

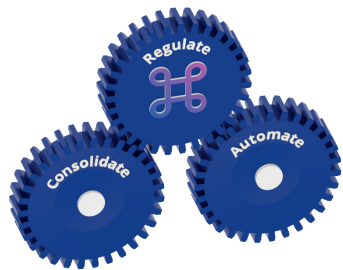


## A Digitalisation Pathway for Trust, Corporate and Fund Services

How far have firms digitalised?

## foreword

### A DIGITALISATION PATHWAY: HOW FAR HAVE FIRMS PROGRESSED?



**9** out of **10**

*Trust, corporate and fund services providers think they will become much more digitalised and automated in the next 5 years*



**But only 1** in **3**

*firms have started on their digitalisation pathway*



**81%**

*say that technological innovation needs to accelerate*

Welcome to the latest edition of TrustQuay's annual Future Focus Report, a global survey of 120 corporate services providers, trust and fund administrators, wealth managers, private banks and family offices.

This is the third year in which we have examined the drivers of industry change in trust, corporate and fund services and the challenges facing providers in this market.

In previous years, we have identified a clear recognition within the industry that technological innovation needs to accelerate, however our research has shown that levels of digitalisation still remain low compared to other parts of financial services.

For this year's Future Focus Report, we examine in more detail the extent of digitalisation within the industry and lay out a clear 'digitalisation pathway' for firms, identifying where the industry is now, where it is going and the opportunities that lie ahead.

We hope you find this research paper interesting reading and please do get in touch if you would like to discuss any aspects of this report.

**Keith Hale**  
Executive Chairman  
TrustQuay

Business challenges persist

# A digitalisation pathway to address business challenges

## Top three challenges:

- ▶ 1. Regulatory burden
- ▶ 2. Increasing efficiencies / reducing costs
- ▶ 3. Improving data quality

Firstly, let's look at the business challenges facing the industry. Interestingly, the top three challenges – regulatory burden, improving efficiencies/reducing costs and improving data quality – have been consistently picked as the top three over past surveys.

At the heart of all these business challenges is the lack of digitalisation of business models amongst trust, corporate and fund services providers and the continued reliance on manual processes. It is clear that many firms are still focused on getting the fundamentals right. They know that they need to transform their business to leverage technology but still appear unsure how to justify the business case, the likely return on investment and how to execute transformation.

*In order to guide firms on the direction of travel and best practice to solve these issues, we have broken these business challenges down into four separate steps on a digitalisation pathway – Consolidate, Regulate, Automate and Differentiate.*

At the core of trust, corporate and fund services business models is data and therefore improving data quality is the very first step – **Consolidate** – that firms should address on their digitalisation pathway by consolidating data and systems onto a common digital platform.

Firms continue to deliver services to their clients to meet the rising tide of regulation since the global financial crisis which, alongside demands for greater transparency, have constantly increased regulatory and compliance activities. The second step on the pathway therefore – **Regulate** – is executing regulatory obligations quicker and easier by putting in place a single global platform for compliance.

The third step – **Automate** – is increasing efficiencies and reducing costs by automating key compliance, regulatory and operational processes to increase efficiencies and reduce costs. Growing margins is the raison d'être for any business but ironically in the trust, corporate and fund services world the technology is already widely available, the real issue is that firms need to make full use of it.

The final step on the digitalisation pathway – **Differentiate** – is creating competitive advantage and driving growth via a clearly differentiated proposition for clients. The intergenerational transfer of wealth has meant that wealth is now moving to 'digital native' generations who expect the technology, speed of response, engagement and client service they are experiencing in other industries and life in general.

The four stages of the digitalisation pathway are outlined in more detail on the next page.



