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Navigating towards a 'next normal' after COVID-19

Lessons from APAC wealth managers

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Introduction

The dramatic impact of COVID-19 on individuals, communities, and organizations is unfortunately still unfolding. No financial institution will be immune to its effects. Firms have taken rapid action to protect themselves, their employees and their clients, and are considering how to future-proof their business for a 'post crisis' world

Executive summary

In response to financial market turmoil, trading activities increased significantly, peaking in mid-March 2020: the average weekly trading volumes of Hong Kong's Hang Seng Index, for instance, were up almost 80%, compared with the same period in the previous year. As a result, leading wealth managers reported strong Q1 2020 results (e.g., operating income: UBS Global Wealth Management +14%, Credit Suisse International Wealth Management +6%). However, going forward, wealth managers will be facing lower valuations of client portfolios, for many the primary driver of fee income.

Based on over 25 conversations with industry leaders in the APAC region, our study found that the wealth management business model has proved its resilience. However, we noted clear differences in the way APAC firms handled the crisis. Most wealth managers applied a somewhat traditional approach, many still partially working from the office and relying on conventional communication technologies. Investment managers, FinTechs and digital leaders, on the other hand, mostly enabled location independent ways of working through digital tools granting secure remote access for employees.

In a post-crisis 'next normal', new and reenforced client demands and priorities will emerge, with advisory excellence, the availability of hedging strategies, as well as the confidence in the operational resilience of a wealth manager becoming important factors. To enjoy a competitive advantage in a 'next normal', a more digitally enabled front office will be a key requirement. Most prioritize digitalization around client onboarding, while leaders also digitally support the traditional human elements of the client life cycle: prospecting and client advisory. In the long run, wealth managers will benefit significantly from efficiencies from increased digitalization – contributing to a much needed increase in profitability.

Overall, the global COVID-19 pandemic has not fundamentally altered the industry's strategic imperatives, but will further accelerate the difference between winning wealth managers that explore innovative edge business models, increase their operational agility and engage digitally with their clients – and other firms with a more reactive approach that may struggle increasingly in a wealth management industry that is bound to be even more competitive in a 'next normal'.

"Wealth management is a relationship driven industry. But we need to build platforms and push digital channels, now more than ever."

Client executive, Global Wealth Manager (present across APAC)

Survey questions

To help global financial services leaders navigate the crisis, Deloitte has developed a COVID-19 framework consisting of three phases (see Figure 1). This study focuses on how client advisors and clients have navigated the crisis, how their needs are likely to change, and how the client interaction model may develop in the future.

Figure 1. Navigate the crisis, emerge stronger, and prepare for the next normal

	RESPOND Prepare/manage continuity	**RECOVER** Learn and emerger stronger	**THRIVE** Prepare for the next normal
Bank dimension	• Which immediate measures were taken to ensure **business continuity**? • How did the bank approach **risk management** during the crisis?	• Do the technological infrastructure and team setups fully enable **remote working**?	• Are **new business opportunities** by radically rethinking the current value proposition emerging? • What adaptions to the current **operating model** are required in light of the shifting demands?
Client dimension	• How were **client interactions** facilitated in light of the significant restrictions? • How did **clients respond** to new interaction models and channels?	• Which **product and service gaps** were revealed from shifting client demands? • How does the bank **engage digitally** with clients who spend an increasing amount of their time online?	• Will a new and under-served **digitally savvy client segment** emerge with shifting preferences on service and interaction models?

This study summarizes key lessons from our conversations held between April 1st and 15th, 2020, with over 25 wealth managers, asset managers, and related FinTechs active in the APAC region. All were confronted with the COVID-19 pandemic early on, and therefore provide valuable insights into preparing for the future and gaining a competitive advantage in a 'next normal'. However, this study does not provide a holistic perspective across all issues that are relevant for banks (e.g., cyber security, capital management): please refer to our comprehensive resources on Deloitte.com for a full overview.

"Our team earned the highest Q1 trading fees in ten years. Clients coped well with the situation, and our business has been very resilient."

Relationship Manager, Singaporean Wealth Manager

Lessons learned from the first two months

The short-term response of APAC wealth managers to COVID-19 focused on immediate safety and security needs – for clients, employees and the firm

De-risk traditional working patterns
Regional and country-specific crisis management squads were set up quickly to obtain critical information from regulators and government units, and to provide information and guidance for employees. In addition to strict implementation of the official public recommendations for self-protection, initial client and employee-related measures focused on increasing hygiene standards in the workplace and client facilities. A number of internal policies were relaxed in order to adapt to the new circumstances.
For example, one globally active wealth manager eased its corporate dress code and permitted the use of clothing that is easier to wash, relaxed working hours to avoid employees commuting during rush hours and introduced various employee assistance programs. All wealth managers tightened their travel restrictions according to government recommendations, and made 14-day home isolation compulsory after returning from potentially affected countries.

