

Global Banking Practice

Wealth management in Asia: Navigating the impact of coronavirus

To adequately respond to the COVID-19 pandemic, wealth- management firms can implement four measures.



COVID-19 is, first and foremost, a major global health and humanitarian challenge. Much remains to be done globally from counting the humanitarian costs of the virus, to supporting the victims and families, to developing a vaccine. Addressing these challenges is the first priority.

Bearing the humanitarian challenges in mind, the consequences for economies, industries, and service sectors are also considerable. Our aim in this brief is first to share our perspective on the potential impact of the COVID-19 pandemic on the wealth-management industry and, second, to outline some of the options that firms might consider in response to the current situation. As part of their response, firms have a responsibility to communicate regularly with clients, reminding them to stay calm and remain committed to and focused on realizing long-term portfolio goals. Finally, firms should also be prepared to collaborate with both peer organizations

and industry third parties to ensure the stability of industry infrastructure.

Wealth-management firms face three key challenges: market volatility, operational risk, and increased reliance on digital channels.

Unprecedented financial market volatility

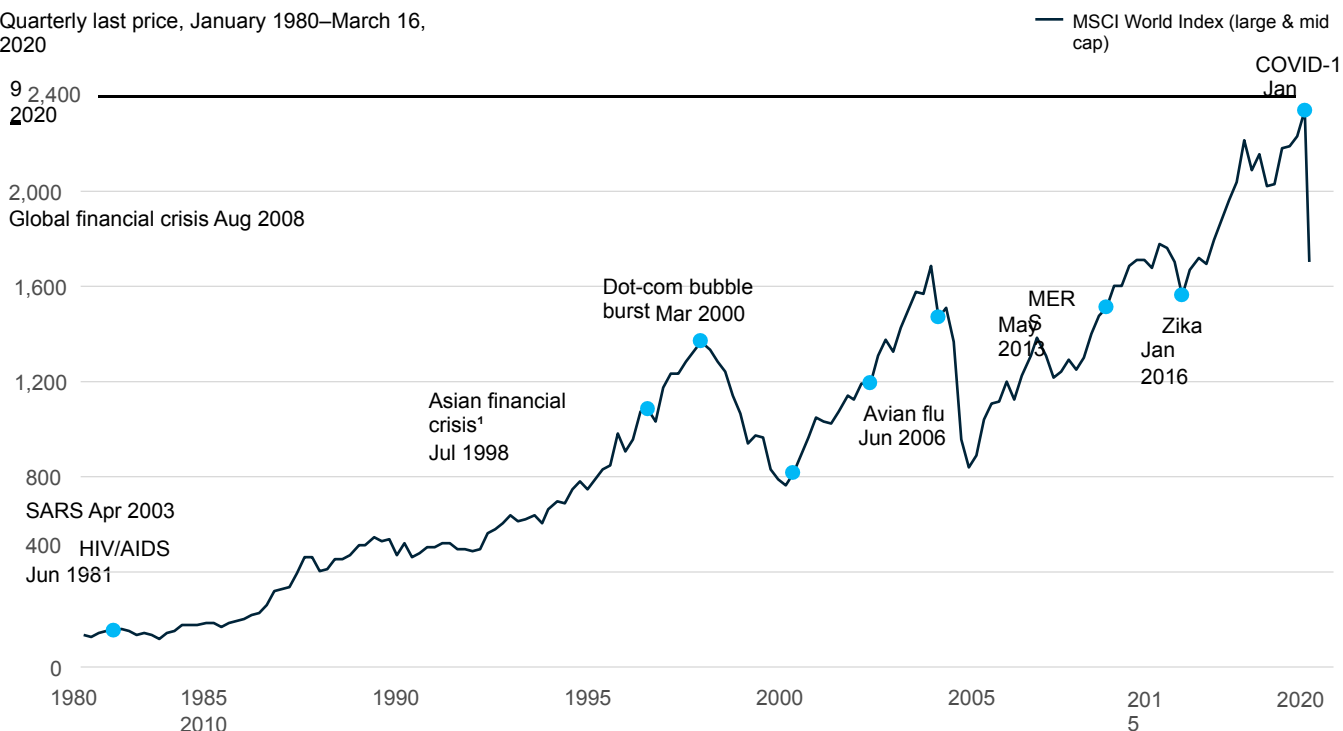
Past epidemic crises have had sharp yet temporary effects on the markets. However, COVID-19 may mark the end of an extended bull run since 2009. By MSCI World Index standards, the approximately 30 percent drop from peak value in less than one month is comparable in quantity only to the 2001 collapse of the tech market, which saw a 44 percent drop over four years, and the global financial crisis in 2008, which saw a 40 percent drop in six months (Exhibit 1).