# A Digitalisation Pathway for Trust, Corporate and Fund Services



## *Consolidate data to improve quality and consistency via a common digital platform:*

- Reducing data silos, improving data quality and a common understanding of how data flows through your organisation
- Creating new levels of transparency, accuracy and control for reporting, data and information
- Providing a 'single source of truth' for all your client and enterprise data, so you can always find the information you need
- Supporting growth by enabling easier 'plug-in' of acquisitions

## *Execute your regulatory obligations quicker and easier by moving to a single compliance platform:*

- Taking control of your data by digitalising regulatory compliance processes
- Reducing complexity of systems and day-to-day operations
- Improving efficiency of regulatory submission process
- Increasing flexibility and agility to react quickly to changing regulations
- Reducing regulatory risk and cost of compliance
- Enabling you to focus your staff on more interesting and value-add tasks

## *Increase efficiencies and reduce costs through automation of key workflow processes:*

- Increasing efficiencies/reducing costs and optimising business operations through technology to ensure peak operational efficiency
- Reducing payment costs through workflow automation
- Reducing pressure on fees and margins
- Increasing revenue by reducing unbilled time
- Increasing margins and improving profitability

## *Create competitive advantage via a clearly differentiated client proposition:*

- Reimagining the client experience by creating a new digital proposition
- Delivering powerful, secure interfaces, reporting capabilities, data insights and higher-quality digital engagement
- Supporting front-to-back office processes and information sharing
- Meeting the demand from 'digital natives' for greater control, convenience and transparency
- Providing clients with secure access to their information on any device, anywhere, anytime
- Driving growth and maximising the enterprise value of your organisation



How far have firms progressed?

## Digitalisation levels remain very low

### ▶ 5 out of 10

is how firms score themselves in terms of digitalisation

### ▶ Only 1 in 3

firms have started on their digitalisation pathway

### ▶ 82%

say that technological innovation needs to accelerate

Having defined a digitalisation pathway, let's now look at how far firms have progressed. Compared to other areas of financial services, it is clear the trust, corporate and fund services sector lags far behind.

Historically, the sector comes from a culture of charging on a time and materials basis, meaning that there has been less pressure on providers to increase efficiencies, thus allowing them to remain reliant on inefficient, labour-intensive working practices. With the industry increasingly moving to fixed price or *ad valorem* fees in recent years, combined with the challenge of recruiting people, one would expect there to be pressure on to change.

However, when asked to rate themselves in terms of digitalisation, firms only scored themselves on average five out of ten, a figure that has remained static in our surveys over the past three years. We recognise that this is a broad-brush score and may also reflect different interpretations of what was meant by "digitalisation". So, this year for the first time we drilled down by asking firms how far they had actually progressed on their digitalisation pathway.

The results really illustrated that the sector is lagging behind – only one in three firms had even reached the first step – Consolidate – in terms of reducing silos and consolidating data onto a common digital platform. But there is a clear recognition amongst firms of the need to change: 82% of those surveyed said that technological innovation needs to accelerate within the industry.

***It is a given that digitalisation happens across any industry sooner or later. In the case of trust, corporate and fund services, lack of investment in technology is a major issue that is holding back development.***

Research from the wider financial sector has found that typical technology spend as a percentage of revenue is between 6%-12%. TrustQuay's research has identified the typical corporate services, trust or alternative fund administration provider spend is at best between 3%-6%.

This lack of investment over time will mean that the cost of running multiple unintegrated legacy systems in tandem with labour-intensive manual processes will become increasingly untenable in a world that is moving to fixed price or *ad valorem* fees.

On the following pages we'll cover research findings relating to each step of the digitalisation pathway.



# Data issues and regulatory burden are spurring action

## Consolidate

### ► Only 1/3

of firms have consolidated data onto a single digital platform

## Regulate

### ► 3 out of 4

firms do not have a single global system for regulatory compliance

### ► 86%

believe interaction with regulators will become increasingly digitalised

It is no surprise that improving data quality has consistently been named as one of the top business challenges facing firms. At the risk of stating the obvious, good quality data is at the heart of and fundamental to trust, corporate and funds services providers delivering their service to their clients.

One would therefore expect the ability to have a consistent and consolidated view of data to be critical for the efficient running of a business and for delivering quality client service. This is especially useful for firms with clients spread across corporate services, trust structures and fund administration functions but also across jurisdictions.

But the reality is that the industry often only looks at data quality in detail when a client moves between providers or when the provider changes systems. Reviewing data quality could and should be done on a regular and proactive basis, but this is difficult when the data is inconsistent and spread across numerous systems.

Our survey identified that change is coming and that more firms will in the future take the first important step on their digitalisation pathway. Extracting value from data was named in the top three focus areas for innovation over the next five years.