"We used 'thermometer guns' at the building entrance to detect compromised employees."

Head Client Business, Large Chinese Wealth Manager

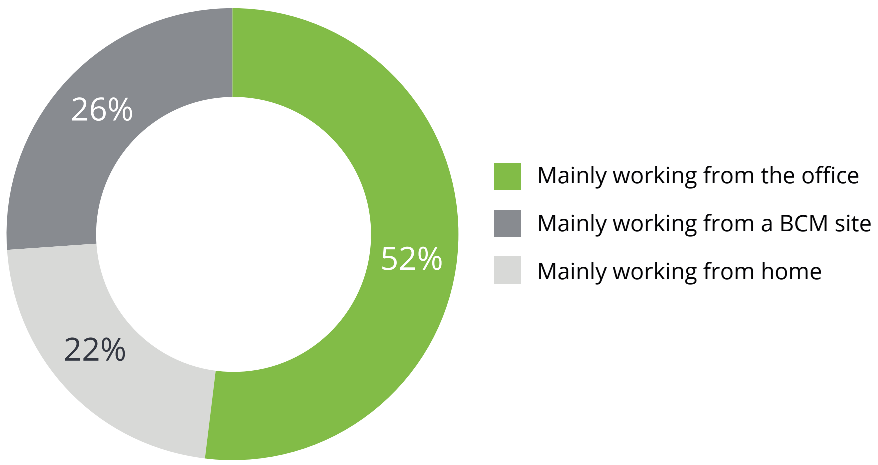
Foster operational resilience

As a second step, many wealth managers made use of their existing Business Continuity Management (BCM) plans to create social distancing. Larger wealth managers with multiple offices split their teams between their standard office and a BCM site, and also allowed employees to work from home where feasible. Smaller firms with limited alternatives in terms of work locations restricted employees' mobility inside the office by separating teams between different floors or rooms. Overall, more than half of respondents continued working in their main office location, at the time of the inquiry (see Figure 2).

Among those wealth managers not enabling their front office employees to work from home, most expressed reservations around granting unsupervised access to client data. This goes hand in hand with cyber security concerns of about half the firms we talked to. In some cases, companies were unable to provide the required hardware for remote working at short notice. As an example, two large universal banks introduced models for working from home on alternate days (one day in the office followed by one day working from home), but they failed to provide the required hardware to their employees, creating major inefficiencies.

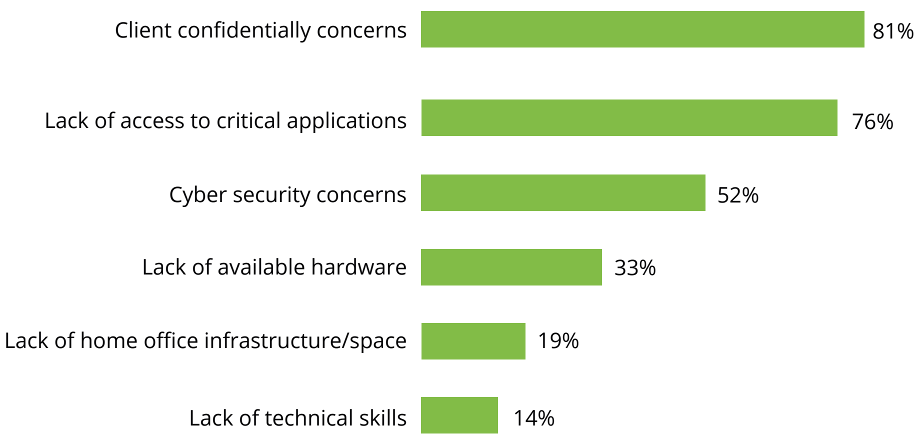
In addition, we found that a number of factors from the employee's perspective affected the productivity of remote working: work space scarcity, a lack of adequate infrastructure (e.g. bandwidth of internet), and in some cases a lack of the technical skills required to work efficiently from home (see Figure 3).

Figure 2. Where did front office staff work during the COVID-19 crisis?



