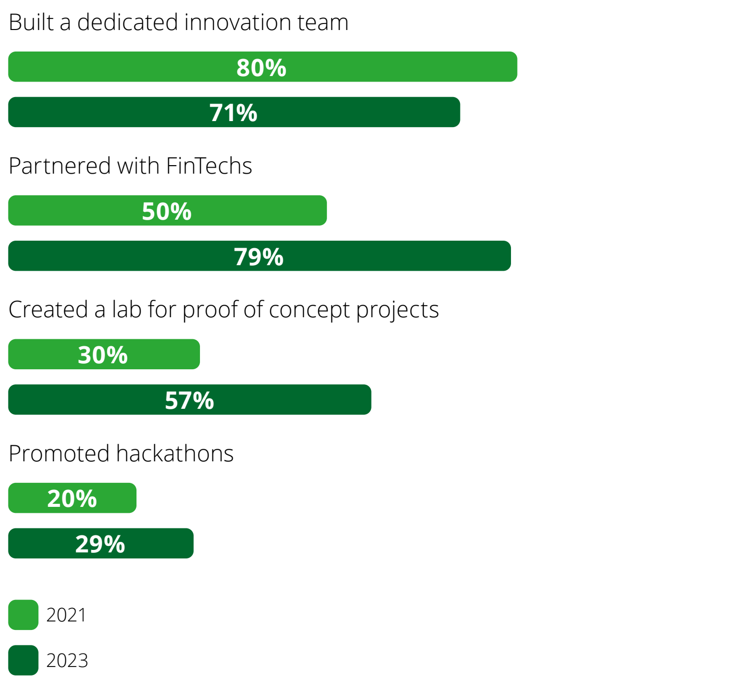
KEY CHALLENGES AND TRENDS
#2 INNOVATION

Innovation at firms is primarily catalyzed by **partnering with FinTechs** and **building dedicated innovation teams**.



To strengthen their ability to innovate, asset servicers partner with FinTechs or build teams internally

How do you promote and govern innovation within your firm?



While asset servicers have traditionally been slow to adopt new technologies, there is a mindset shift toward handling and adopting innovation more proactively. Asset servicers are boosting their innovation abilities, with a notable rise in all innovation promotion efforts since the last survey. Respondents continue to build dedicated internal teams to support innovation.

Additionally, more asset servicers are partnering with FinTechs to improve their innovation, with a hike from 50% in 2021 to 79% in 2023. These partnerships provide better speed to market in offering specific capabilities and creating operational efficiencies, as well as a more cohesive alternative to building and maintaining in-house solutions.

Furthermore, more asset servicers are exploring proofs of concept, rising from 30% in 2021 to 57% in 2023. This shows that asset servicers are recognizing the value of proofs of concept in their innovation journeys.

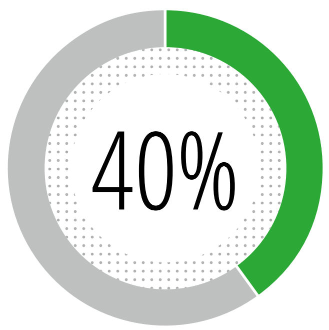
Firms encounter a myriad of challenges to get innovation projects off the ground

Asset servicers are hampered by a range of hurdles when launching projects involving cloud, RPA and AI. For example, while these technologies are deemed platform agnostic, it is still challenging to ensure they seamlessly integrate within existing processes and workflows.

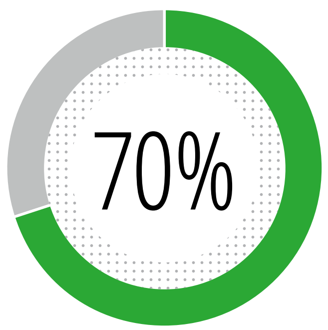
Cloud regulations still throw up significant barriers, with local regulators requiring outsourcing approvals. Paramount to these regulators is trust in the cloud, the protection of investor data, and adequate defence against cyber attacks. Of the respondents, 70% stated that regulation was a critical challenge to cloud adoption.

Change management was also identified by 40% of respondents as a challenge to the adoption of these technologies, which was not addressed in the 2021 survey. Because change is difficult, organizations' people often resist the introduction of these technologies, while lacking an understanding of their operational and transformation efficiencies.

Cloud, RPA, and AI are critical drivers to asset servicers' digital transformation; therefore, removing these critical barriers and challenges is crucial to the success of asset servicers' digitalization journeys.



of respondents face **change management** challenges when launching **RPA** initiatives.



of respondents face **regulatory challenges** when launching **cloud** initiatives.

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The launch of cloud projects is often hampered by **regulations or group-driven directives**, while AI- and RPA-related projects mainly struggle due to **integration challenges** with existing processes and workflows.

KEY CHALLENGES AND TRENDS

#2 INNOVATION

Firms encounter a myriad of challenges to get innovation projects off the ground

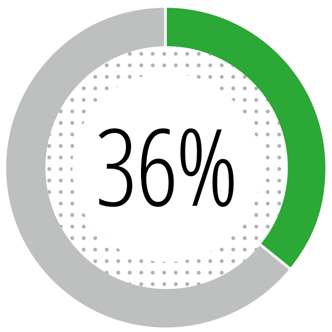
What are the main challenges you face when launching projects involving:

	AI	RPA	Cloud
Regulation	0%	20%	70%
Change management	25%	40%	20%
Lack of skills and experience internally	13%	30%	10%
Buy in of other industry participants	13%	0%	10%
Integration of the technologies with existing processes/workflows	63%	60%	50%
Project profitability	0%	10%	10%

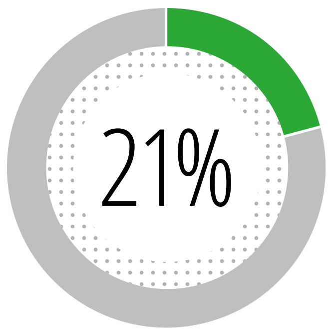
Common tools for innovation initiatives include **cloud computing, AI, and cognitive automation**. Cloud projects have struggled to launch due to **challenges from regulations or group-driven directives**. In contrast, **AI and RPA projects** stall due to integration issues with existing processes and workflows.

In line with client expectations, firms aspire to become the industry's data aggregators

Once your innovation projects are completed, what will be your biggest priorities over the next 2–5 years?



of asset servicers will propose more **end-to-end digital solutions**



of asset servicers will become the **data aggregators of the industry**

Respondents are eager to become industry data aggregators and provide end-to-end digital solutions, both of which are lacking or need improvement to meet client expectations.

KEY CHALLENGES AND TRENDS

#3 Operating model

DISRUPTING THE VALUE CHAIN

KEY CHALLENGES AND TRENDS
#3 OPERATING MODEL

Fee pressures on asset managers are driving them to **question non-core activities**—allowing asset servicers to move further up the value chain by **offering front-to-back solutions**.

Operating model challenge becomes a higher priority as race heats up to provide front-to-back services

Both asset managers and asset servicers have embarked on a transformational journey. Some have established transformation management offices to support these journeys, especially around operating model changes.

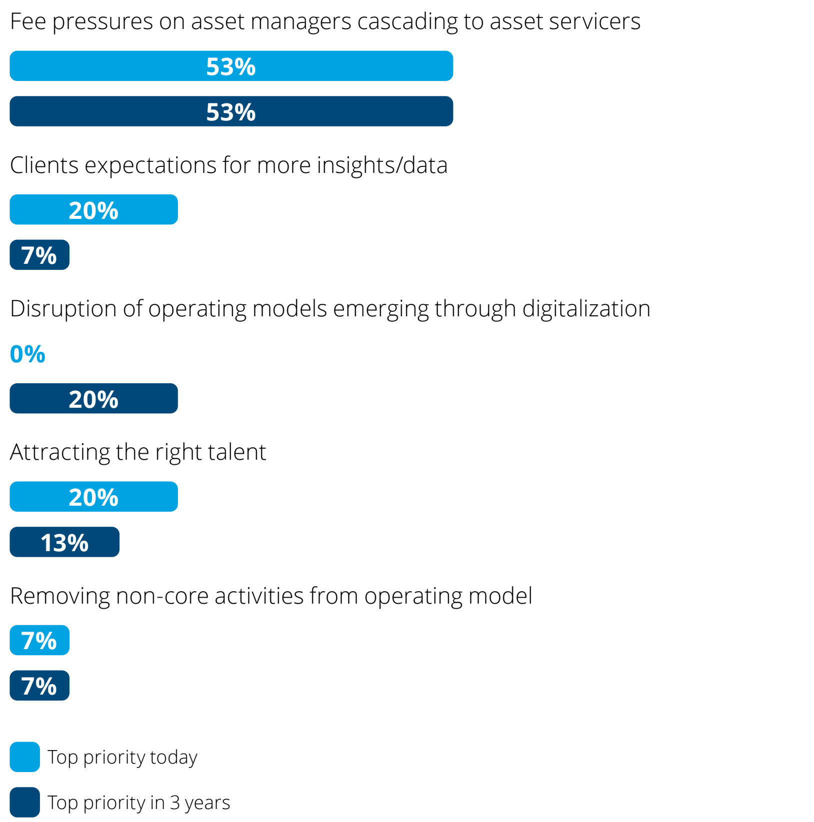
Fee pressures are a continuing headache for asset managers as they seek to drive alpha for investors. Consequently, they are analyzing their activities to identify how they can evolve their operating models, stripping costs out of their business through outsourcing non-core functions and activities.

