The Roaring Twenties and The Great Depression?

Maddie Saghir reports

Cooper Wood & Associates' '60 second Asset Servicing Survey' reveals its respondents anticipate both the warm sun of a market upswing, combined with the cold winds of fee pressure and cost cutting

A century ago there was an economic boom in America. The 1920s was a period of innovation and invention in technology and science. By 1929 the Great Depression hit and would last until the late 1930s causing a severe worldwide economic depression that took place mostly during the 1930s, beginning in the US.

Fast forward to today, and there does seem to be a bittersweet mixture of opportunities and challenges in financial markets, which is highlighted in the '60 second Asset Servicing Survey' by Cooper Wood & Associates, a specialist asset servicing consultancy.

Just before Christmas, the consultancy invited their many thousands of market contacts and their client base to respond to their survey. Rod Cooper, partner at Cooper Wood & Associates, drew upon this theme of the Roaring Twenties and the Great Depression.

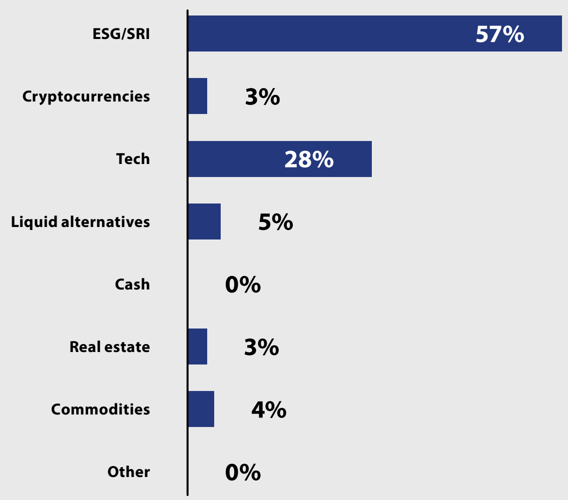
The survey aimed to gauge the industry with a quick litmus test on a number of broad themes.

Cooper says: "Our survey produced some interesting themes with respondents anticipating both the warm sun of a market upswing, combined with the cold winds of fee pressure and cost cutting. We were thrilled with the great response and it is clear that trends are emerging in terms of the move to environmental, social and governance (ESG) investments, increased technology, remote working, and market optimism."

ESG

The survey found that ESG will be a dominant theme in 2021. When asked which sector UK investors' most likely to be focusing on this year, 57 per cent of respondents believe that the focus will be on socially responsible investments in 2021 **[Graph 1]**.

[Graph 1] Investments: Of the following, which sector will UK investors most likely to be focusing on in 2021?



After ESG and socially responsible investments, 28 per cent predicted technology would be an area of focus in 2021 for UK investors.

Liquid alternatives (5 per cent), commodities (4 per cent), real estate (3 per cent) and cryptocurrencies (3 per cent), were also suggested as areas of focus for 2021.

According to Cooper, the industry challenge will be to satisfy investor appetite for socially responsible investing/ESG products, while simultaneously ensuring compliance with it.

Cooper says: "EU regulations, UK stewardship codes, and board scrutiny will need to be satisfied, and we anticipate UK regulators will be looking to firms to incorporate ESG compliance as part of existing oversight."

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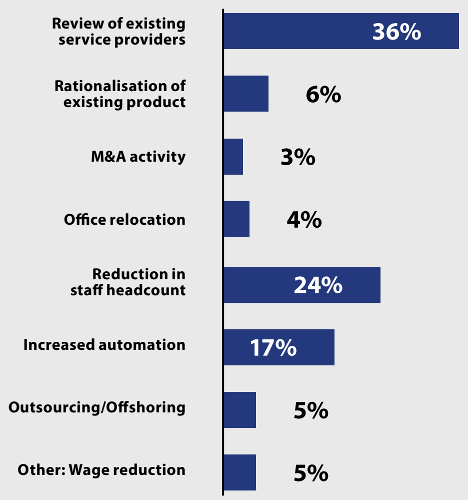
Cost management

Another dominant result identified in the survey was the cost management will get tougher for 2021. Survey participants were asked to identify the areas of main focus when it comes to cost management.

The results show **[Graph 2]** that reviewing existing service providers (36 per cent) will be a key area.

[Graph 2] Cost Management: When managing costs, which area is likely to receive most focus?



Also high on the cost management agenda, was a reduction in staff headcount (24 per cent), increased automation (17 per cent), and rationalisation of an existing product (6 per cent).

Respectively, some 5 per cent noted outsourcing/offshoring and wage reduction as areas most likely to receive focus in 2021. Areas with the least amount of focus included office relocation (4 per cent) and mergers and acquisitions activity (3 per cent).

Cooper, partner of the independent consultancy, says he expects there to be a concern about headcount reductions in 2021 especially as many firms said there would not be any in 2020 due to COVID-19.

But headcount pressures did not disappear, so 2021 "will almost certainly be a tough year", according to Cooper.

Fellow co-founder Tim Wood adds: "Cooper Wood & Associates has often said that opportunities exist to drive better value and better pricing from service providers - and this is true now, more than ever."

"Whatever you are paying is probably too much and to manage costs down, this is an obvious area to look at — but only if you know where and how to look, and how to ensure a better deal without harming service quality. Changing service providers is only really an option if you know who can provide a better deal and better value overall," says Wood.

Compliance

Compliance was another key aspect of the survey. Cooper Wood & Associates asked clients what they think is likely to be the main compliance focus area for firms in 2021.

The results revealed **[Graph 3]** 42 per cent said operational resilience would be a main compliance focus area, while some 21 per cent cited remote working risks.