Source: Monitor Deloitte Research

Figure 3. Reasons for not fully working from home

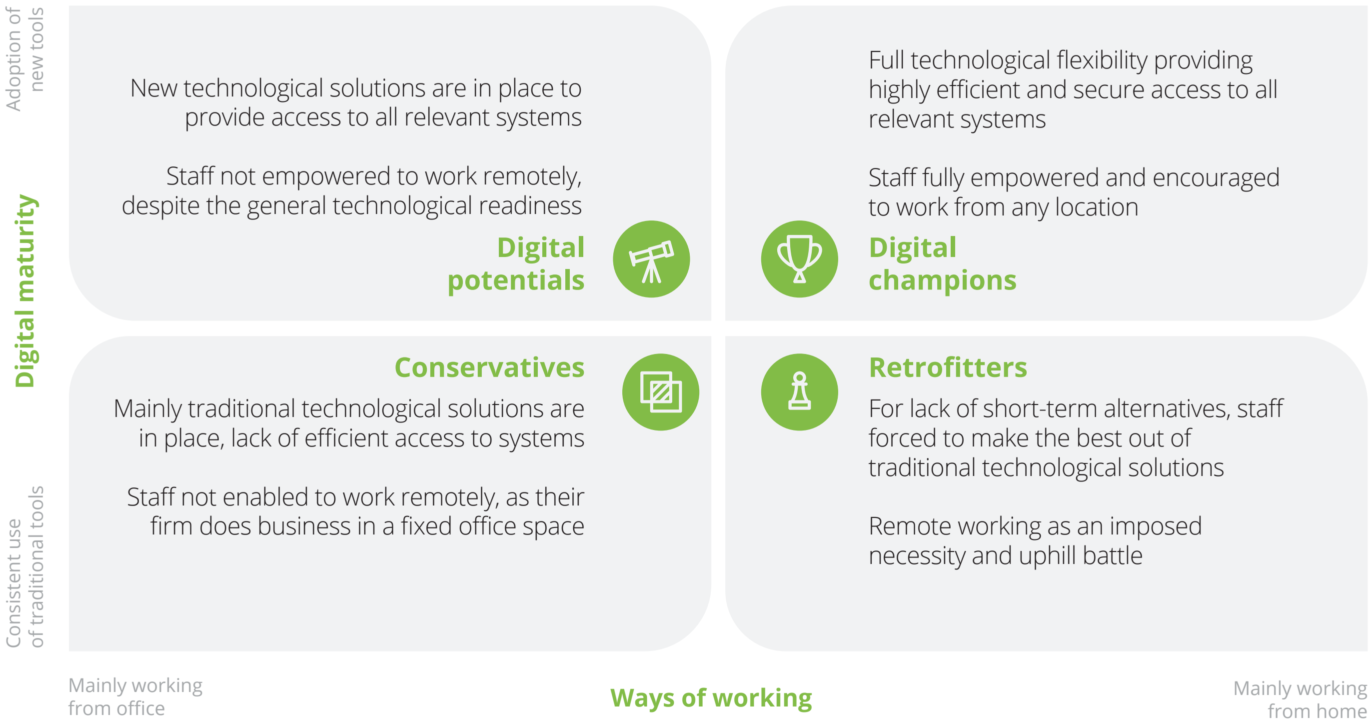


Source: Monitor Deloitte Research

The digital maturity of APAC financial services firms has been heterogeneous...

The digital maturity and policies and thus adoption of alternative working patterns of APAC financial services firms to enable remote ways of working varies substantially. Overall, we observed four types of responses to the crisis (see Figure 4).