Exhibit 1

COVID-19 has caused significant downside for global markets matched only by the dot-com bubble burst and the global financial crisis.

MSCI World Index price movement

Quarterly last price, January 1980–March 16, 2020



¹ There is a lag in the effect of the Asian financial crisis on MSCI, as it hit the world indices later than Asian exchanges (1997–99). Source: MSCI

We envision two possible scenarios for the global economy¹:

- *Global slowdown*: The spread of the virus slows with warmer weather in the Northern Hemisphere. The economy recovers in the late second quarter, but global GDP growth drops to between approximately 1.0 and 1.6 percent for 2020.
- *Global pandemic*: The rate of COVID-19 infection remains steady despite the approach

of summer, and extended social distancing severely restricts commercial activity for most of the year. Global GDP growth for 2020 slows to between 0.5 and 0.9 percent.

Weakening GDP growth, high volatility, and significant capital-market losses globally and locally in Asia—where markets have declined by 15 to 25 percent from February 1 through March 15 (Exhibit 2)—can affect how wealth-management firms operate. In the immediate term, the priority

¹Based on Aura Solution Company Limited assessment. For more, see Kevin Buehler, Olivia Conjeaud, Vito Giudici, Hamid Samandari, Lorenzo Serino, Marco Vettori, Laura Webanck, and Olivia White, "Leadership in the time of coronavirus: COVID-19 response and implications for banks," March 2020, Aura Solution Company Limited.com.