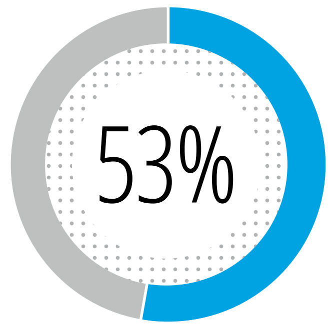
This journey presents a significant opportunity for asset servicers to move up the value chain and offer more value-add services to their clients. The result is the most fundamentally disruptive shift in the investment management value chain—the age of the front-to-back operating model, where asset servicers take on front-office activities.

The 2021 survey predicted that asset servicers had to reinvent the wheel regarding their operating model—identifying that expertise and flexibility were key differentiators and that value chain expansion was a prerequisite to capture growth. In 2023, this has become a reality, with the emergence of the front-to-back operating models a significant game changer for the value chain. It is the result of asset servicers' 40-year journey in developing core offerings to asset managers and innovative ways to create margins, while driving up the value chain from back-office to front-office activities.

In 2021, 70% of respondents believed that asset servicers would collaborate with front-office providers to create the industry's first global front-to-back client servicing platform offered by a single provider in 5 to 10 years' time. Subsequently, in 2023, this has risen in priority for our respondents in the next 3 years, as several responding asset servicers look to directly compete in the front-to-back solution market.

What are the asset servicing market's main challenges?—top priority





of respondents plan to review their operating models by **outsourcing some non-core operations**

KEY CHALLENGES AND TRENDS
#3 OPERATING MODEL

In 2023, asset servicers continue to pursue scaling strategies to drive growth through end-to-end service offerings. With geographic reach a critical success factor in the market, global operating models are rising in popularity.

With these models, it is important to distinguish between offshoring and outsourcing. Outsourcing is delegating activities to a third party. While offshoring is performing certain activities in a low-cost region, potentially within a group (intra-group outsourcing) to gain efficiencies, economies of scale and geographic reach.

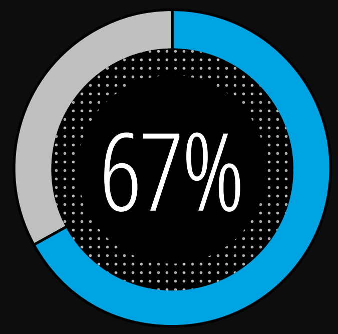
As asset managers look to outsource non-core functions and activities, asset servicers are increasingly focused on removing these costs from their operations as they embark on their transformation journeys. Asset servicers are considering several options to streamline their activities, including operational improvement programs and further offshoring and outsourcing.

While in 2021, only 40% of respondents were considering offshoring to low-cost locations to face current and upcoming challenges, in 2023, 67% of respondents view offshoring as a potential solution to remove non-core activities.

In 2023, 80% of respondents are considering process optimization and lean management to address current and future challenges, a 10% decrease from 2021. In addition, reviewing operating models by outsourcing some operations has remained stagnant at 53% between 2021 and 2023. However, an interesting insight is that 33% of respondents are currently reviewing their operating models with respect to insourcing some operations.

Overall, asset servicers are evaluating their insourcing and outsourcing mix, and offshoring/outsourcing non-core activities to low-cost locations or to specialised firms. This will allow them to focus on core activities, offer new services like front-to-back solutions, and meet client expectations for more insights and data.

Asset servicers are considering **several options to streamline their activities**, including operational improvement programs and further offshoring and outsourcing.

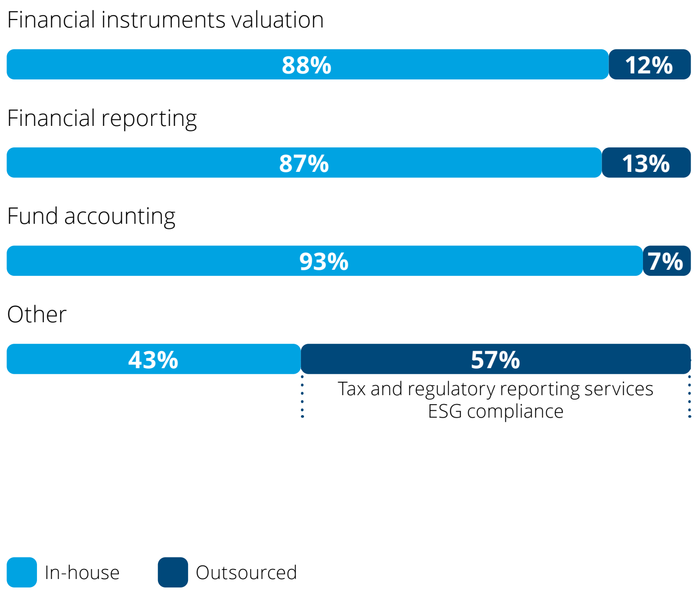


of respondents are **considering offshoring to a low-cost location** to face current and upcoming operating model challenges, compared to 40% in 2021.

Most back-office activities are currently performed in-house for all types of service providers

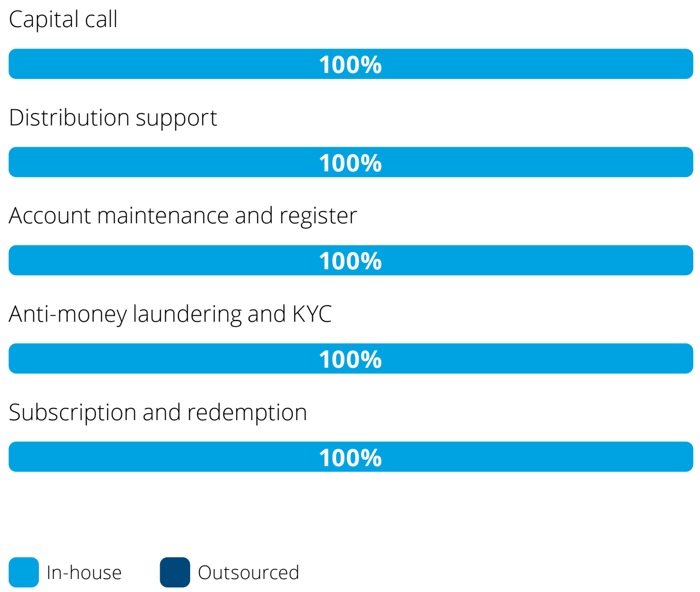
Fund administration services

Activities performed in-house/outsourced



Transfer agent services

Activities performed in-house/outsourced



The most common outsourced activities are **tax, regulatory reporting services and ESG compliance**, likely due to being deemed non-core.

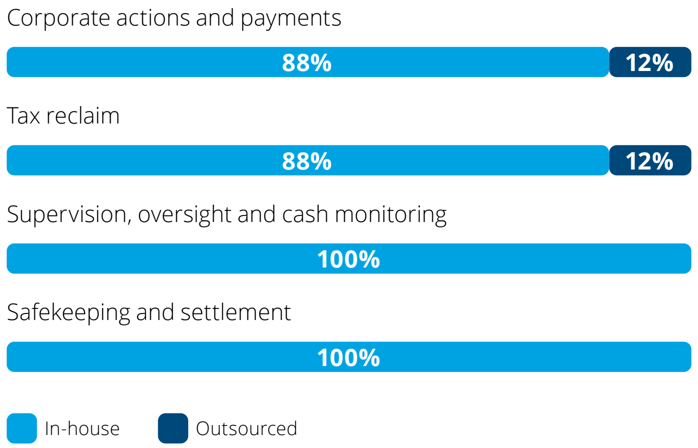
All transfer agent service activities are currently **performed in-house** for all service provider types.

As asset managers are outsourcing non-core functions from their operations, so are asset servicers as they look to transform their operating models. Ancillary services that wrap around the NAV lifecycle are now viewed as non-core. By outsourcing financial, regulatory, ESG and tax reporting, asset servicers are free to focus on NAV activities within the back office. Asset servicers can strip out redundant costs while optimizing their operations by investing in managed service solutions and outsourcing to other third-party solution providers. This also allows them to avoid in-house builds, which can consume a significant slice of the IT budget for ongoing IT support.

KEY CHALLENGES AND TRENDS
#3 OPERATING MODEL

Custody services

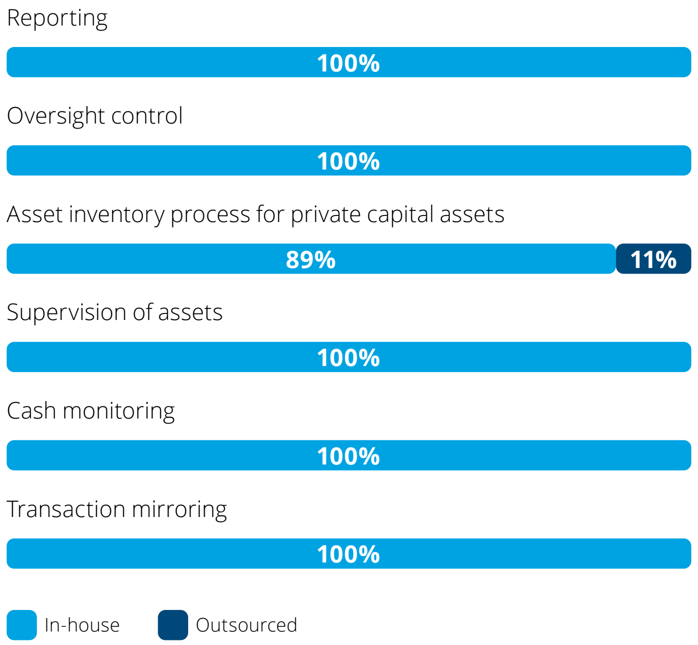
Activities performed in-house/outsourced



In line with the core versus non-core trend, asset servicers are outsourcing tax reclaim activities to leverage subject matter experts (SMEs) ability. In addition, they are outsourcing corporate action activities to specific platforms.

