BNY Mellon
Perspectives

Three Global Megatrends Affecting Financial Services

AUGUST 2020

Featuring:
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Brenda Tsai:

Through times of calm and crisis, BNY Mellon's perspective has made us the trusted steward of the financial system. To help our clients make even stronger decisions, our experts consider everything as they explore the many angles of the financial markets, investing and business. Welcome to BNY Mellon *Perspectives*.

Brenda Tsai:

Hello and welcome to Perspectives. I'm Brenda Tsai, your host and Chief Marketing Officer at BNY Mellon. Today we'll be looking at megatrends that have the most profound impact on financial services globally. These include the rise of the individual investor as retirement savings shift, the importance of technology and of course geopolitical shifts and resulting economic impacts.

Despite the volatility and uncertainty of our current environment, the response from financial services companies around the world has been largely consistent. They're emphasizing two things—purpose and value—in their investments, operations and workforces, as they think about how they can grow profitably and sustainably in the coming months and years.

To help us better understand how these themes of purpose and value are coming to life in financial services, I'm excited to welcome Hani Kablawi, Chairman of international, who assumed oversight of Bank of New York Mellon's European, Middle East, Africa, Asia Pacific and Latin American activities in January of this year. Representing the breadth of our businesses in 34 countries, Hani works closely with our largest global clients. Thanks for joining us, Hani.

Hani Kablawi:

Thanks so much Brenda, great to be with you.

Brenda Tsai:

So, Hani, let's start with your role. Tell us a bit about your coverage, who you interact with and how you serve the industry.

Hani Kablawi:

Thank you, Brenda. So BNY Mellon is headquartered in the U.S. but we have significant presence globally, with really nearly half of our employees based outside of the U.S. I work with regional leads for EMEA, APAC and Latin America and a small central global team to ensure a few things: first of all, that our strategy in these regions is aligned with our corporate goals and priorities; ensuring we have the strategic presence, the capabilities, the permissions and the legal entities we need to deliver for our clients, that we have the right talent in place and that they are motivated and engaged, that we have the appropriate focus on risk management, regulatory compliance and government arrangement to grow our business responsibly, and that we have the culture in place to act as a positive agent for change within the company, the industry and the communities in which we operate around the world.

Brenda Tsai:

Wow, that's quite a big scope and a great purview to some of the biggest trends happening all across the world. It feels like more and more experiences are shared now not just individually or locally, but globally. In your view, what are the biggest megatrends that are affecting our industry today?

Hani Kablawi:

Well, there's a few and maybe I'll focus on three that we're constantly thinking about. One is that we see the rise of the individual investor shift in responsibility for retirement savings from institutions to individuals. They're accumulating wealth faster than they have previously and that's courtesy of demographic growth and aging, and the recovery of equity and the value of non-financial assets after the 2008 crisis. And in developed markets, retirement savings have primarily shifted from defined benefit plans to defined contribution plans, and that shift is a long-term trend that we'll see play out over time. As a result, individuals are increasingly responsible for making investment decisions for themselves.

And maybe trend two, Brenda, is around technology as an enabler. Every company can become a technology company and it's only limited by how it uses technology to deliver value to its clients. In a recent interview with our CEO Todd Gibbons, Microsoft CEO Satya Nadella commented that everyone of us is going to be using digital technology to build more digital technology, which I thought was very appropriate. Essentially, as tech companies provide access to technology, we all in effect become technology companies, and with the acceleration of technology and cloud, it becomes incumbent on us and all other industries to unlock our creativity and leverage technology to deliver more and better value to our clients and improve the lives of everyone.

Maybe if I focus on a third theme here, there's one very large all-encompassing bucket of geopolitics and economic shifts, many of which are interconnected. Whether it proves to be relatively temporary or longer lasting, there's definitely a backtracking on globalization with more withdrawals within borders from a trade perspective. Increased ring fencing from within national boundaries basically, from a regulatory perspective. Generally, more focus within borders as opposed to across borders. Brexit might be an example of that. It's forced banks to realign their operating models, their contracting models, their client coverage and how they service their clients. Secondly, maybe the potential emergence of a competitor to the U.S. dollar as a reserve currency through the Eurozone's recent response to the pandemic, which included what in effect was a mutualization of sovereign debt for the first time ever. Third, we are witnessing a realignment of traditional trade and financial interconnection among developing markets, including trade links between China and the Middle East and between China and Africa, replacing long-lasting trade links that had existed for possibly hundreds of years. And maybe finally the impact of the pandemic is forcing organizations like ours to reconsider the future of the workplace. Let me stop there Brenda, that's quite comprehensive.