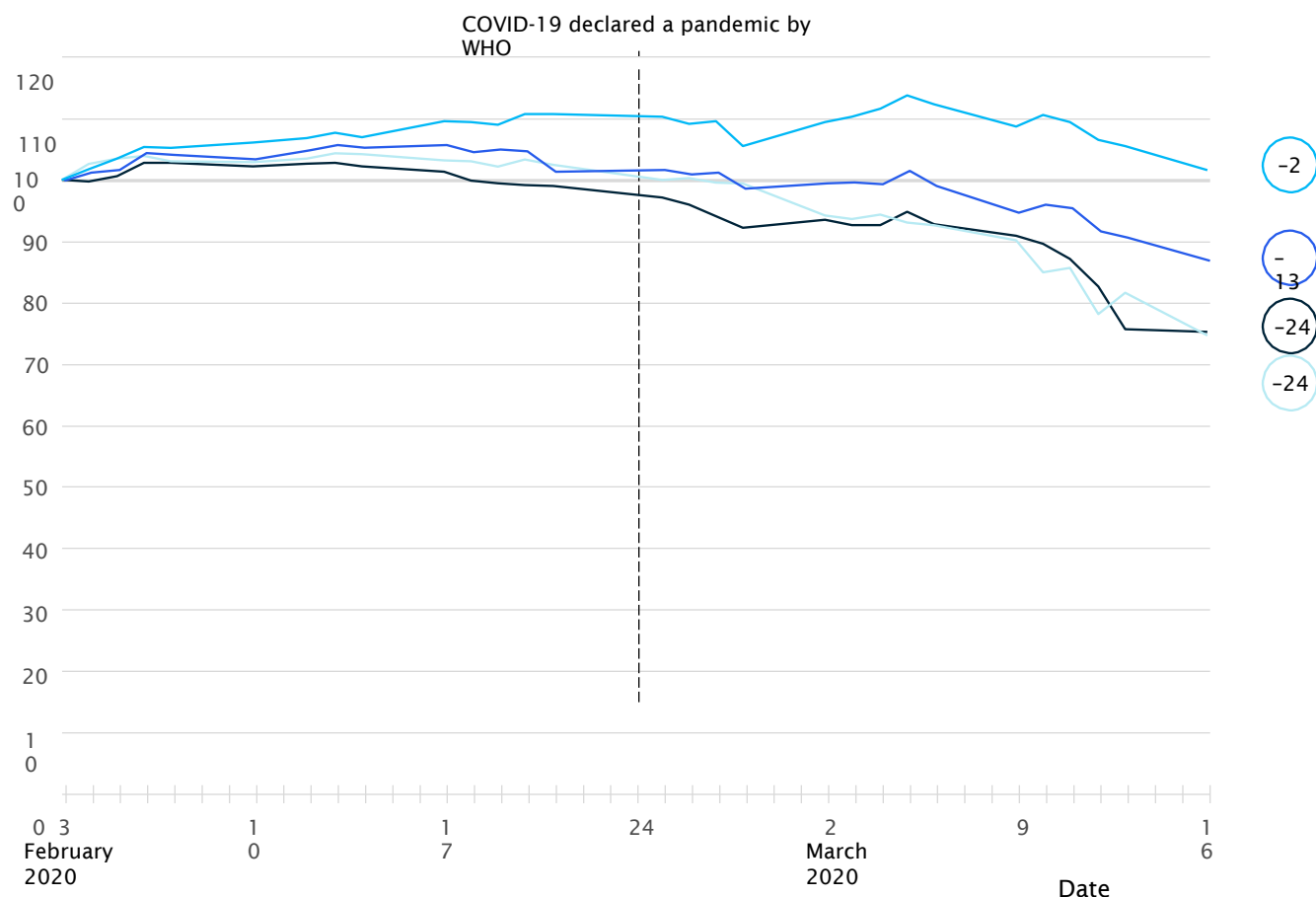
Exhibit 2

Markets across Asia have declined by 15 to 25 percent because of the COVID-19 crisis.

— Nikkei 225 — SSE Composite — Hang Seng — BSE SENSEX

Daily last price

Average change %



¹ Prices indexed to 100, taking February 3 last price as base. Source: Bloomberg

is to sustain investor confidence and protect business through continued engagement and communication with the customers. Over the short- to medium-long term, the industry might witness consolidation and the overall strategy may need to adapt to more frequent M&A activity and much-needed agility in the business model to ensure faster adoption of digital tools across the entire wealth-management value chain.

Increased operational risks related to business continuity, employee safety, and client confidentiality

Regulators in diverse markets impose varying standards on wealth managers, often requiring service providers to periodically test their business-continuity plans. Clients also expect service to resume promptly in the event of an outage. Firms are increasingly expected to rely on and even strengthen their business-continuity plans with additional measures. For example, in February, the Monetary Authority of Singapore called on financial institutions to ensure additional measures (such as monitoring and supporting staff morale) while carrying out their business-continuity plans,² and other regulators are following suit. In particular, firms must be prepared to shift their employees' work to remote sessions (such as by asking employees to work from home) or staggering work schedules to reduce the number of people in offices.

Additionally, firms must be prepared for worst-case scenarios in which key personnel are unavailable because of illness or quarantine. This is especially critical for relationship managers (RMs) at private banks. Lack of contingency procedures for addressing client needs (which may increase during market volatility) and insufficient clarity on decision rights can result in bad service, client dissatisfaction, and even attrition. In smaller wealth- management organizations, such as fintech firms,

a single person may assume multiple roles. In such cases, employees must be prepared to fulfill broader roles and responsibilities to ensure that service continues without interruption.

Finally, as more and more people work remotely, security protocols could potentially weaken and the risk of cyberattacks could surge. According to a report by Insikt Group, cybercriminals are increasingly exploiting COVID-19 for phishing attacks.³ Even a single successful phishing attack seriously risks clients' data and could result in significant legal and reputational costs.

Increased reliance on digital channels for client interaction

Numerous countries have placed severe restrictions on travel, closing their borders or prohibiting travelers from select countries (for example, India has banned entry from the European Union, Turkey, and the United Kingdom).⁴ Mandatory quarantines and cancellations of mass gatherings are being announced in an attempt to increase "social distancing," the practice of maintaining a greater-than-usual physical distance from other people or of avoiding direct contact with people or objects in public places during the outbreak of a contagious disease.

In a scenario where physical situations such as face-to-face meetings are avoided, many wealth-management firms may find it difficult to bring new clients on board and increase the share of wallet with existing clients. Social distancing and travel restrictions also create an opportunity to emphasize digital channels to reliably continue regular engagement between investors and advisers. This opportunity also introduces new ways of working and embracing different cultures and preferences. Firms and RMs who have been slow in adopting and promoting digital communication to secure trust and build rapport with clients face clear disadvantages.

Four things wealth-management firms must do now

The COVID-19 situation presents wealth-management firms with a double-edged sword. While traditional wealth managers will face difficulties in the short term due to the high-touch nature of their business, they also have an opportunity to acquire new or accelerate existing digital propositions, such as by teaching clients how to get the most benefit out of digital communication channels. Firms must seriously pursue digital education for their customers but will also need to be mindful that adoption of digital solutions will vary across customer segments. A retiree, for instance, might be more comfortable with in-person interactions but should still be ready to adopt a basic digital solution—this kind of preparation will maintain business continuity in such an unprecedented, challenging market environment.

However, nontraditional wealth managers such as fintech companies might see raising capital become a top priority given the larger economic impact of the business across the financial services industry. Showcasing strong digital capabilities with robust risk frameworks in place may help attract new clients that are dissatisfied with their existing traditional or nondigital wealth offerings.