Figure 4. Digital maturity to enable alternative working patterns



Source: Monitor Deloitte Research

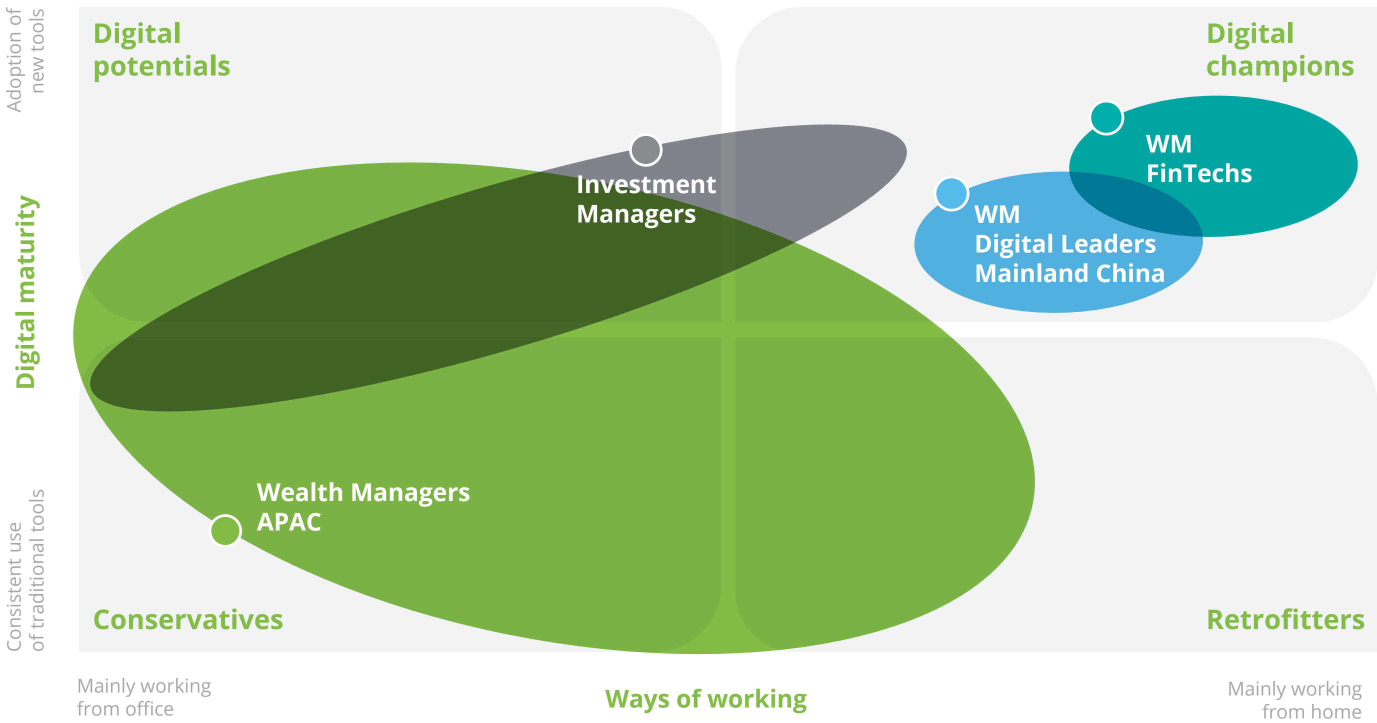
Firms with the least digital maturity in general reacted in a conservative way to the crisis, and did not enable remote working by staff. The technological solutions used were generally very traditional (e.g., e-mail, mobile phones), and lacked critical access to relevant systems. In many cases, this lack of access was a conscious strategic decision based in particular on client confidentiality or cyber security concerns.

Some firms had to react to the pandemic by requiring staff to work from home while retrofitting their capabilities, despite a low level of digital maturity. In these firms, employees had to make the best of the available technological tools and somehow 'survive' the crisis from their offices at home.

Firms with a higher level of digital maturity displayed digital potential, whereby front office staff were theoretically able to work remotely, but were not empowered to do so. In these firms, working from home was often viewed with suspicion or described as 'less efficient' by colleagues and supervisors – despite the firm's general technological readiness.

The most digitally mature players acted as digital champions, whereby staff were fully empowered and encouraged to work remotely. These firms had the technological capabilities and readiness to provide their staff with highly efficient and secure access to all relevant systems.

Figure 5. Digital maturity of APAC financial services firms during the COVID-19 crisis



Source: Monitor Deloitte Research

...but wealth managers largely reacted with a conservative approach to minimize disruption

When the different types of APAC firms are mapped on the digital maturity framework, an interesting industry pattern emerges (see Figure 5).

Wealth managers in most APAC countries generally reacted in a conservative way to minimize disruption, and to a large degree made only marginal changes to their standard operating model. Some respondents cited partly-outdated legacy IT infrastructure as a major impediment to a more remote mode of working. As IT infrastructure cannot be upgraded easily at short notice, wealth managers appear to have had little choice but to 'weather through' the COVID-19 pandemic with their standard operating models. However, we observed a clear difference between some of the leading international firms that had already invested more in digital advisory propositions, and smaller regional firms.

This gap becomes even larger when looking at selected leading Chinese wealth managers: these were already acting as digital champions in their retail segments and fully leveraged their digital operating models for their steadily growing private banking client base. Both their client advisors and their clients were digitally enabled through a variety of banking apps on their mobile phones, with functions like flexible and location-independent account openings, and trading execution.

Many investment managers, on the other hand, displayed digital potential, taking advantage of new ways of communicating with investors and prospects, for example through web conferences or secure chat services. This is not entirely surprising, as in the institutional investor space, client confidentiality is often less strictly regulated and therefore somewhat less of a management concern than in wealth management. As a result, during the crisis smaller and boutique asset managers in particular were proactive in exploring digital client channels.

Wealth management FinTechs were able to fully leverage their lean organizational setups and lack of IT legacy systems, often displaying the highest degree of digital maturity and agile ways of working. In many wealth management FinTechs, location-independent ways of working had already been standard operating procedure before the crisis.

Overall, we believe that incumbent wealth managers can learn and benefit from the digital operating models and experiences of FinTechs and Mainland China firms. The crisis may well have served as a wake-up call for many wealth managers, providing a lesson that continuous and often major investments, not only in IT infrastructure but also in digital operating models and client propositions, have become a prerequisite for thriving in today's competitive markets.