***By taking this first step to create consistent and consolidated data, the next step of regulatory compliance can then be expedited, and processes and workflows can in turn be automated. Extracting value from data can open up the opportunity for companies to accelerate further progress along their digitalisation pathway.***

Initiatives undertaken by regulators will also likely spur action. Our survey found that three-quarters of firms do not currently have a single global system for regulatory compliance (the second step on the digitalisation pathway), but an even higher percentage believe that interaction with regulators will become increasingly digitalised in the future.

Most regulators already have digitalisation high on their agendas and many have made significant progress – UK's HMRC and Luxembourg's CSSF have had digital initiatives for some time such as Making Tax Digital and eCDF, with Jersey FSC following suite with last year's Digital Registry rollout. TrustQuay itself has been supporting customers with the Economic Substance Advisory Service developed in partnership with a 'Big 4' accounting firm.

While regulators have increasingly digitalised the way firms can interact with them, many firms have yet to keep pace with these changes and are still trying to adapt historical manual processes around new regulations, a solution that our research with customers shows will not be tenable over the medium to long term.



Technology spotlight

# Fund services

▶ **92%**

say fund administration will increasingly be a growth area for the industry

▶ **6 out of 10**

firms do not have a single global system for regulatory compliance

▶ **Top growth areas:**

- ▶ 1. Private equity funds
- ▶ 2. Real estate funds
- ▶ 3= Debt funds
- ▶ 3= Venture capital funds

Let's focus for a moment on a **Technology Spotlight** and look at the industry research findings with regard to fund administration.

Over the last three surveys, trust and corporate services providers have consistently cited fund administration as a key growth area. Nine out of ten providers who expressed an opinion said that fund administration would be a growth opportunity for the industry.

At present, 41% said they offer fund administration as a service to clients, with a further one in five saying they are planning to do so in the future.

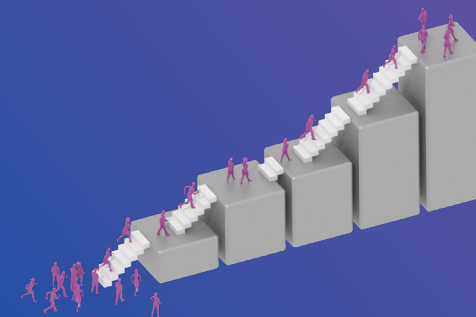
Private equity funds were seen as the top growth area, cited by two-thirds of respondents, with real estate funds coming in second, chosen by half of those surveyed. Debt funds and venture capital funds came in joint third position, named by a third of respondents.

***Following on from the Consolidate step in the digitalisation pathway, looking at the benefits of a single consolidated system that can cover entity management and alternative fund administration is very apt.***

Like trust and corporate services, fund services also have entity (SPV) management as a fundamental part of the service provided to private capital vehicles such as Private Equity, Debt, Real Estate and Venture Capital Funds. The entities needed to be managed for the underlying companies, properties and debt vehicles are key components of the fund services provided.

## Fund Services seen as an increasing opportunity

The investor (LP) onboarding, record keeping and on-going management such as capital commitments, drawdown, allocations, partnership accounting and distributions associated with private capital or illiquid funds is a complex administrative function, increasingly outsourced to trust, corporate and fund services providers. Combining SPV entity management and fund administration onto a single digital platform delivers firms a 'single source of truth' and can create new levels of transparency, accuracy and efficiency in TrustQuay's opinion.



Automate

# Efficiency and profitability concerns top the agenda

▶ **87%**

of firms have not fully automated manual data inputs, data checks and key workflow processes

▶ **3 out of 4**

firms say they could be better at increasing efficiencies and reducing costs

▶ **Only 1 in 4**

think their firm is more profitable than their competitors

When we asked respondents about the third step in the digitalisation pathway – Automate – we found that nearly all firms (87%) had not fully automated workflow processes, manual inputs or data checks.

In any industry, the ability to automate processes to improve efficiency is a key driver for firms to spend on technology. The same is true for the trust, corporate and fund services sector. When you compare the cost of technology to people costs, it's relatively minor in comparison, therefore investing in technology can reduce overall spend significantly, while at the same time should improve job satisfaction by not constantly repeating the same mundane function.

