

# TECHNOLOGY: A MEANS, NOT AN END

Technology was critical to the foundation of asset custody more than 40 years ago. As the industry has evolved, custodial technology has provided support to asset owners and asset managers making increasingly complex decisions, helping them meet the burgeoning obligations and opportunities they face. Custodians that have survived industry consolidation have grown and preserved their independence in part by considering technology as a way to provide better service, rather than as an end in itself.

## **From Custody to Asset Servicing: How Technology Fueled the Transformation**

From the introduction of widespread mainframe computing in the 1970s to today's applications designed to help manage complex global investments, technology has fueled the industry's transformation.

In the '70s, growing regulatory insistence on asset safety in retirement plans gave rise to the custody industry: professionals focused on asset safety and providing objective, certifiable accounting for largely "vanilla" pools of assets worldwide. Computing power enabled custody professionals to aggregate multiple money managers into a master trust, and allocate that value among participating plans. With these advances, clients began to rely on their custody provider to provide scale and efficiency to their operations.

In the '80s and '90s, Moore's Law and desktop computing drastically reduced the time and money required for back office production. At the same time, foundations, endowments, insurance companies and sovereign wealth investors joined pensions in seeking custody services. As demand grew for support of global investment and more complex instruments, custody providers developed applications to manage multicurrency

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Custodial technology has provided increasingly complex decision support and helped manage costs for investment professionals.

reporting, and the derivative instruments investors were now using to tactically allocate assets or obviate currency effects. Technology also allowed custody providers to support pension payments and securities lending.

With these changes, the humble custody business had become the much broader asset servicing industry, and asset servicing professionals were embracing new technology to provide clients with information to support their decision-making at a level that was previously unimaginable. As an example, performance reporting grew from looking at returns relative to a benchmark to examining stock selection, sector allocation, region, currency and even individual securities. Investors were able to look at relevant peer groups that separated asset management excellence from those who were merely in style for the period.

### **Technology Today: Mobile, Agile and Always On**

As technology continues to develop, so do the ways in which asset owners and asset managers are relying on their custodians to help them evaluate and mitigate risk, monitor guidelines and facilitate trades. The internet has effectively shrunk the globe, providing access to systems around the world. Mobile computing allows investors to monitor and control their portfolios anywhere, anytime, untethered by a desktop. Performance data for illiquid assets is now matched to the appropriate period rather than lagged. Data is available real-time for many needs.

As technology and the complexity of investment tools used in creating portfolios has grown, so too has the regulatory burden on asset owners and asset managers, particularly since the financial crisis of 2008. Investors have responded as they did to earlier shocks: by relying on their custodians. Successful custodians are using technology to provide the scale necessary to cost-effectively comply with regulations. At the same time, they are engaging skilled front-line staff who understand their clients' environment while using technology as an enabler for them to do more with less.

### **Emerging Technologies and Their Possible Effects**

The pace of technical change shows no signs of abating. Asset managers and asset owners will require multiple views of data to support front office and regulatory requirements. Emerging technologies, such as blockchain, promise breathtaking improvements in data timeliness, consistency and accuracy. Custodians will use bots to collect data more efficiently, freeing investors from time-consuming chores.

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The promise of big data and predictive analytics opens new possibilities for trend analysis, risk management and enhanced security. Investors will rely on their asset servicing providers for greater insight into portfolio exposures and risks.

These technologies all share one common trait: they provide a means of improving service, freeing people to attend to higher value tasks. Asset servicing firms will do well to heed this lesson, and align technology in support of service rather than deploy as a means to press releases and industry awards. Successful asset servicing firms understand that aligning technology in support of service adds the value their clients seek. Technology can enhance human expertise, but it should never replace it.

### **LEARN MORE**

If you would like to learn more about how Northern Trust is using technology to help investors and enhance client service, please reach out to your Northern Trust representative or email [NorthernTrustCanada@ntrs.com](mailto:NorthernTrustCanada@ntrs.com).

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