Client perspectives and opportunities

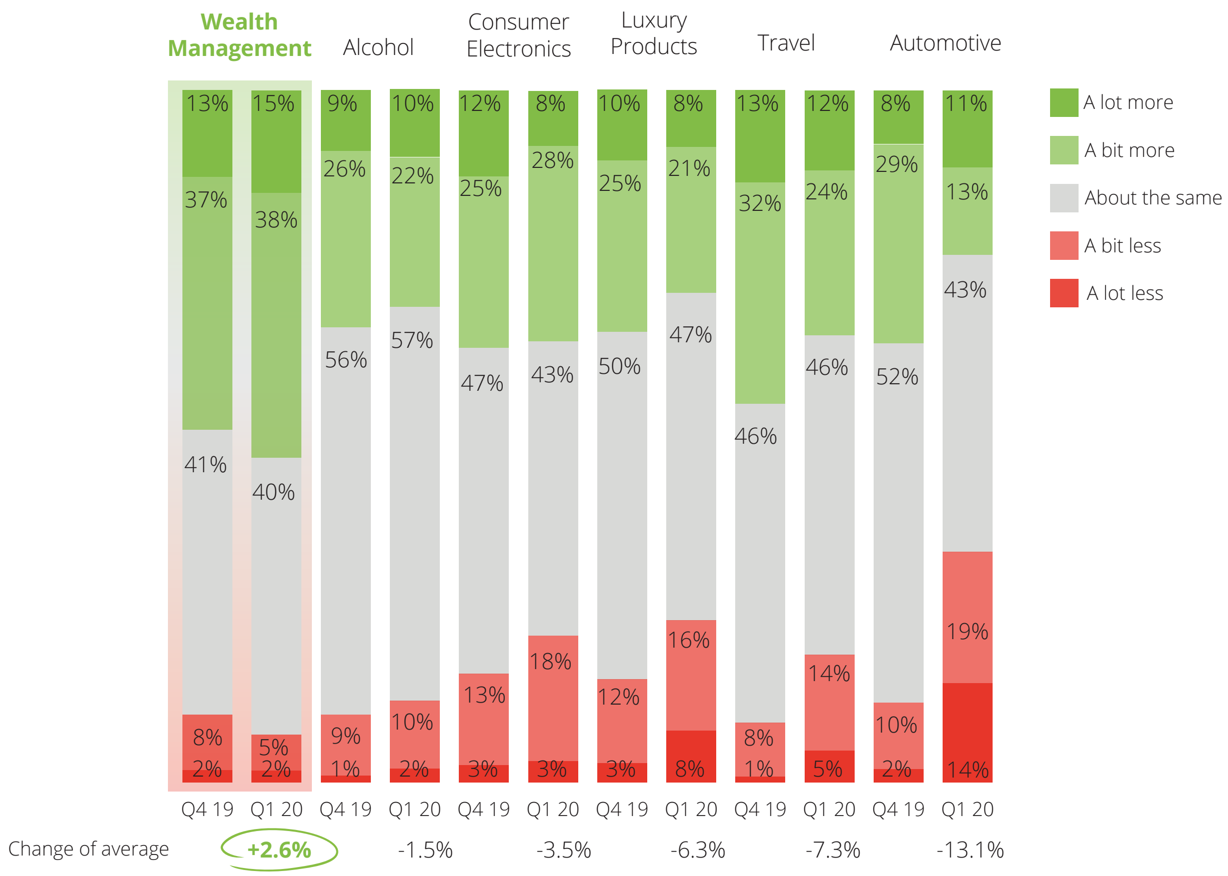
APAC clients remained buoyant, hunting for bargains and seeking to benefit from high market volatility

During the crisis, APAC clients cut back drastically on their luxury spending habits (see Figure 6). When a representative regional panel of affluent and high net worth clients was asked in which categories they were likely to spend more or less within the next twelve months, categories like automotive, travel, or luxury products showed the biggest percentage cuts. In contrast, spending on wealth management services was the only category that showed an increase. This is consistent with anecdotal evidence from numerous front office employees citing substantial trading activity, particularly among Mainland Chinese and Southeast Asian clients, seeking to benefit from lower valuations or market volatility. Overall, despite the global pandemic, the wealth management business model has proved its resilience.

"While bull markets kept rising, clients were happy and made money with all their banks. This new reality will separate the wheat from the chaff."