Depositary/trustee services

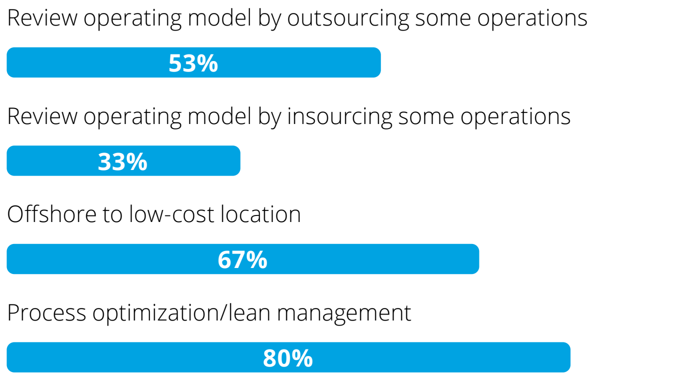
Activities performed in-house/outsourced



Depositary services are rarely outsourced, given the global ownership and responsibility asset servicers usually have over these activities.

However, asset servicers are **considering several approaches** to remove their non-core activities.

How do you plan to face the main market challenges?



Key terms defined:

Outsourcing: appointing a third party to perform services traditionally performed in-house by the company's employees.

Insourcing: using the company's employees to perform services traditionally performed by a third party.

Offshoring: transferring activities or ownership of a complete business process to a different country than the company receiving the services is located, often in a different continent.

Nearshoring: transferring activities or ownership of a complete business process to a different country than the company receiving the services is located, often in a neighboring country.

This will allow asset servicers to focus on core activities that **enable front-to-back offerings like data as a service**, helping meet clients' expectations for more insights and data and lowering this challenge's priority in the next 3 years.

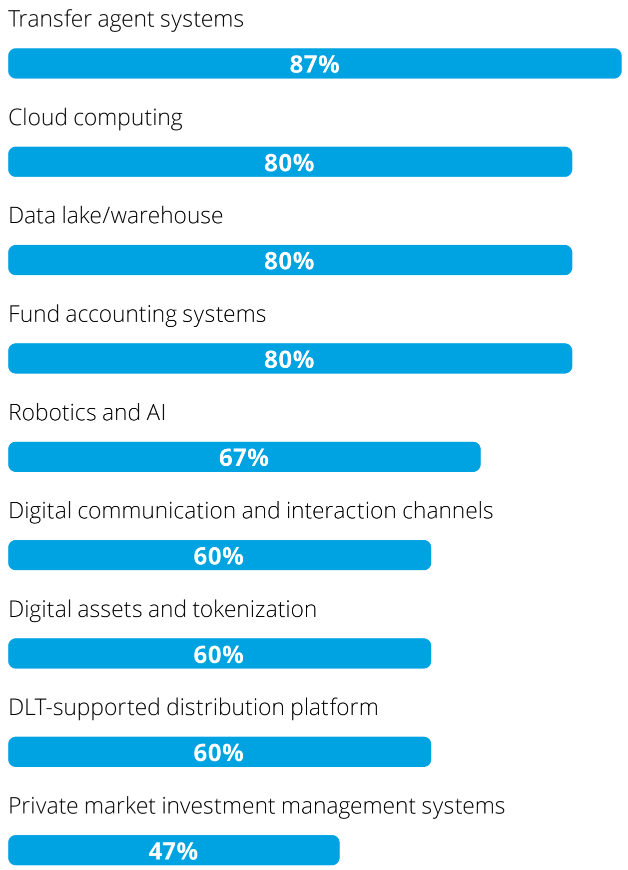
Deloitte asset servicers survey | Results analysis

KEY CHALLENGES AND TRENDS

#3 OPERATING MODEL

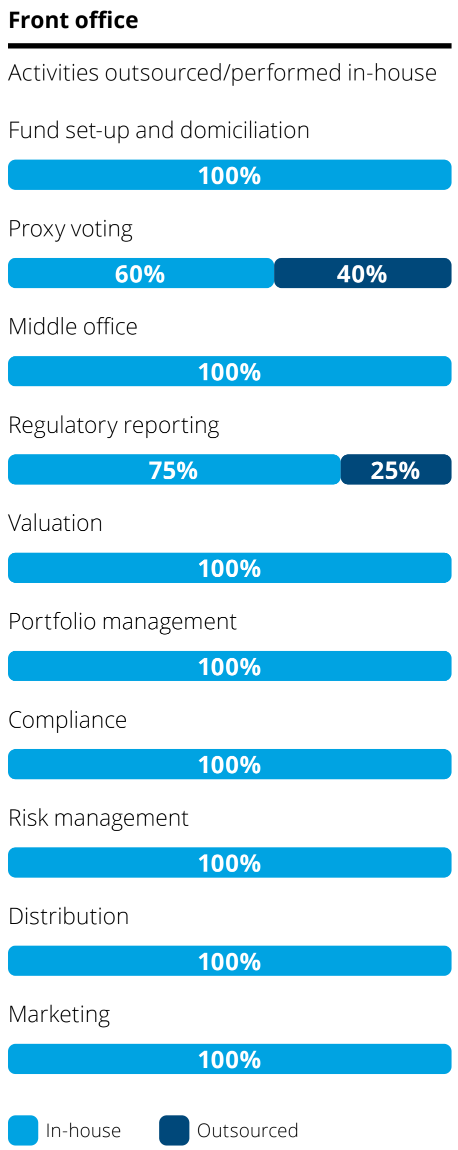
With technology being crucial to operating models, asset servicers are **investing in the future…**

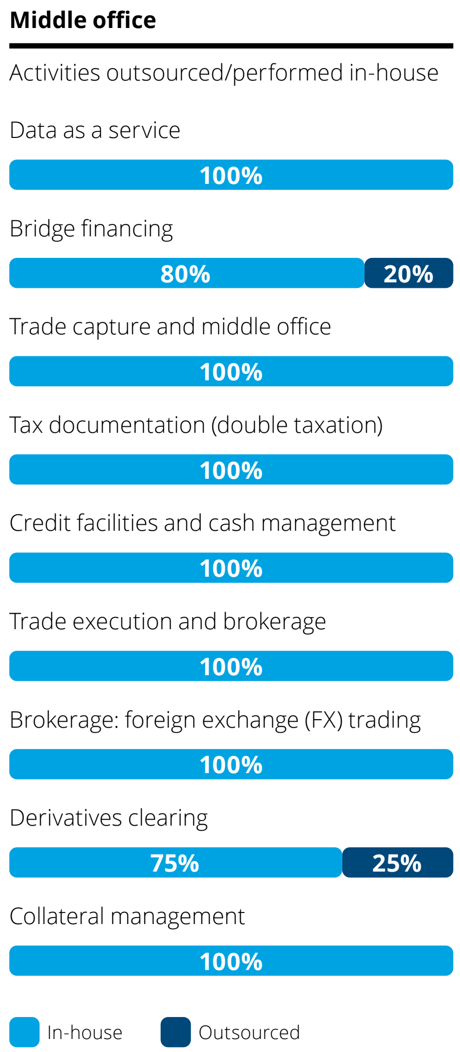
In which technology do you intend to invest?



Investing in new technology is critical to maintaining a competitive advantage in the market. Core system spend is expected to rise in the next 5 years and will likely be allocated to upgrading transfer agent systems and fund accounting core platforms. Of the 2023 respondents, 80% are continuing to invest in building integrated technology platforms to leverage cloud capabilities and provide data insight offerings for clients. Sixty percent of respondents are continuing to invest in building DLT capabilities (e.g., blockchain) to strengthen their ability to service digital assets.

…so they can **focus on core activities** that enable a front-to-back offering

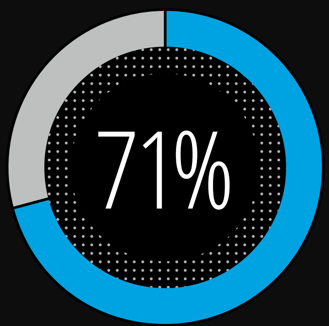




Data as a service, developed from existing data warehouses, is a core function of asset servicers' front-to-back solutions. This seamless data flow enables asset servicers to meet client expectations for more insights and data, shifting this challenge to a lower priority in the next 3 years.