Meanwhile, respondents also listed ESG and SRI compliance (17 per cent), value assessment (15 per cent), and the investment firms prudential regime (5 per cent) as a focus area.

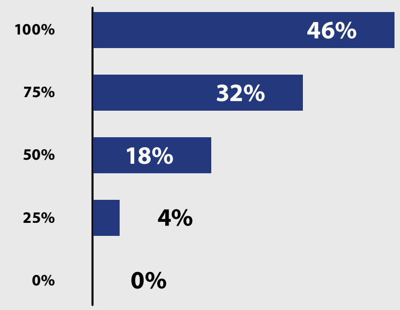
Cooper comments: "The Financial Conduct Authority's ongoing investigation into Woodford was viewed as having the most impact on investor protection.

Absorbing compliance costs will continue the theme of managers having to 'do more with less'.

ESG compliance, operational resilience, value assessment, and remote working risks were all viewed as the compliance focus areas for 2021."

[Graph 3] Compliance: What is likely to be the main compliance focus area for firms in 2021?

[Graph 4] What percentage of your time will you personally be working from home at the beginning of 2021?



Work from home

2020 really prompted a new way of working as many people migrated to working from their office to their home. This is still going to continue in 2021, especially with the UK in full swing of its third lock down. Even before the latest lockdown, Cooper Wood & Associate revealed all of the respondents said they expect to be working from home either full time or most of the time in 2021.

The survey shows **[Graph 4]** 46 per cent of respondents see themselves working from home 100 per cent of the time, while 32 per cent think they will work from home 75 per cent of the time, 18 per cent think they will work from home 50 per cent of the time, and 4 per cent predict they will work from home 25 per cent of the time for 2021.

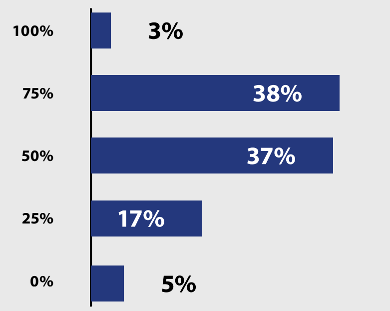
In contrast, just 3 per cent think they will work from home all of the time for 2022, while 38 per cent believe they will work from home 75 per cent of the time and 37 per cent say 50 per cent of the time **[Graph 5]**.

Wood comments: "This may be no surprise, but what is particularly interesting is that more than three quarters of the respondents said they expect to be working remotely more than 50 per cent of their time even in 2022."

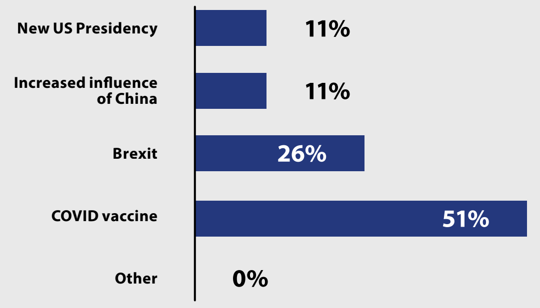
This may have knock-on consequences as the majority of respondents also anticipated further headcount and wage reductions in 2021 as a result of increased automation and cost pressures.

"This means that highly paid employees who have proven that their role can be delivered remotely from any location are likely to be particularly exposed as firms look for immediate areas to cut costs," explains Woods.

[Graph 5] The new normal: What % of your time do you think you will personally be working from home at the beginning of 2022?



[Graph 7] Geopolitical: What event is likely to have the most positive impact to markets and the global asset servicing industry in 2021?

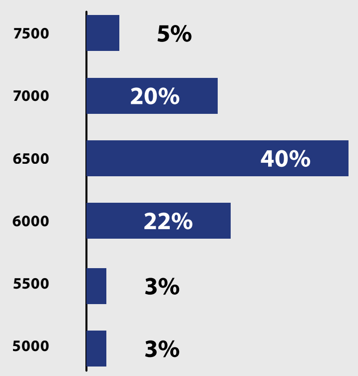


Market optimism

Despite indications of fee pressure and cost cutting, the survey did highlight that market optimism is bright.

In November 2020, the Financial Times Stock Exchange 100 Share Index (FTSE 100) was at 5,600. FTSE tracks the 100 largest public companies by market capitalisation that trade on the London Stock Exchange. Experts say the FTSE 100 represents more than 80 per cent of the LSE's market capitalisation.

[Graph 6] The Markets: At the beginning of Nov 2020 the FTSE 100 was 5600. What is the FSTE 100 likely to be on 1st June 2021?



Participants were asked what they thought the FTSE would be by June 2021 **[Graph 6]** and 65 per cent said that the FTSE would be higher than 6,500 with 25 per cent of those saying it would be above 7,000.

Wood notes: "Given that the FTSE is already close to 7,000 in the first few weeks of January, our respondents' optimism is well founded and the 5 per cent who said it would be above 7,500 may well prove to be correct."

"Interestingly, passive investing may be out of vogue in 2021, and active exchange-traded funds and UCITS are clearly the product of choice, according to more than a third of respondents," says Woods.

When asked what would drive market optimism **[Graph 7]**, 77 per cent cited that the COVID-19 vaccine and Brexit would have the greatest influence, while others said a new US president would do the trick.

One of the survey's respondents, a leading global industry figure, concludes: "I think digital will be a key theme of 2021.

There are plenty of fintechs to support digital client onboarding and an all-round better client experience.

This is where cost and risk can both be mitigated, at the same time as enhancing relationships with the end-investor."