Client Advisor UHNWI, Major US Universal Bank (present across APAC)

Figure 6. In which categories will you spend more or less in the next 12 months?[1]



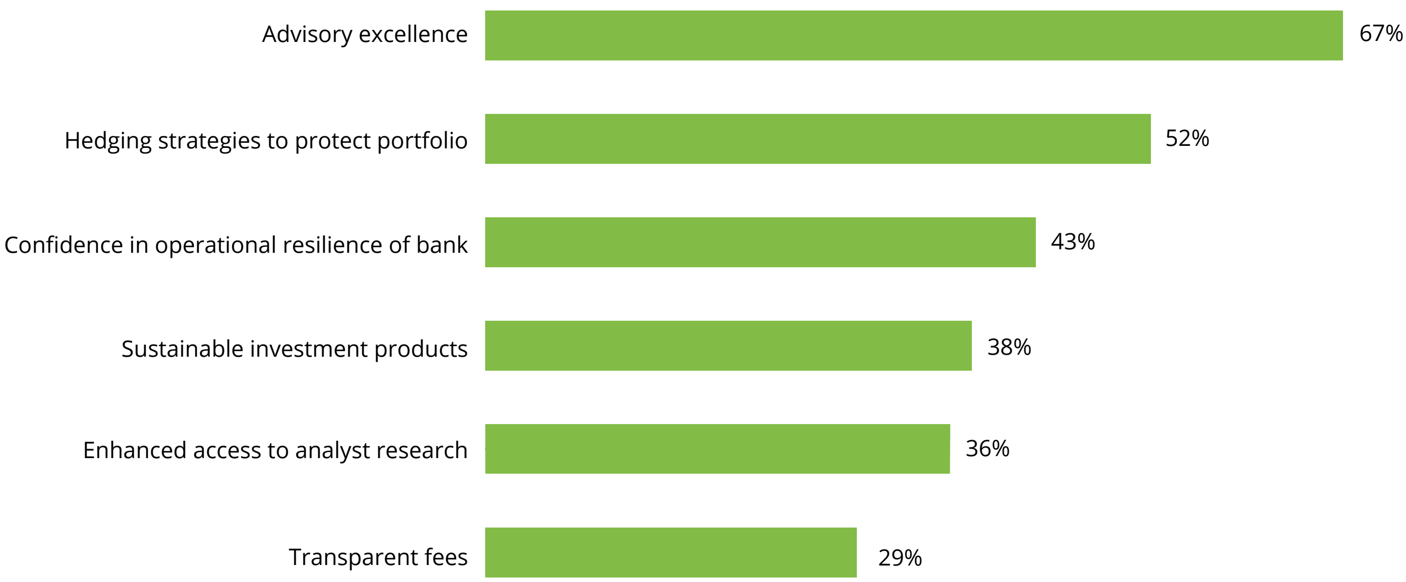
Source: 'Luxury Consumer Sentiment in the Age of Covid-19', Altiant, 8 April 2020.

In a 'next normal', client demands will shift

The COVID-19 pandemic put APAC clients to the test on various fronts. Personal face-to-face interactions with their advisors were reduced due to travel bans and limitations on physical bank visits, and investment portfolios came under significant pressure from falling market prices. Following bullish financial markets over the previous 24 months, a balanced client portfolio[2] lost approximately 12%-15% of its value in Q1 2020, as measured by the most commonly used market indices. APAC clients therefore lost a fairly large share of their previous portfolio gains, but overall they coped comparably well with the new reality. However, we observe clear shifts in their priorities, which in a post-crisis 'next normal' will lead to new client demands (see Figure 7).

[1] Percentage values may not add up to 100% due to rounding.
[2] Exemplary balanced portfolio: passively managed, half invested in diversified global equities, half invested in diversified global bonds.

Figure 7. Going forward, what do clients expect?



Source: Monitor Deloitte Research

Successful client advisors believe that during the crisis, most clients developed stronger, trusted relationships to their advisors. As a result, increased focus on advisory excellence, based on a deep understanding of clients' needs and constraints, has emerged as the number one client priority going forward. Advisory excellence includes the continuity of key contact persons at the bank, as well as excellent service levels in general. This is particularly true for clients in Mainland China, where excellent service levels are crucial, as many operational tasks are already fully digitalized and often executed by clients directly. Successful client advisors in a 'next normal' will become orchestrators for their clients, providing advisory excellence by acting as 'one-stop-shops' in a truly client-centric way.

Many client portfolios suffered from market corrections during the crisis, often made worse by leveraged portfolios (e.g., through securitized loans) and investments in illiquid products. While overall risk appetite is said to have remain unchanged, appropriate hedging strategies and corresponding financial products have become a priority for a majority of APAC clients (including investments in more liquid financial instruments which can be divested swiftly if required).

The crisis has also increased client demand for sustainable investment products (e.g., ESG, impact investing), and although fees were not criticized explicitly, client advisors say that many clients noted a lack of transparency in the total expense ratio of products and solutions, which will need to be adjusted going forward.

During the crisis, clients received investment research at accelerated rate and in various forms from their client advisors. Clients have appreciated this enhanced service, and many will expect it to continue, driving the demand for enhanced direct access to proprietary and third party research.