KEY CHALLENGES AND TRENDS
#3 OPERATING MODEL

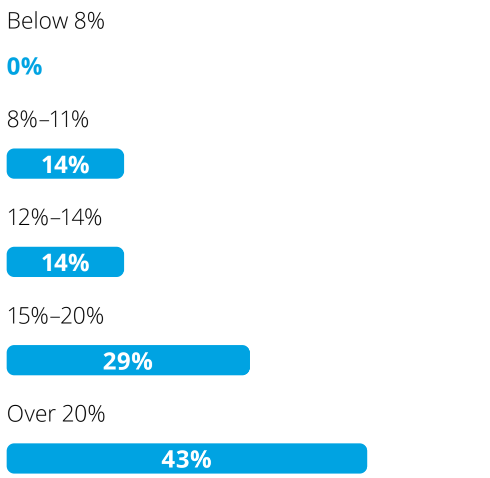
IT costs represent between 8% and 20% of OPEX for 57% of respondents and over 20% of OPEX for 43%.



of respondents stated that **over 15% of their total OPEX is earmarked for IT spend**

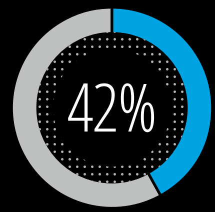
IT is a significant consumer of respondents' total OPEX

Proportion of IT costs as a percentage of organizations' operating expenses (OPEX)

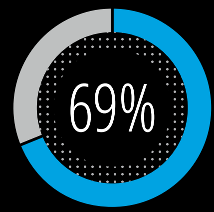


Asset servicers are under bottom-line pressure from their substantial operational costs and high technology spend, such as expensive legacy technology maintenance requirements and investing in core technology upgrades to drive efficiencies. Of the respondents, 43% report that their IT costs represent over 20% of their overall organizations' OPEX.

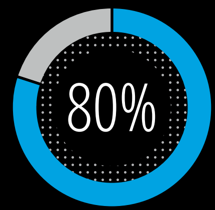
The **talent war** has firms worried about their current and future ability to attract the right people



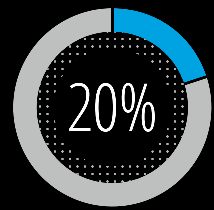
of respondents identify **attracting the right talent** as a top-three challenge today



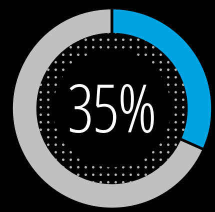
of employers are **having trouble filling roles** because of a lack of candidate skills – a 15-year high*



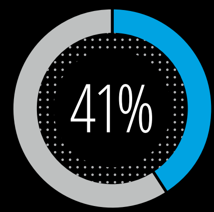
of **pure alternative players** consider attracting the right talent as a top-three challenge today



of employers are **reducing requirements** for skills and experiences



of respondents believe attracting the right talent will become **a top-three challenge in the next 3 years**



of employers are **offering training, skill development and mentorship** to attract and retain employees**

Attracting top talent is a fundamental issue for the industry, with 40% of respondents expressing concern about securing the right talent and capability both today and in the future. Asset servicers are competing directly with big tech and social media platform outlets for talent—and today's talent is seeking purpose in their career choices.

However, on the other side of the spectrum, the investment management industry currently lacks the skills and abilities to support asset servicers in their digital transformation. Data scientists are critical to realizing this transformation over the next 5 years, alongside cloud, RPA, AI, DLT and machine learning skills.

With that said, this deep focus on exponential technologies means asset servicers have the ability to attract talent to their organizations by showcasing and demonstrating meaningful career choices with purpose.

Attracting talents continues to be a major challenge, with nearly half of respondents being worried about securing the right talent for their businesses today and in the near future.

* ManpowerGroup, ManpowerGroup Employment Outlook Survey Q3 2023, June 13, 2023.

** Tracy Brower, "The Job Market Is Hot: Now Is The Time To Build Your Career", Forbes, September 19, 2021

Deloitte asset servicers survey | Results analysis

KEY CHALLENGES AND TRENDS

#4 Alternative investments

A CONTINUED SOURCE OF REVENUE GROWTH

KEY CHALLENGES AND TRENDS
#4 ALTERNATIVE INVESTMENTS

The alternative investment industry's **growing maturity** in the last 30 years has attracted rising attention from regulators, and investors.

The shift to alternative investments continues to offer abundant growth opportunities. With the low yields in the bond market, negative interest rates, and quantitative easing introduced by most central banks to stabilize global economies, investors have turned to private markets and assets offering higher expected returns. Consequently, allocations to alternative investments are growing, notably private debt and private equity.

New regulations aimed at the sector have driven asset managers and servicers to improve their infrastructure, transparency and reporting, accelerating the industry's development and maturity. With investors keen to diversify their portfolios and capitalize on the sector's above-average returns, alternative investments are enjoying new capital flows from all types of investors and places, boosting the demand for alternative investment servicers.

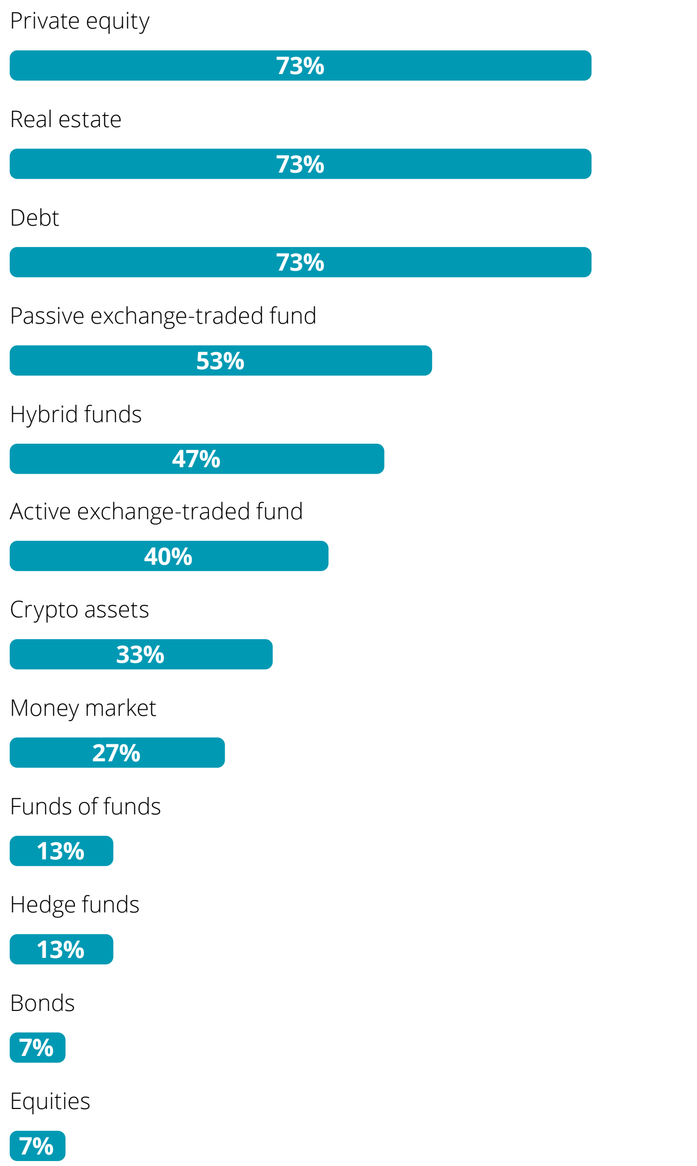
While institutional investors' capital flows have catalyzed and supported the sector's growth, retail investors' appetite for these assets is expected to become a critical source of capital. The shift from defined benefit to defined contribution pensions may also generate a significant influx of retail capital into the sector.

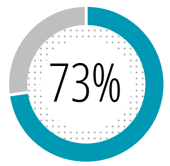
Furthermore, alternative products allow asset managers to expand their operating margins as investors generally accept paying a performance fee on top of a usually higher management fee. This rise in alternative assets is an opportunity for asset servicers to service real and private assets in response to this heightened demand, leading to higher margins.

73% of respondents in 2023 believe that **private equity, real estate, and debt** asset classes have the best growth opportunities, compared to 44% in 2021.

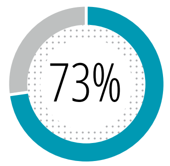
Alternative assets are considered to have the strongest growth opportunities

From which asset class do you see the best growth opportunities?

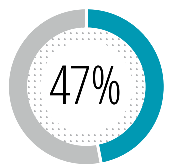




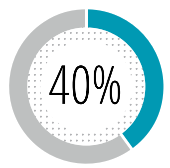
of respondents in 2023 believe that **real estate** is the asset class with the best growth opportunities, compared to 0% in 2021.



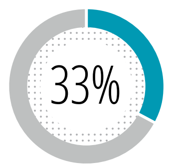
of respondents in 2023 believe that **debt** is the asset class with the best growth opportunities, compared to 11% in 2021.



of respondents in 2023 believe that **hybrid funds** are the asset class with the best growth opportunities, compared to 0% in 2021.



of respondents in 2023 believe that **ETFs** are the asset class with the best growth opportunities, compared to 11% in 2021.



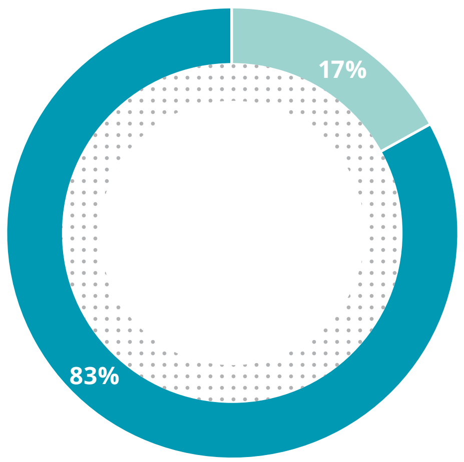
of respondents in 2023 believe that **crypto assets** are the asset class with the best growth opportunities, compared to 0% in 2021.