***The sector's traditional reliance on time and materials billing has meant that, in the past, people costs have been less of an issue as they can simply be absorbed into this billing structure. However, now the tide has turned towards fixed price and ad valorem billing, reducing people costs through automation has become critical.***

Firms are now increasing their focus on this challenge, with three out of four saying they could be better at increasing efficiencies and reducing costs. Profitability is also under threat, with only one in four thinking their firm is more profitable than their competitors. But again, change is coming, with automating processes and workflows named as the top focus of innovation for the industry over the next five years.

Industry consolidation through M&A is also impacted here. A key driver for M&A is to build scale and drive greater efficiencies in the operating model to increase margin. However, in the trust, corporate and fund services sector, numerous corporate integrations result

in the retention of fragmented legacy systems, with the lack of consideration at the M&A stage holding firms back once past the initial integration. Looking ahead, we expect to see technology considerations in M&A to be much higher up the agenda because of their significant role in delivering the expected synergies and cost savings.

Automation, however, is not the sole preserve of large, consolidating firms. Every trust, corporate and fund services provider needs to focus on automation due to the growth constraints from processes built around people.





Differentiate

# Digitalisation needs to accelerate to meet client expectations

▶ **84%**

of firms do not have a client portal in place to differentiate their proposition

▶ **Only 1/3**

of firms think they are growing faster than their competitors

▶ **3 out of 4**

firms say they could be better at delivering a digital experience to clients

▶ **81%**

Expect digital engagement with end-clients will become much more commonplace

▶ **More than half**

of firms plan to digitalise their business and client engagement in the next 2 years

The final step in the digitalisation pathway is Differentiate, and how to create competitive advantage via a clearly differentiated proposition for clients.

For the trust, corporate and fund services sector, it is still early days. While firms have traditionally differentiated themselves through their capabilities at a regional or specialist level, or through a high-value, high-touch service for clients, most firms' digital proposition remains nascent.

A good yardstick to measure progress in how firms are reimagining the client experience is the use of client portals, which is now commonplace in other sectors of financial services. In the trust, corporate and fund services market, we found that 84% of firms were not offering a client portal\*. Given only one third say they are now outperforming their competitors in this highly fragmented market, differentiation is key to future success, and a better digital client experience could be a key component to that.

***Meeting the demand from 'digital native' clients for greater control, convenience and transparency is becoming increasingly recognised by the industry, as is the impact this can have on profitability and enterprise value.***

Today, three out of four firms say they could be better at delivering a digital experience for clients and momentum is moving in this direction, with 81% expecting that digital engagement with clients will become much more commonplace in the future.

Plans appear to be in place, with client portals named as the second most important focus for innovation over the next five years (up from third in our 2021 survey) and more than half of firms say they are planning to differentiate their businesses by digitalising business models and client engagement in the next two years.

\*TrustQuay Future Focus Report 2021



Technology spotlight

# Software-as-a-Service

## ▶ 2 out of 3

believe firms will increasingly move away from on-premise software towards SaaS

## ▶ 70%

say their firm will likely deploy SaaS in the future

## ▶ 71%

think the availability of SaaS may act as a catalyst for the industry to become more digitalised

## Software-as-a-Service seen as the future

The second Technology Spotlight we'd like to look at in this year's survey is the industry's view on Software-as-a-Service (SaaS).

*While the trust, corporate and fund services market may not be technologically as advanced as other sectors of financial services, the benefits of SaaS - in terms of lower risk, lower complexity and lower total cost of ownership - are increasing becoming more recognised and understood.*

Our survey found that two out of three respondents believe that the industry will increasingly move away from on-premise software in favour of SaaS, and 70% of firms who expressed a view said that their firm will likely deploy SaaS in the future. SaaS is also seen as a catalyst for driving forward digitalisation within the industry, a view held by 71% of those surveyed.

SaaS delivers significant benefits to companies looking to differentiate themselves from the competition. By removing the need to manage on-premise software - where infrastructure, installation, and upgrades are managed individually on a customer-by-customer basis - SaaS enables firms to deploy their sparse IT resources on more value-added initiatives such as automation and digital client engagement to increase margin and drive growth, rather than just the 'keeping-the-lights-on' management of infrastructure and software updates.



# Conclusion

Over the past three years, TrustQuay's Future Focus Reports have shown an industry that increasingly recognises that it needs to change and embrace digitalisation, but is struggling to take the initial steps.

Given the front of mind problems such as data quality, regulatory burden and inefficiencies, it is not a surprise that many firms' focus is tied up on these day-to-day issues, meaning putting in place meaningful change that will address significant longer-term business issues is lower down the agenda.