While the operational resilience of APAC wealth managers was never in question, the recent crisis has served as a powerful reminder that extreme events and corresponding market corrections can happen. Going forward, client confidence in the full operational resilience of a financial institution, including third parties it is associated with and dependent on, has therefore become a key factor.

Improving the digital capabilities of wealth managers

To enjoy a competitive advantage a digitally-enabled front office will be a key requirement

While certain front office tasks along the client life cycle have a high potential for digitalization, most APAC wealth managers still believe that their core business of advising wealthy and sophisticated clients with complex financial needs remains at heart a 'people business'. That said, leaders will treat the crisis as an opportunity to learn how much may be done virtually and more efficiently, and they will invest in digital enablement of their client advisors by providing them with tools and capabilities to work much more efficiently from anywhere and at any time (see Figure 8).

"Applied correctly, more digitalization will increase convenience and strengthen client trust."

Desk Head, Global Wealth Manager (present across APAC)

Figure 8. Digitalization priorities along the client life cycle

	Prospecting	Client onboarding	Client advisory	Trade execution	Reporting
Wealth management digitalization priorities					
From experienced challenges ...	• Generate and qualify **new leads** without face-to-face interaction • Nurture and **convert a lead** into a client without face-to-face interaction	• Lack of **online end-to-end on-boarding** (incl. complex KYC profile & e-signature) • No up-front **transparency** on offering and pricing	• Lack of **technology** to remotely serve clients holistically (incl. cross-border clients) • Complex **suitability checks** / hard blocks in the online channel	• Difficulty to advise clients on **sophisticated products** without face-to-face interaction • Impulsive or **erratic online trading** behaviour of clients	• Lack of sophisticated **portfolio analytics** tools • Lack of **technological readiness** for customized client reporting
... to digital solutions	• Launch targeted **digital marketing campaigns** to reach prospects online and invite them to join bank/ topic specific communities • Introduce **dashboard** with **full view of funnel** and option to pro-actively contact prospects • Create **digital prospecting community** to nurture and convert leads	• Build end-to-end **digital client onboarding** solution, beyond traditional risk/ return profiling, while making use of **gamification** to increase customer experience • Enhance onboarding process with **real-time KYC** and AML checks • **Unbundle offering** based on client needs	• Connect individual clients to **'investor community'** and introduce dashboard to monitor activity • Provide digital access to **customized research** and targeted content • Enable **hybrid advisory solutions** for needs-based investing around life goals and personal values (e.g., sustainability, impact investing, private equity)	• Enhance **e-trading** offering via bank-owned solution incl. **messaging** and secure direct digital access to **investment specialists** (CIO analysts, portfolio experts) • Introduce **predictive analytics** based on house view and past investment decisions as well as automated suitability alerts for clients at risk	• Build solution for **real-time simulations** of portfolio effects of different investment products • Enable **'mass customization'** of client reporting along pre-defined parameters • Compare client performance versus house view and offer **'one-click' switch proposal** (for non-discretionary portfolios)

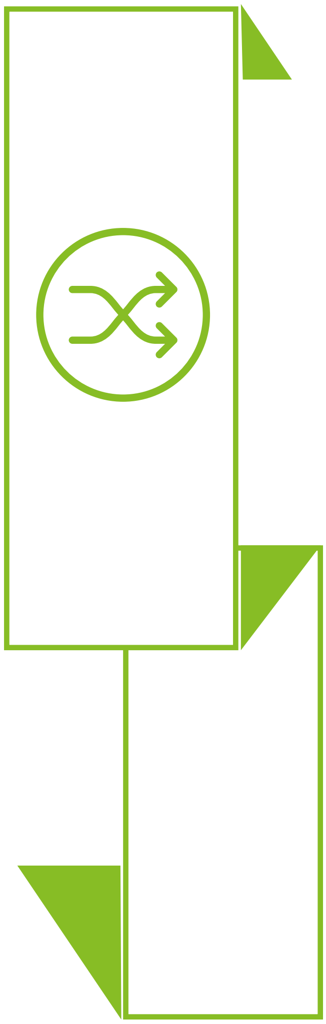
High Low

Source: Monitor Deloitte Research

Most wealth managers continue to prioritize digitalization efforts around client onboarding, traditionally an onerous and cumbersome exercise that clients often find a negative experience, even before formally starting their relationship with a wealth manager. Furthermore, there are signs of initial progress toward digitalization with regard to trade execution and reporting. A variety of APAC firms have started investing in enhanced capabilities, but overall still struggle to digitally enable their front offices fully. Digitally advanced services have not yet been broadly deployed (e.g., hybrid advisory mandates combining predictive analytics with personal advice, or comparisons between clients' and banks' portfolio performance, with the optionality of 'one-click' switch proposals). That said, some regulators have placed a number of stumbling blocks in the way of more rapid digital advancement across APAC countries (e.g., requirements for client identification, voice logs, complex suitability checks, or multifaceted KYC profiles). However, digital solutions often provide a clear audit trail and thus remediate regulatory concerns.