Brenda Tsai:

Wow it's a lot to think about, and throw on a pandemic to boot. You think about these trends—the rise of the individual investor, the importance of technology and geopolitical and economic shifts. Any one of them could represent a seismic shift, but having all of them in combination seems like there is a heightened level of complexity and uncertainty. I imagine that every organization's response will be slightly different based on circumstance, but as you interact with institutions across the world, are you seeing themes in how the industry is responding?

Hani Kablawi:

Yeah, I am. As I fly physically and maybe, more recently, virtually around the world, two common themes across the industry come up. One is how companies are undergoing a renewed vigor and evaluation of their purpose in society and linking that purpose to what they do and how they do it. Secondly, organizations are increasingly seeking new ways to generate value for their stakeholders. I use the term stakeholders very deliberately here because it does extend way beyond shareholders to clients, to employees and to the communities in which they operate. The ability I think to successfully execute on both, you know purpose and value, could be what differentiates those that survive and those that thrive in the new environment.

Brenda Tsai:

Both feel very inspiring and it feels like a new era where companies are taking it to the next level so to speak with purpose, with more humanity and growth. But practically speaking, how does an abstract idea like purpose play out with clients, with financial services in terms of investments, operations and workforce?

Hani Kablawi:

Companies, I think, are asking themselves how their existence is helping make the world a better place. Why they exist and why they matter. I think financial services companies are evaluating how they invest and how they operate with a higher sense of purpose in mind. And I think asset owners are increasingly thinking about the impact that every dollar they make and they invest is making on—how it's impacting society.

We've recently undertaken a study in partnership with OMFIF, where we serve a central bank, sovereign wealth funds and public pension funds with combined assets under management of over seven trillion dollars. Within that community, we found that investors are realizing that adopting ESG criteria can protect portfolios from a non-financial risk. Over three-quarters of those surveyed implement ESG in their investment process, and the expectation of superior risk-adjusted returns is a predominant motivator for ESG integration.

Effectively, there's an increasing belief that by adopting ESG principles in the investment process, they can align purpose and value. They can drive more value for their stakeholders and that that is better aligned with their raison d'être, with their purpose.

And look, purpose will be different for different companies, so the ways in which asset owners, sovereign wealth funds and investment management firms, and corporates manifest ESG in their investment habits is also going to be different. Because they're driven by different priorities, different things, they will prioritize different factors. One investor might be more interested in climate change, in plastics in the ocean, and another might be more interested in social justice and child labor. I think such diversity of thinking is very powerful. There are a lot of issues out there and it is good that one firm might think differently about its set of priorities and purpose than another firm might, and hopefully together we're all trying to make a difference.

Brenda Tsai:

What's different now? How are we at the bank, and also more broadly in the industry, advancing ESG in a new way?

Hani Kablawi:

As I said, different firms, different investors might value different factors in their consideration of purpose and ESG investment practices and principles. I think giving them the tools, from a data and analytics perspective, to execute on their chosen ESG investment practices and processes is going to be important.

BNY Mellon has launched an ESG app that looks to do just that. It's effectively an analytics tool that allows one investor to choose its benchmarks and its factors and another investor to choose different ones.

Effectively it's the lack of standardization in ESG investment practices that has been a hindrance in the past, in terms of how investors choose to allocate their investment along ESG principles. And what we're trying to do is unlock that lack of standardization as a value. We're saying to clients they can have their own factors and they can compare themselves, their returns and their ESG practices and allocations against what a crowdsourced industry perspective might look like.

Brenda Tsai:

Wow, that sounds like a whole new level of understanding and transparency, very encouraging. So Hani, we discussed earlier that companies are responding to these global megatrends in two ways: purpose and value. If we turn now to generating more value, what do you see happening on that front?

Hani Kablawi:

So value is a simple concept to my mind, but it's very hard to achieve. It's how does one provide their clients with better solutions at a lower price point, with less risk, strong controls, to achieve better client outcomes. And the focus on value, I think, is driving investment firms to find ways to become more efficient and effective in the delivery to their clients.