KEY CHALLENGES AND TRENDS

#4 ALTERNATIVE INVESTMENTS

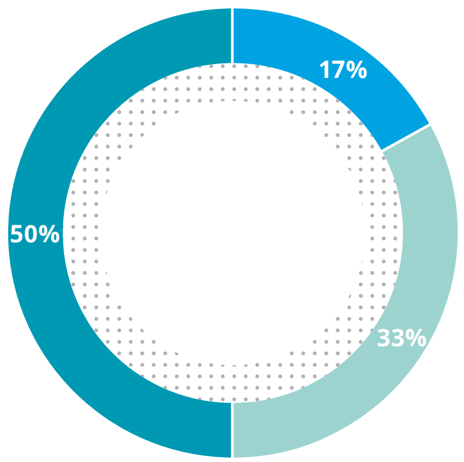
Pure alternative players' **revenue and profits have significantly grown** over the last 5 years

Performance of pure alternative asset players in terms of revenue over the last 5 years



Between 0%–10%
Over 10%

Performance of pure alternative asset players in terms of profits over the last 5 years



Between -10%–0%
Between 5%–10%
Over 10%

The shift towards alternatives is reflected in the results of the 2023 survey. Similar to 2021, asset servicers were asked which alternative asset class had the best growth opportunities. Private equity came out on top once more with our respondents, jumping from 73% in 2023 compared to 44% in 2021. Notably, debt and real estate leaped from 11% and 0% respectively in 2021 to a staggering 73% for both in 2023.

Hybrid funds and crypto assets are also earmarked as having major growth opportunities, with 47% of 2023's respondents voting for hybrid funds and 33% for crypto assets, compared to 0% for both in 2021. Active ETFs also moved up the table, from 11% in 2021 to 40% in 2023.

Further, pure alternative investment service providers have experienced exponential growth over the past 5 years, outperforming the more traditional service providers in revenue and profit. Of our pure alternative respondents, 83% reported a 10% revenue increase, and half reported a 10% profit increase.

For traditional asset servicers it is difficult to build scale and credibility in private assets on the back of their traditional business. The capability for supporting private assets fundamentally differs from that of traditional assets, generating challenges for traditional asset servicers.

Overall, our respondents believe this demand will continue in the near future, with the majority of alternative asset classes offering the best growth opportunities for asset servicers.

Quantitative easing introduced by most central banks to stabilize global economies has reduced the expected returns from fixed-income investments, driving investors to private markets and assets with **higher expected returns**.

KEY CHALLENGES AND TRENDS

#5 Sustainability and ESG

A TRANSFORMATIONAL CHALLENGE FOR OPERATIONS

KEY CHALLENGES AND TRENDS

#5 SUSTAINABILITY AND ESG

The **challenges of ESG-related regulations** will continue to require significant and ongoing budget allocation by asset servicers.

The sustainability and ESG mandate is still high on the agenda of the investment management industry. As regulators around the world respond to investor demand and adopt ESG investing standards in their own jurisdictions, ESG investing has gone from niche to norm. At their current growth rate, ESG-mandated assets are on track to represent half of all professionally managed assets globally by 2024.*

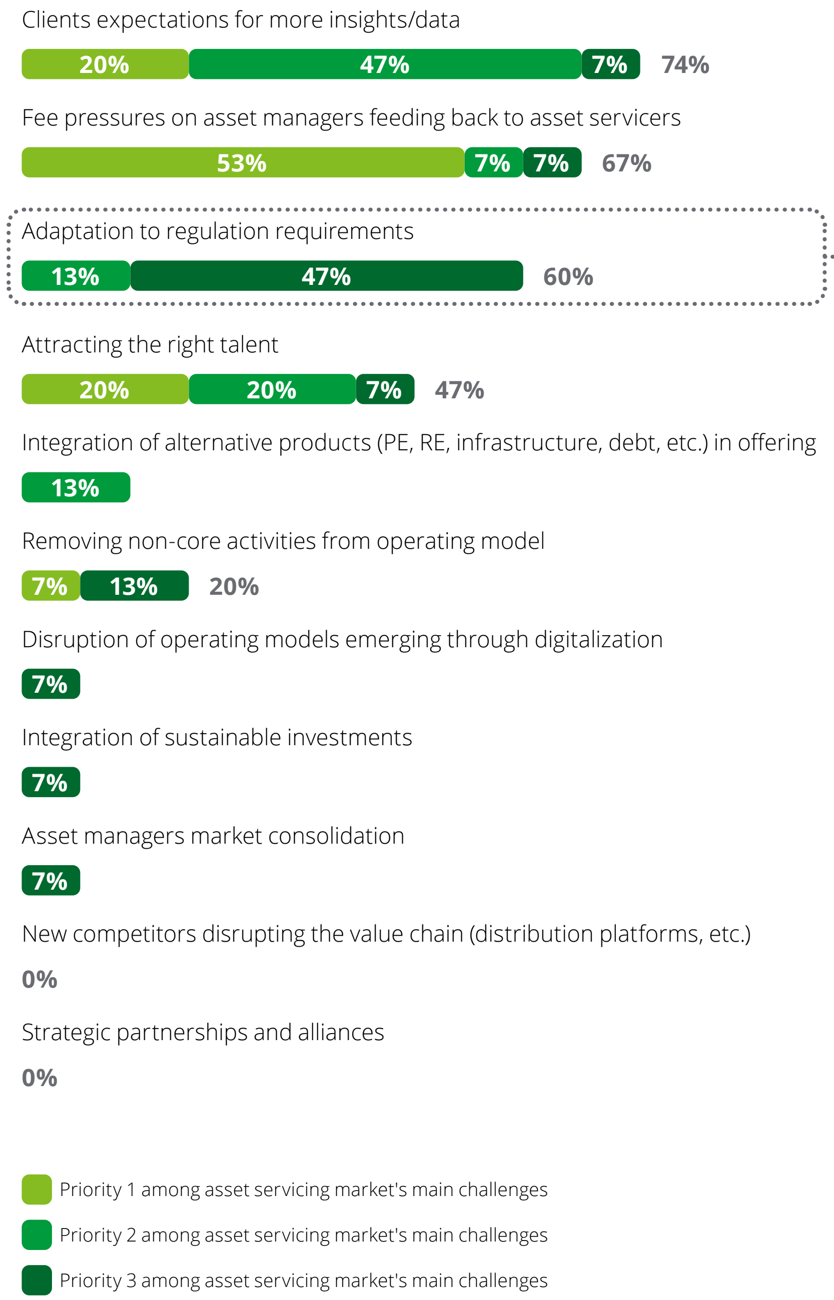
The Deloitte 2021 asset servicing survey named sustainability and ESG the rising star of the investment management sector, offering asset servicers a potential growth area to develop ESG reporting services. This position still holds true. Over the past 2 years, sustainability and ESG have gained significant momentum in the sector, while the challenges of ESG-related regulations will continue to require substantial and ongoing budget allocation by asset servicers.

The integration of ESG in fund products will likely impact asset servicers' main activities and require a large budget share. As asset servicers continue their digital transformation journeys and create data capabilities, there is a clear opportunity to develop ESG reporting capabilities for their clients. Respondents' regulatory projects have grown from 60% in 2021 to 79% in 2023, with ESG and sustainability critical to this increase.

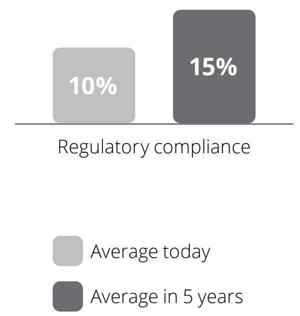
* Tania Lynn Taylor and Sean Collins, "Ingraining sustainability in the next era of ESG investing," Deloitte Insights, April 5, 2022.

Adapting to regulations remains a challenge requiring significant budget allocation...

What are the asset servicing market's main challenges today?



Average percentage of investment budget allocated to these activities



Sixty percent of participants ranked adaptation to regulatory requirements as a top-three priority today.