While both prospecting and client advisory certainly require a strong human element to win clients and keep satisfaction high, these activities can be supported and enabled digitally, as leading global wealth managers have clearly demonstrated. For example, many prospects spend an increasing amount of their work and leisure time online, and most wealth managers will therefore need to upgrade their digital and performance marketing capabilities in order to reach them through targeted online channels and campaigns. Client advisory, arguably the core human element in the wealth management life cycle, may also be digitally enhanced by elements of needs-based investing around life goals or personal values, or by providing access to customized research. Limits to digitalizing the advisory process are typically highly sophisticated or customized investment needs (e.g., alternative investments, sophisticated hedging instruments), and banks will need to consider carefully to whom they should offer such complex products, and make clear decisions along segments and willingness to pay.

In the long run, leading wealth managers will benefit significantly from efficiencies in further digitalizing the client life cycle, which should lead to fewer, or at least more efficient, personal meetings between clients and their advisors. The outcome from greater efficiency may include higher assets under management (AuM) load ratios for client advisors, or a lesser requirement for office space in prime locations for client visits – contributing to a much-required increase in profitability for many wealth managers.



Evolving strategies for future leaders

Winning wealth managers will further increase their operational agility, extend digital engagement with clients, and explore edge business models

Business models have proved their resilience, and the global COVID-19 pandemic has not fundamentally altered the industry's strategic imperatives. However, wealth managers need to prepare for an accelerated adoption of such strategic imperatives in a 'next normal', whereby leaders will engage in different ways with their sophisticated clients by exploring innovative edge business models (e.g., digital communication channels with central teams, hybrid advisory models, or opening clients to an ecosystem of a broader set of partners). The experience of many high net worth individuals with more digital ways of communication has been positive, and they may be open to new models of doing business in wealth management. Taking into account shifting client demands as well as the potential for digitalization across the front office, we believe that successful wealth managers will adopt a number of key imperatives going forward (see Figure 9).

"Our industry needs to become more digital, more technology driven, and more agile. In this regard, we can all learn from FinTechs."

COO, European Wealth Manger (with office in Hong Kong)

Figure 9. Wealth management – key imperatives in a 'next normal'

	RECOVER Learn and emerge stronge	THRIVE Prepare for the next normal
STRATEGY	• Concentrate budget by **prioritizing** ongoing **strategic initiatives portfolio** • Streamline **cost base** and continue to closely monitor any potential negative **balance sheet implications**	• Explore **edge business models** that push the vision for a 'next normal' for digitally savvy client segments (e.g., service desks, ecosystems) • Launch an active **M&A strategy** to capture growth opportunities
CLIENTS	• Expand traditional **client interaction** with digital communication channels and tools (e.g., chat, video) • Close potential **product and service gaps** revealed during the crisis to overcome a potentially sustained 'bear market' with high volatility • Introduce **differentiated pricing schemes** to steer proposition usage along segments	• Develop efficient, hybrid **advisory propositions** (digital and advisor led), allowing clients to seemlessly switch channels • Engage digitally with prospects by establishing in-house **digital marketing and prospecting capabilities**
TALENT	• Foster agile team structures and enable **remote working models**, while aligning the **office and real estate strategy**	• Align **skills** across departments to shifting client demands and behaviours ('orchestrators') • Boost staff productivity by exploiting **artificial intelligence**
DIGITAL & TECHNOLOGY	• Review **IT and security policies** to facilitate efficient system access • Ensure infrastructure security and resilience through enhanced **cyber preparedness** • Tap into 'off-the-shelf' **digital collaboration tools**	• Explore usage of **cloud-based platforms** and **software solutions** to accelerate innovation at lower incremental cost • Leverage industry solution providers and ecosystems to further **industrialize middle and back office**

Source: Monitor Deloitte Research

As an additional outcome of the COVID-19 pandemic, we believe that many governments around the world may continue to observe closely or tighten their border regimes in a 'next normal' – a trend which, according to observers, may lead to increasing regionalization of economies at the expense of globalization. In a wealth management context, client flows from certain regions or countries may be restricted or more closely regulated, or the global sourcing of physical products and external services may be impeded (e.g., through increased security measures or new tariffs). Wealth management leaders should closely monitor developments and plan for alternative scenarios.

In summary, we believe that the COVID-19 pandemic will further accelerate the differences between winning wealth managers that explore edge business models, increase their operational agility and engage digitally with their clients – and other firms with a more reactive or passive approach that may struggle increasingly in a wealth management industry that is bound to be even more competitive in a 'next normal'.

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