So, achieving value in this way requires companies to really embrace data and digital. I'll give you a couple of examples, Brenda. BNY Mellon migrated more than 400,000 manual transactions to digital since March of this year. That's coming in from more than 60 clients. We have plans to bring on another 60 clients, also their long-held practices of instructing manually and receiving information via email and PDF and other manually intensive forms.

This is really important because as we drive more digital transformation and digital adoption by clients, we're improving the client experience, we are reducing risk, we are improving efficiency, reducing our own cost and passing on some of those cost savings to clients. And, very importantly, we are delivering data back to clients much faster than in the old world of manual, and we are delivering it at a more granular level in a way that they can digest it, consume it, and consume it where they want to consume it and however often they want to consume it. They can combine it with other data sets and draw insights from it. All of that is made possible only by enabling clients to digitize their platforms and of course to do that, we have to digitize our platforms and take our clients on that journey with us.

Brenda Tsai:

Can you share some examples of how we're helping clients acquire, analyze and manage data to gain competitive advantage?

Hani Kablawi:

Yeah, and maybe, Brenda, I'll give you a couple of examples, and they're both based on having built an open architecture model and partnered with third parties for the benefit of our investor client base.

In one example, we've partnered with order management systems (OMS) providers Bloomberg, BlackRock Aladdin and Fincore to give clients data and information much earlier in the day than they might have it. We're now giving liquidity managers cash flow positions much earlier in the day or even in some cases the prior day, because of the cash flow predictive analytics that we have. So effectively, we're not saying to liquidity managers that they have to access our own portals. We'll give them the data that they want to have access to, earlier than they might have had access to it previously, and we'll give it to them where they want to see it—on their OMS, where they reside, where they live on a day-to-day basis.

And maybe the second example I'll give is in the area of distribution analytics, where courtesy of our transfer agency and sub-accounting market share and our partnership with broker dealers, for many years now we have had data and have anonymized it and aggregated it and given it back to clients in a way that's allowing distribution managers and marketing managers to position their products more successfully and to allocate their distribution resources more efficiently than they might have previously. All of that has been made available by our open-architecture modular analytics capabilities.

Brenda Tsai:

So, it certainly sounds like a better world where clients have more seamless access to information, and it seems like digitization has accelerated rapidly, particularly through the pandemic. Do you see that this trend is evenly distributed across all the regions and countries you cover or are there some regions that are actually leading the charge?

Hani Kablawi:

You know it's interesting Brenda, I'm not sure I can say with certainty that any one region or geography is further advanced. We find that some of our clients in developing markets are just as advanced in their digital adoption and data and analytics capabilities as some of our more sophisticated clients in the developed markets.

I think it has to do with two things. One is country adoption, country-level adoption, the government, in any one country, the government adoption of cloud-friendly policies and practices. And how much the government enables companies within its borders to adopt digital and data that way. And secondly is a company's own or investor's own adoption of it, and I think the combination of these two things really determine which of our clients have adopted digital and data faster and better than others might have.

Brenda Tsai:

Excellent. So if we were looking ahead across the end of the year and into 2021, what would be that one piece of advice that you would give to the clients out there on how to adapt to this ever-shifting new normal?

Hani Kablawi:

I think as companies think about the next few years, the opportunity to align their purpose with what it is that they do and how they do it is going to continue to be important. I think that environmental, social and governance considerations will continue to rise up the significance curve for investors, driven primarily by what stakeholders are expecting of their providers—be that citizens expecting, sovereign wealth funds, or pensioners and retirees expecting it of their pension funds, or both sovereigns and pensions expecting it of their investment managers.

Secondly I think that everybody will continue to search for value, and put value in terms that can be quantified and understood. I think it's firms that are able to achieve both of these things that will thrive in the next few years. Then there's the small matter of how do we all redeploy back to the office and what the future of work might look like.

Brenda Tsai:

Hani, that sounds like a whole other conversation. We might have to save that for another podcast, but it's great to hear you talk about how value and purpose will be differentiators for companies that are aiming for sustainable growth. Thanks for joining us today.

Hani Kablawi:

Thanks Brenda, I enjoyed our conversation immensely.

Brenda Tsai:

And thanks for listening to Perspectives, where we continue to look at critical topics from every angle. Be sure to download and subscribe to future episodes available on bnymellon.com and all major podcast platforms. Stay safe, stay well.