Firms must respond to the current situation quickly through four concrete measures.

Deploy best practices to address client concerns and reduce the impulse to panic. Investors may demand constant, specific information about their portfolio as well as additional strategies (such as remaining market neutral in times of high volatility and uncertainty). In order to reassure the customer and safeguard their best interest from short-term panic, firms must come up with an engagement plan across three related areas:

— *Quickly upskill RMs.* RMs must have a 360-degree view of the client holdings with detailed knowledge on the portfolio and ability to simulate and rebalance portfolios in real time to ensure safeguarding and sustainability of the client assets. They may also need guidance from tax experts to address client concerns in specific situations, such as tax-loss harvesting benefits. Consequently, firms should fast-track deployment of portfolio-management tools and mechanisms to ensure RMs are updated in real time on client portfolios. Digitally enabled wealth managers may see a fiduciary responsibility to pressure-test their analytics infrastructure, such as automatic rebalancing tools.

— *Build internal communication channels.* Given the constant flow of information, RMs and portfolio managers (PMs) may consider conducting daily check-ins and check-outs on market movement and impact on the client

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portfolios; indeed, these meetings can be institutionalized into the daily workflow over the medium term.

- *Emphasize external communication for investors.* As customers need reassurance, firms can look at increasing their social media communication on market views, sharing investment philosophy through increased face time with PMs (such as through podcasts, investment notes) and as-needed phone or video calls between the RM, PM, and client. For customers who might become skeptical about the financial health of the institution, increased engagement from leadership will be especially critical to minimize doubts.

Step up business-continuity planning

Wealth managers are expected to test their business-continuity plans as well as deploy additional measures to ensure that client needs are met with speed and efficiency in these difficult times:

- *Ensure resilient business as usual (BAU).* Rapidly build a cross-functional crisis management team with representatives from all key functions and businesses to assess the situation, conduct impact analysis (on tools, clients, and workforce), and make key decisions to keep business going safely and effectively. For example, identify and maintain critical operations, identify critical staff, and develop a quarantine or isolation strategy if confirmed cases emerge.
- *Build a contingency plan.* Revise annual planning in anticipation of prolonged reduction in customer activity; identify portfolio of mitigating actions including securing debt lines and ways to preserve cash to weather a potential slowdown.
- *Ensure client confidentiality while working from home.* Conduct online training for employees and third parties on best practices related to work-from-home arrangements, including cyber risk guidelines to ensure data confidentiality. For example, restrict all sensitive

data downloads through a virtual desktop to a centralized server, provide data access on a need-to-know basis only, and enforce strict actions in case of breach without exception.

Intensify the push toward digital communication channels

As the need for digital adoption is anticipated to accelerate rapidly, tech teams will need to quickly ramp up the infrastructure with an eye to gain quick wins and develop short- to medium-term execution plans. In addition, these teams must carefully monitor for an increase in cyber threats and frauds.

Clients will need to be further integrated across the digital platforms to ensure they have not only a real-time, 360-degree view of their portfolios but also instant access to their RMs to ensure continuity of engagement. In addition, they must be encouraged to use digital communication and interaction through secured instant chat with RMs through multiple channels (email, apps, instant messages), including remote video conferencing facilities.

They should also use online tools in completing agreements allowing and granting permission to make decisions on their behalf.




For RMs, in addition to the communication channel, an end-to-end digital workbench becomes more critical, which will have live market updates, house view through portfolio managers, access to third-party investment research for products on open architecture platforms. Some of these tools might be a quick turnaround based on internal tech capabilities or there might be a need for active collaboration with third-party fintech firms to execute these tools under the risk framework of the respective firms (Exhibit 3):

- *Activate clients for mobile or online interaction.* Launch dedicated campaigns with positive messaging via contact centers to activate digital channels, tutorials, and demos on how to access digital channels and help lines.
- *Promote digital wealth-management products.* Limit in-branch sales and migrate existing clients,

Exhibit 3

Wealth managers should drive online and remote sales and encourage use of digital and remote channels.