But there is a clear pathway to digitalisation, and we hope that by mapping out the route, firms will gain greater clarity and confidence on the required steps on the journey and the benefits that can be delivered at each stage.

On several occasions in this report, we have said that the trust, corporate and fund services sector is lagging behind other areas of financial services – while this is one of the industry's greatest weaknesses, many others in many other industries have taken this route before; providers can therefore benefit from a clear pathway and the best practice of others.

Digitalisation is coming to the trust, corporate and fund services market – it's inevitable, and technology providers have an important role to play in guiding firms so that they can realise the full benefits to margins, profitability and enterprise value that digitalisation and automation brings. Every great journey begins with a single step.

## Methodology:

TrustQuay conducted a global survey of 120 wealth managers, private banks, family offices, corporate services providers, trust and fund administrators in July and August 2022.



# Summary of key findings

## DIGITALISATION

**9 out of 10**

*Trust, corporate and fund services providers think they will become much more digitalised and automated in the next 5 years*

**Only 1 in 3**

*firms have started on their digitalisation pathway*

**82%**

*say that technological innovation needs to accelerate*

## PROFITABILITY & GROWTH

**Only 1 in 4**

*think their firm is more profitable than their competitors*

**Only 1/3**

*of firms think they are growing faster than their competitors*

## CLIENT EXPECTATIONS

**3 out of 4**

*firms say they could be better at delivering a digital experience to clients*

**More than half**

*of firms plan to digitalise their business and client engagement in the next 2 years*

## SOFTWARE-AS-A-SERVICE

**2 out of 3**

*believe firms will increasingly move away from on-premise software towards SaaS*

**70%**

*say their firm will likely deploy SaaS in the future*

## FUND SERVICES

**92%**

*say fund administration will increasingly be a growth area for the industry*

**6 out of 10**

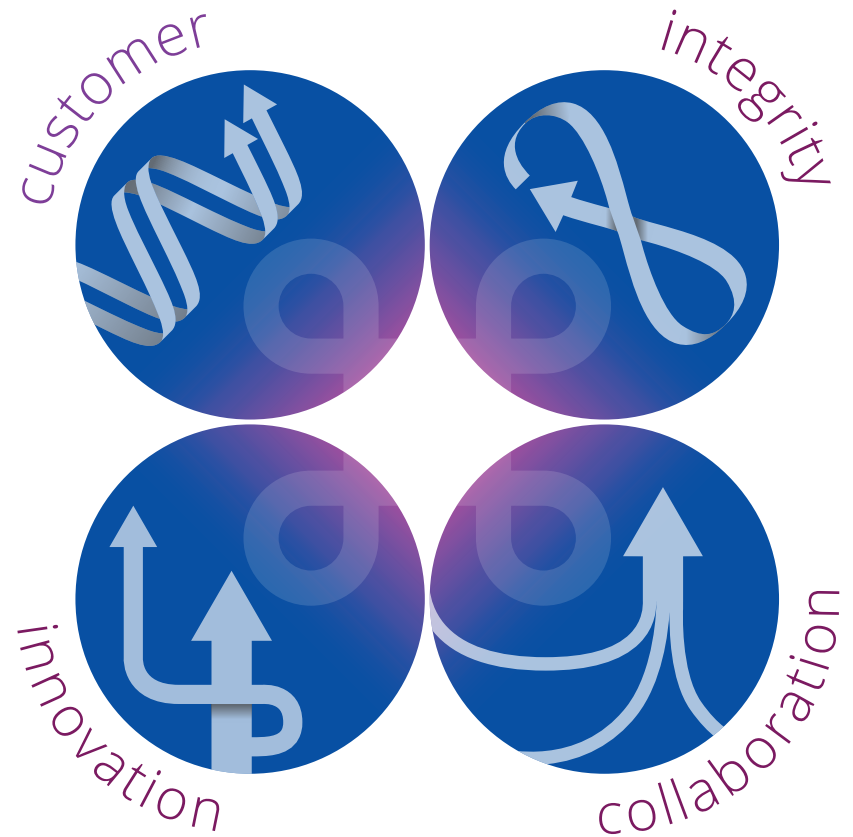
*firms either offer or plan to offer a fund administration offering*







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