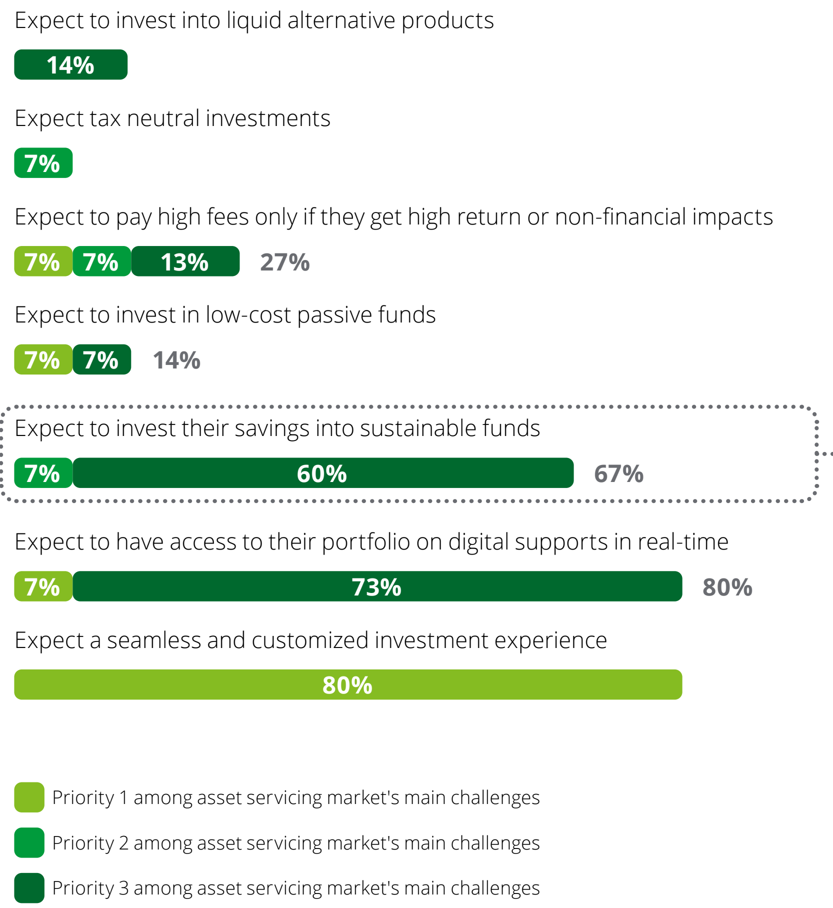
The asset servicing industry's regulations are expected to increase, and new rules driving firms to improve their infrastructure, transparency and reporting are catalyzing the sector's development.

As awareness of sustainability and ethical investing grows, asset servicing companies must adapt to meet the demand for ESG-compliant investment options. The sector's ESG regulations will continue challenging firms and require significant investments.

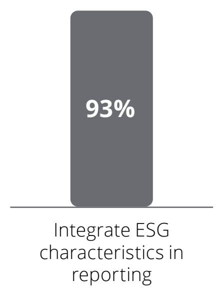
KEY CHALLENGES AND TRENDS
#5 SUSTAINABILITY AND ESG

...but also creates opportunities for asset servicers to develop ESG reporting capabilities that meet client expectations

Investors' main ESG expectations



Service planned for development

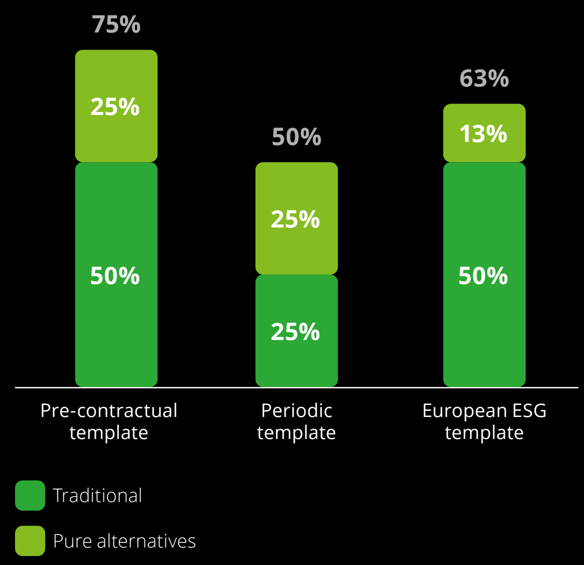


Impact investing, which aims to generate social or environmental benefits as well as financial returns, is also growing in popularity as investors seek to align their investments with their values.

One of investors' top-three priorities is to entrust their savings into sustainable funds. Asset servicing firms are focused on developing services that can integrate ESG characteristics into reporting.

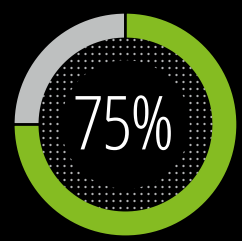
Clients need **more support** with SFDR and other ESG regulatory transitions and reporting

Do you support your clients' transition to SFDR articles 8 and 9 via the production and dissemination of:

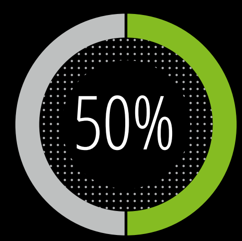


A significant part of the growth in global ESG assets will be driven by the adoption of the Sustainable Finance Disclosure Regulation (SFDR) within the EU. The introduction of SFDR reporting in March 2021 effectively created three fund designations, known as Articles 6, 8, and 9, which are based on the level that investment managers incorporate ESG attributes in the investment decision-making process.

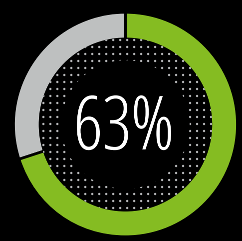
Interestingly, while 75% of respondents will support the production and dissemination of pre-contractual templates, only 50% plan to follow suit with periodic templates. There is clear potential for improvement in asset servicers' ESG reporting capabilities, with only 62% of respondents covering principal adverse impacts (PAIs) that are part of pre-contractual and periodic disclosure templates.



of respondents currently support the **pre-contractual template**.



of respondents currently support the **periodic template**.



of respondents currently support the **European ESG template**.

KEY CHALLENGES AND TRENDS

#5 SUSTAINABILITY AND ESG

What is the current scope of your ESG reporting?

	Pure alternatives	Traditional	Total respondents
Other ESG indicators	33%	67%	3
Business/product involvement	67%	33%	6
Social	43%	57%	6
Governance	37%	63%	7
Controversies	75%	25%	8
Carbon emissions	43%	57%	4
Sustainability risk	44%	56%	7
EU Taxonomy and PAI	62%	38%	9
Other	33%	67%	8

Traditional

Pure alternatives

There is clear **room for improvement in the sector's ESG reporting capabilities**, with only 62% of respondents covering PAIs, a part of pre-contractual and periodic disclosure templates.

Deloitte asset servicers survey | Results analysis

Asset servicers vary in their approach to checking ESG restrictions on investment policies

To what extent do you check the ESG restrictions mentioned in the investment policy?

We do not check ESG restrictions for the time being	25%
We check ESG restrictions based on a pre-approved list of eligible securities	17%
We check ESG restrictions based on the metrics/scores provided by our data vendor	42%
We check ESG restrictions based on the metrics/scores provided by our clients' data vendors	17%

Asset servicers have different **approaches to ESG restrictions controls**, with 25% of respondents **not checking** them at all and the rest using a combination of data vendors and pre-approved eligible securities.

KEY CHALLENGES AND TRENDS

#5 SUSTAINABILITY AND ESG

Asset servicers vary in their approach to checking **ESG restrictions** on investment policies

Today, there is no best-in-practice, standard approach within the industry regarding ESG reporting. As a result, asset servicers are inconsistent in their scope when validating the various ESG restrictions on investment policies.

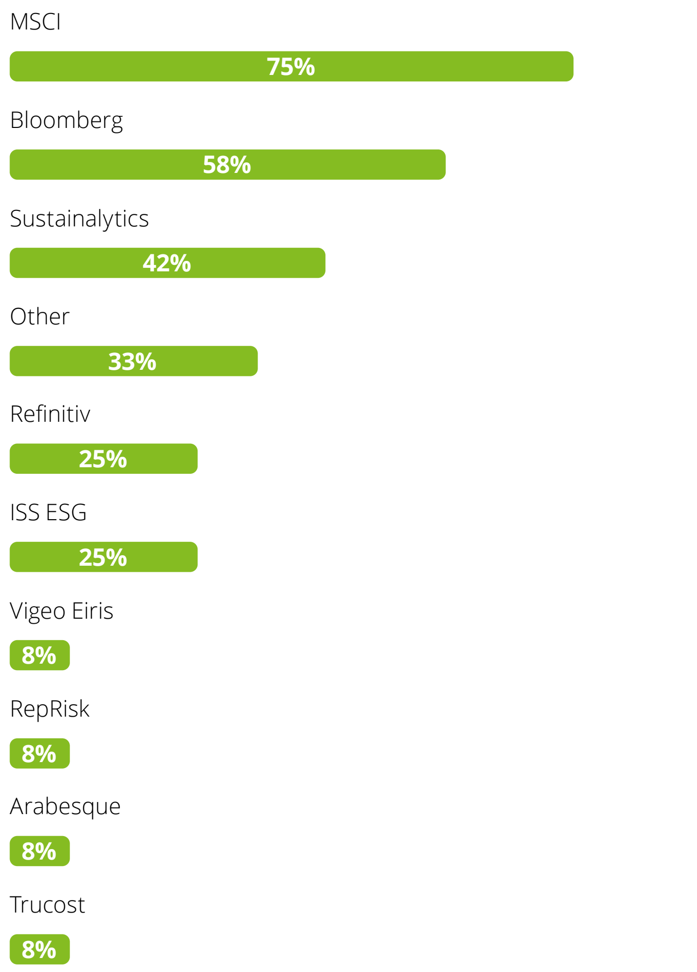
It is clear that the industry must define the standard approach for validating ESG restrictions to support asset servicers in defining their service offering to their clients.

The lack of a standardized approach is also because there is no single source of truth regarding ESG restriction benchmarks. Until the industry defines this source, asset servicers will struggle to clearly articulate their ESG reporting proposition to their clients and build the requisite capability to support their offering.

