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Guiding a digital transformation

FOLLOWING THE RECENT MERGER OF MICROGEN AND TOUCHSTONE, THE COMBINED BUSINESS HAS BEEN RENAMED UNDER A NEW BRAND – TRUSTQUAY. KEITH HALE, EXECUTIVE CHAIRMAN OF TRUSTQUAY, TALKS TO THE *STEP JOURNAL* ABOUT THE CHALLENGES FIRMS FACE AS THEY LOOK TO INCREASE THEIR GLOBAL REACH, WHILE COMPLYING WITH TIGHTER REGULATORY MEASURES.

INTERVIEW BY **KAITLYN GUTZKE**, MANAGING EDITOR, STEP

In a time of unprecedented change in the trust and corporate services market, two competitors in the financial technology and software industries, Touchstone and Microgen, have joined forces to form TrustQuay. The combined team has over 450 customers and an established physical presence in markets including Australia, Cyprus, Guernsey, Jersey, Luxembourg, Singapore and the UK.

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Executive Chairman of this new venture, Keith Hale, says the trust and corporate services market is undergoing a ‘once-in-a-generation change, driven by increasing industry consolidation and the rising tide of regulation’.

He says this change has acted as a catalyst for a period of rapid digitalisation across wealth management as a whole, but particularly in trusts, corporate services and alternative fund administration, which is TrustQuay’s core market.

Keeping up with the demands of such a fast-moving industry is what led to the bringing together of the two companies. ‘The merger recognises the need to deliver flexible cross-jurisdictional technology to support the regulatory agenda, digitalisation and the necessary automation that will be ever-more critical to the success of the next generation of leading providers,’ he explains.

‘The industry continues to grow significantly and is being driven by the demand for global coverage, increased regulatory oversight, changing fee models and continuing cost pressures.’

Hale says firms have also faced a rising tide of regulation in the wake of the financial crisis, which, combined with a drive for transparency, has constantly increased the regulatory and compliance burden. It is not just the time spent fulfilling these requirements that is immense, but also the unseen cost. ‘Even though regulatory work is also often perceived as low value by the end-client and is hard to monetise, the increasing regulatory burden continues to drive the need for more efficient compliance processes to reduce costs and protect the profitability of firms.’

The cause of this increased workload are new regulations, such as the OECD’s Common Reporting Standard and the EU Mandatory Disclosure Rules (also known as DAC6), which have required new levels of transparency and beneficial ownership information from firms.

‘Transparency is no longer a request from regulators, it’s now a requirement for firms and their clients, which is extremely difficult to deliver for those using multiple legacy or even so-called best of breed systems,’ observes Hale, adding that ‘as a result, streamlining and automating operational processes and controls has now moved much higher up the agenda of firms in the trust and corporate services space.’

As the trust and corporate services markets attempt to adapt, Hale thinks many companies are now being pushed to change to comply with tougher regulatory and transparency measures, as well as ensure efficient business models that align with modern clients demanding a more efficient, digitalised customer experience.

‘The industry lags behind other financial services markets, often relying on old-fashioned, manual and labour-intensive working practices,’ he says.

‘Many firms have multiple disconnected legacy systems and tools that don’t work consistently across functions or locations. They do not have a platform that combines both the strong core functional capabilities with the necessary APIs and off-the-shelf integration leading tools that will provide them with agility and flexibility in the digital age.’

Hale observes that customers are rapidly becoming more sophisticated and expect the technology, speed of response, engagement and customer service they are experiencing in other industries: ‘The intergenerational transfer has meant that wealth is now under the control of “digital native” generations with much higher expectations of user experience, in particular from the “front office” perspective.’ He expects the current fragmented industry to become a thing of the past, as the sector enters a period of consolidation combined with rapid digitalisation.

What does this increase in expectation mean in real terms? ‘Firms will come

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under increasing pressure to rapidly modernise and digitalise their business models in order to survive and thrive in this fast-changing environment: put simply, they face a stark choice to become either an industry consolidator or specialise in a specific high-value niche,' Hale warns.

He also notes the increasing pressure on business models. 'Across the sector, there has been a move away from traditional charging models, putting pressure on fees and heightening the need for increasing efficiencies, automating processes and reducing costs,' he says.

'For those using manual processes, the risk of human error is ever-present, with the subsequent exposure to reputational risk, regulatory fines and even litigation.' Hale adds: 'Under the old-school regime of billing on a time-and-materials basis, there was less pressure on firms to increase efficiencies by simply throwing more resources at the problem; however, with the change to fee structures such as fixed-pricing models, increasing efficiency in unit production costs by digitalising workflows has become far more important.'

In conversations with clients, Hale says it is clear that firms are well aware of the challenges facing them, but need much more assistance in executing their plans for digital transformation in order to overhaul their entire business models, satisfy clients' digital expectations and deal with increasing competition.

Hale has found that, despite firms pursuing a strategy to expand across multiple jurisdictions and customer segments, systems with ageing technology are stopping them from achieving their integrated global aspirations. 'These global players need a consistent, central core platform and, because of the cost pressure they are under, they need to be agile in moving work between jurisdictions and available workforces,' he explains.

'They would like to run global operations to ensure that they are working consistently and efficiently across the organisation, but with regional expertise and excellence in certain areas. For smaller, more specialist firms, they need to differentiate themselves successfully and offer their clients a high-value service based on an end-to-end digital experience.'

As the trust, corporate services and fund administration markets continue to evolve, Hale believes TrustQuay's global reach and coverage, strong product range, modern technology stack and targeted research and development spend in the corporate service, trust and alternative fund administration market should make the new company the partner of choice for the industry. 'Being uniquely placed to meet the evolving needs of clients in this global industry, we expect the impact of this merger on the broader market to be significant.'

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