Examples of actions

Context	Emerging priorities	Example of possible actions	
Access and mobility restrictions in areas affected determining a drastic reduction of "in-person" branch visits and closure of several branches	Activate clients for mobile banking 	Ensure activation on mobile channels of most customers and obtain privacy consent for marketing and profiling	<p>Dedicated campaign with positive messaging, via contact center, to activate digital channels for clients; ensure functionalities on digital dormant clients, also getting the opportunity to extend privacy consent</p> <p>Tutorial/demos on key procedures to access digital channels (eg, credentials reset, app installation) advertised/performed from contact center</p> <p>Dedicated "help line" for client-inbound calls to support digital channel activations advertised to clients via SMS, email, on website, in newspapers, and in branch</p>
	Promote digital products 	Maximize share of digital sales, increasing digital marketing activities and ensuring remote support to customers	<p>Limit in-branch sales on digitally active products, migrating clients on digital product, eventually with dedicated remote support (helpline) to limit in-branch presence</p> <p>Increase share of investment in digital marketing (paid search, social, display) to intercept/migrate demand on digital channels</p> <p>Step up automated personalization at scale to reach clients with granular personalization of customers' offering, leveraging AA lab</p>
	Quickly enhance digital offering 	Identify and deploy quick wins to increase appeal, functionalities, and availability of digital products	<p>Fully enable consumer finance sales, aligning/closing amount limits vs in-branch limits for valuable and propense clients, implementing required actions to ensure proper risk and AML checks (eg, leverage remote channels to close the sale)</p> <p>Speed up procedure to increase limits on online activities (eg, from a half of a day to 30 min to increase limits)</p>

increase share of investment in digital marketing, and step up automated personalization.

— *Quickly enhance digital offering.* Identify and deploy quick wins to increase appeal, functionalities, and availability of digital products.

Prepare for consolidation across industry
The COVID-19 crisis has the potential to spur consolidation, as the quest for scale and stronger capitalization will likely move M&A higher on the agenda of wealth-management organizations.

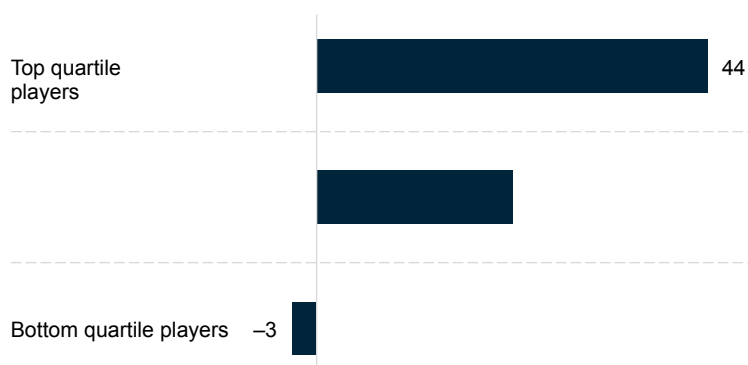
A significant variation in economics exists between large organizations (assets under management above \$80 billion) and small organizations (assets under management below \$20 billion) with average profit margins of 37 basis points and three basis points, respectively, suggested through a survey of 21 private banks active in Hong Kong and Singapore booking centers (Exhibit 4). This indicates a need for scale which may become more prominent in these challenging times.

Exhibit 4

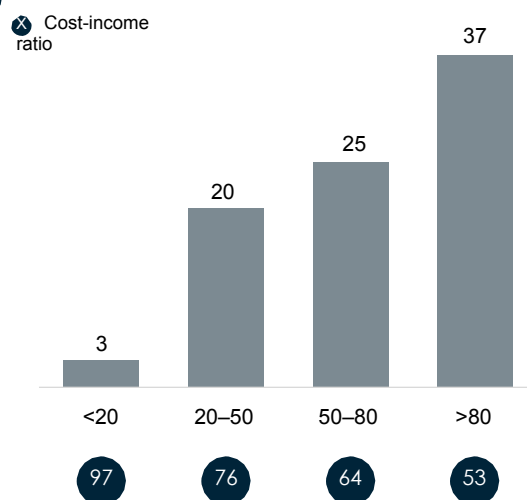
High variance in profit margins among wealth managers and scale is critical for profitability, increasing the need for consolidation.

2018, operating profit/AUM, SG and HK booking centers

High variance in profitability across players, profit margin, bps



Strong correlation between scale and profitability, profit margin vs AUM, bps



Source: Aura Solution Company Limited Asia Private banking survey 2019 covering 21 Private banks active in HK and SG booking centers

Organizations are more likely to come across acquisition and partnership opportunities primarily to acquire scale or specific capabilities—such as investment expertise, geographical access, or customer segments. They will need to refine their M&A strategies, developing a short list of target acquisitions with a view to ensuring business and cultural alignment as well as the ability to conduct due diligence quickly (should an opportunity arise). The situation also demands agility and quick moves for smaller firms to make sure they have the

capital backing to ensure they can protect their business while looking at potential opportunities for collaboration that build on their niche presence and expertise.

Firms would need to keep an open mind toward opportunities for partnerships and collaboration, particularly those that support more resilient industry infrastructure.