Deloitte asset servicers survey | Results analysis

There is a growing need for specialist ESG data inputs to help complement and fulfill requirements

Which data provider are you currently relying on?



Of the respondents in the back-office space, **44% have delivered or plan to develop innovation projects** to build ESG data analysis tools.

The lack of a single source of truth for asset class benchmarking for ESG reporting is a major challenge for the industry. Asset servicers are currently using both internal solutions and external third-party data providers to assist in building the necessary solutions for client reporting.

While MSCI and Bloomberg are widely used across the front office for the core investment process, the sector is increasingly seeking enhanced specialist ESG data inputs to help complement and fulfil requirements. Of our back-office respondents, 44% have delivered or are planning on developing innovation projects to build ESG data analysis tools.

There is currently a reliance on multiple data sets to validate the true benchmark of the underlying asset class within a portfolio; therefore, ESG reporting will remain a key challenge until a single source of truth is created as the industry standard.

Global asset servicers survey | Respondents overview

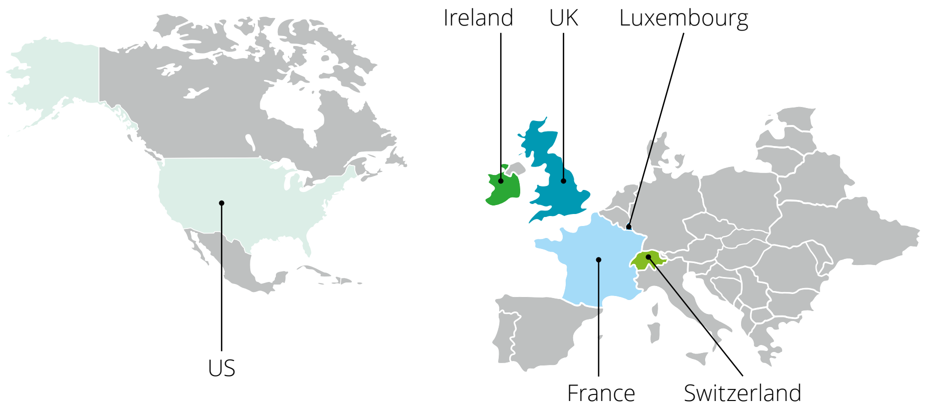
Respondents overview

RESPONDENTS OVERVIEW

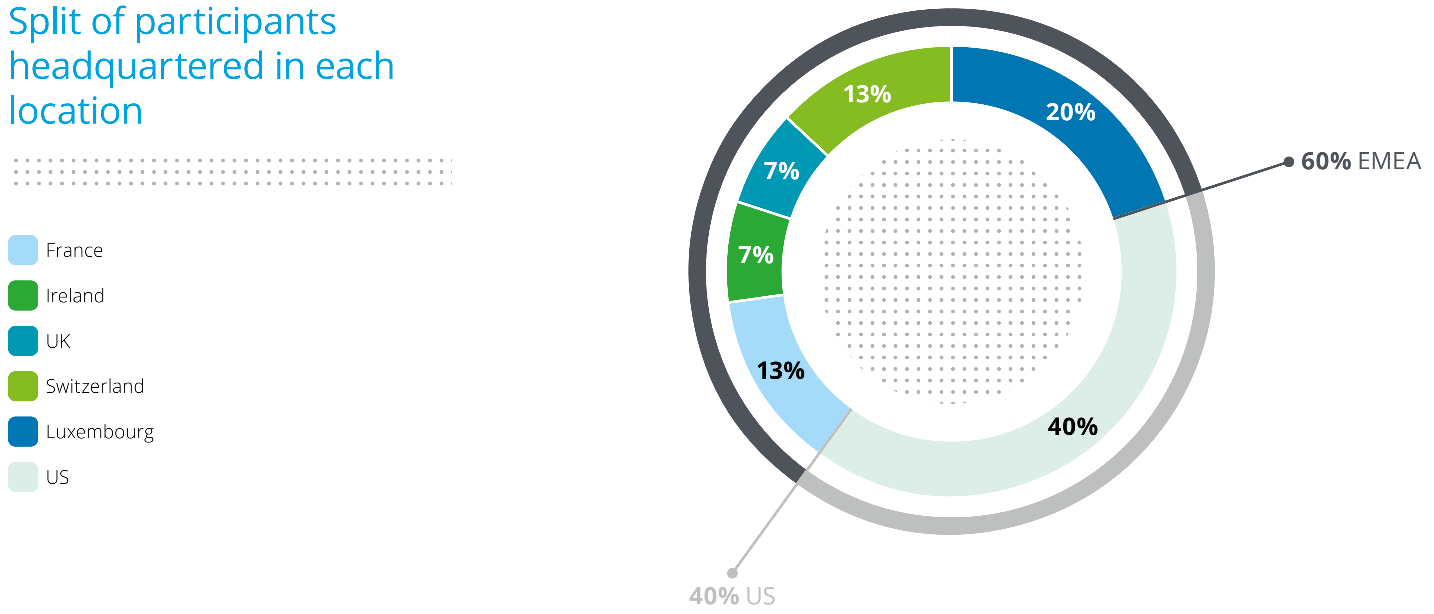
Sixty percent of participants' headquarters located in EMEA and 40% in the US

Survey participants headquartered in six locations

The 15 respondents are headquartered in Europe and the US and are key market players in the regions in which they operate.



Split of participants headquartered in each location

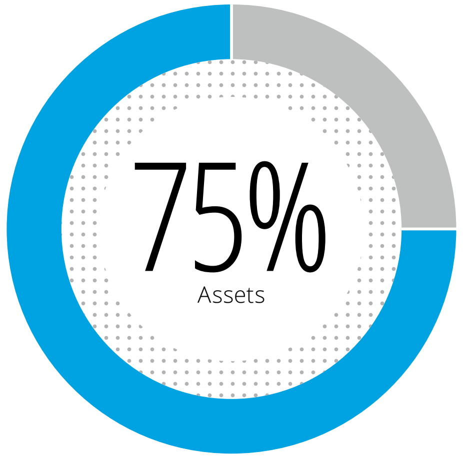


Deloitte asset servicers survey | Respondents overview

RESPONDENTS OVERVIEW

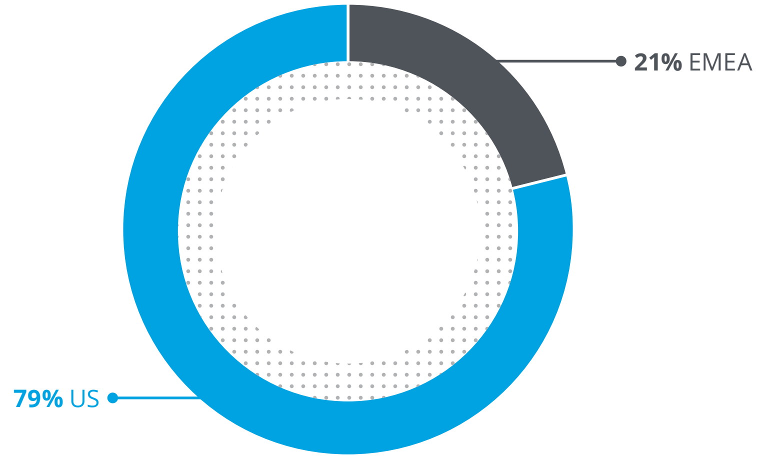
Participants represent USD176 trillion of the global market's combined assets

The 15 participants represent 75% of the global market's combined assets under administration



Split of AuA by geographic area

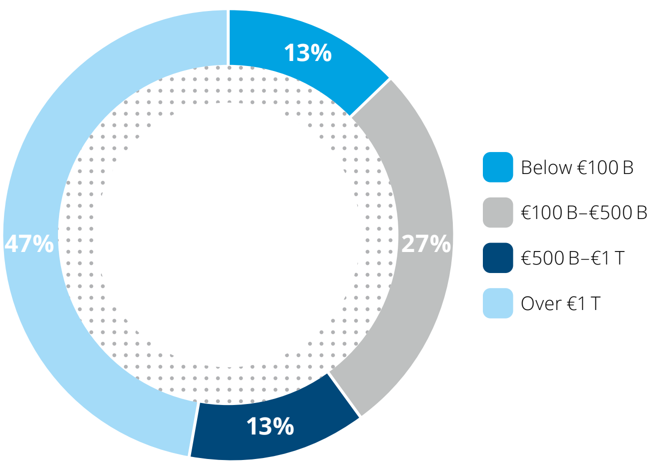
Of the overall USD176 trillion of assets, **79%** comes from asset servicers headquartered in the US, who account for 40% of the participants.



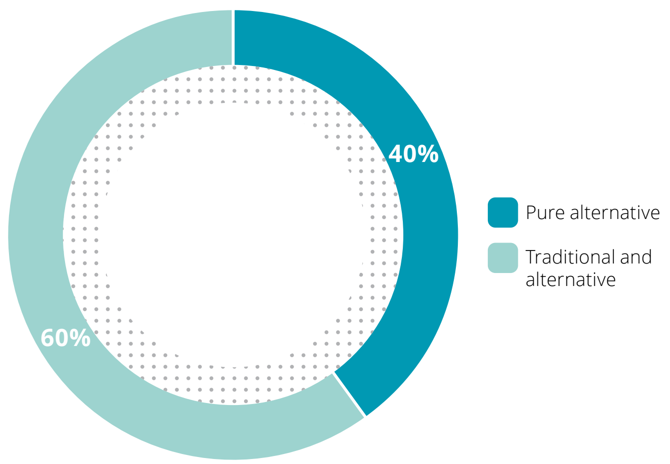
RESPONDENTS OVERVIEW

Participants cover a range of assets as well as asset classes

Split of participants by assets range



Split of participants by asset class coverage

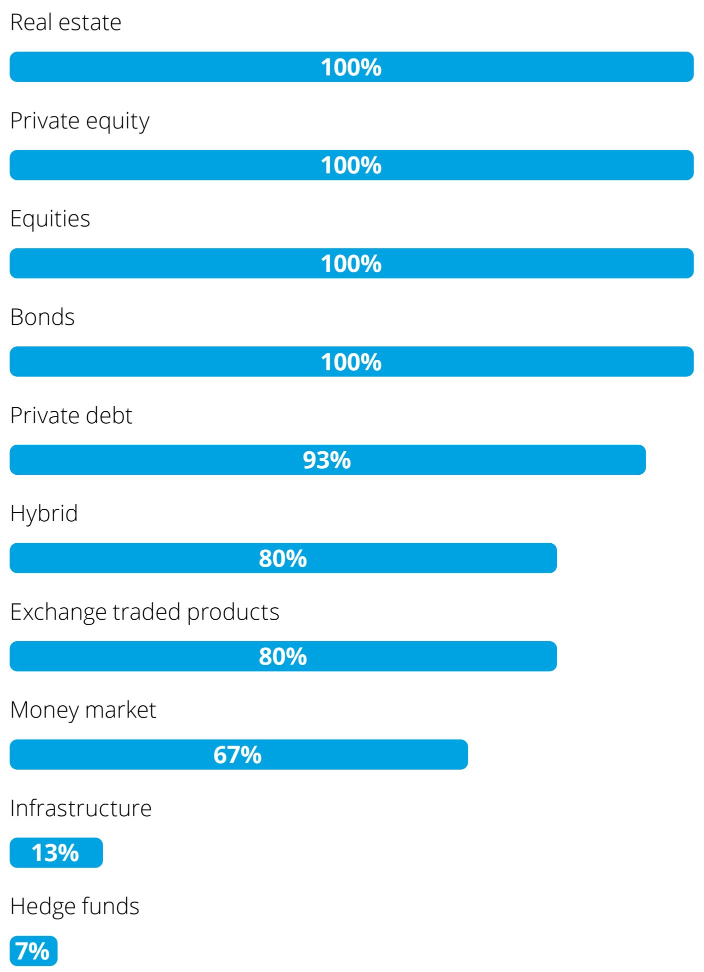


The analysis identified and provided specific examples where answers differed depending on the company's asset class coverage.

RESPONDENTS OVERVIEW

Most participants cover a mix of traditional and alternative asset classes

Which asset classes do the participants serve today?

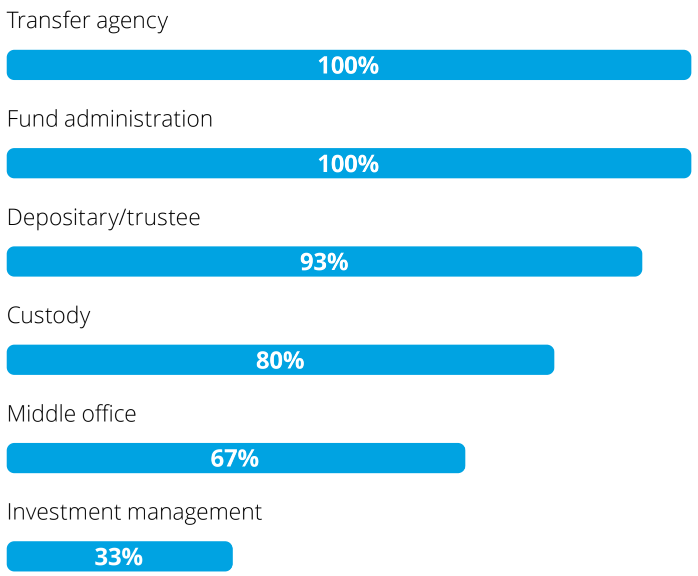


Sources:
Monterey Insights, Monterey Ireland Fund Report 2022, February 2023.
Monterey Insights, Monterey Luxembourg Fund Report 2022, February 2023

RESPONDENTS OVERVIEW

Most participants provide a combination of core activities

What activities do you perform today?

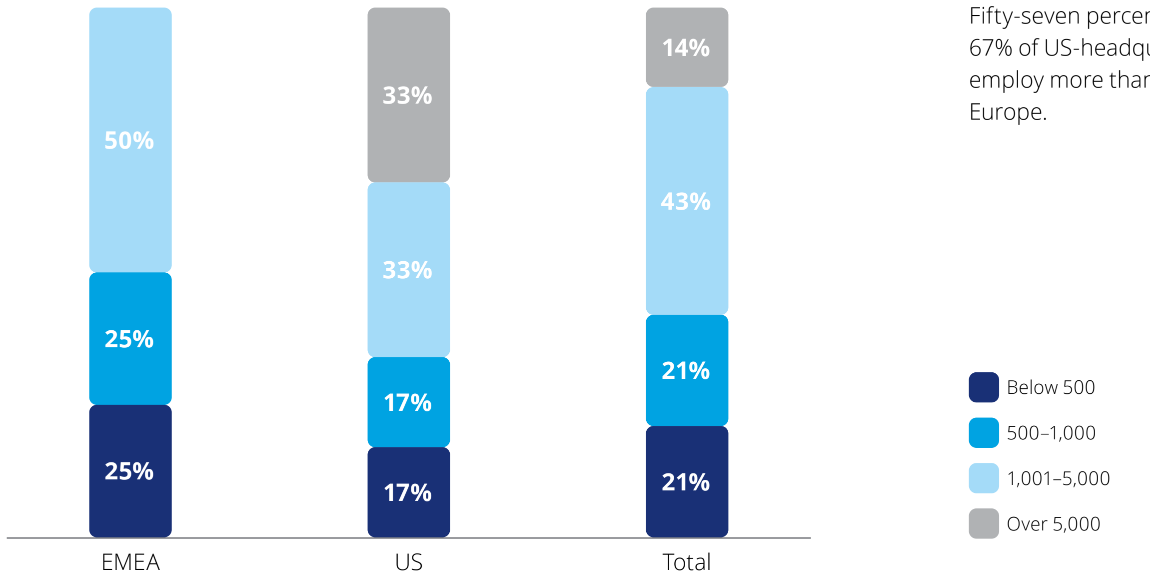


Today, most asset servicers offer a service for core activities, covering fund administration, transfer agency, depositary and custody. It is rare to specialize in a single service area within the asset servicing industry.

RESPONDENTS OVERVIEW

Even for the 40% of participants headquartered in the US, the European market's strategic importance to global asset servicers is clear by the EMEA headcount

How many employees do you employ in your asset servicing division in Europe?



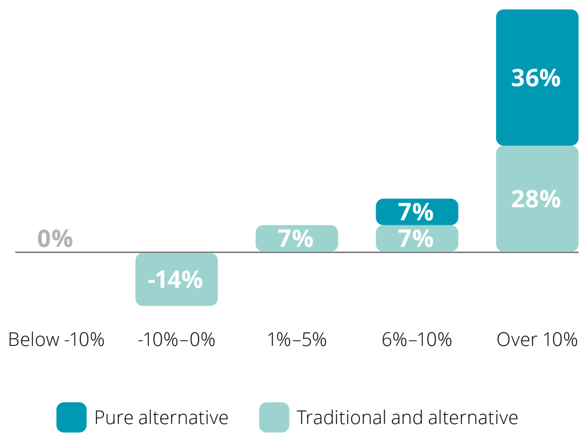
Fifty-seven percent of all respondents and 67% of US-headquartered respondents employ more than 1,000 employees in Europe.

RESPONDENTS OVERVIEW

For the vast majority, profits have increased per annum over the past 5 years

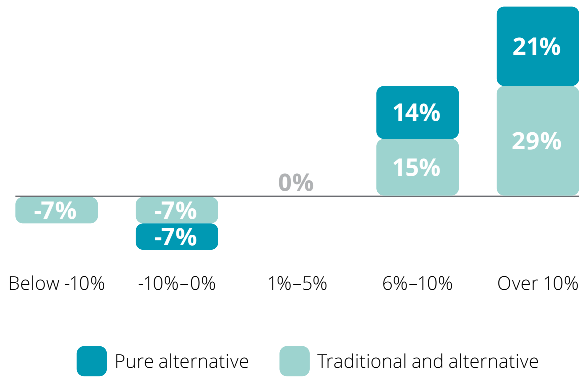
Revenue

How have your revenues changed per annum over the past 5 years?



Profit

How have your profits changed per annum over the past 5 years?



Deloitte asset servicers survey | Respondents overview

What has triggered this change?

The main drivers for traditional players' increased profits are client number gains, service offering expansion and net asset growth.

Alternatives players have been active in mergers and acquisitions which, among other things, have **driven up their profits through increased volumes and economies of scale.**

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