

N° 2, 2020

**Thought
Leadership.**

Post-pandemic wealth management opportunities

A world of digital leadership and transformation

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There's a lot of hypothesizing around how the financial system will absorb and react to the shock it's undergoing. As we all watch history unfolding - contributing the best we can - we experience an irresistible urge to skip a few chapters and try to calculate which path can take us back to relative stability faster.

The potential recovery scenarios are many. The best case is the V shape, where output quickly returns to (slightly below) pre-crisis levels thanks to pent-up demand combined with extensive financial stimulus. There is the less optimistic U-shaped outlook where the recovery process is gradual and extends well into 2021 and beyond. It involves a slower - yet foreseeable - revival, especially in industries reliant on intense human interaction.

Should the virus make a comeback at any point during this recovery - and until a vaccine becomes widely available - there is always the risk of a dispiriting re-start of the cycle (W-shaped recovery) that can lurch the world back into recession. The sobering truth is that no one knows how the rebound might unfold.

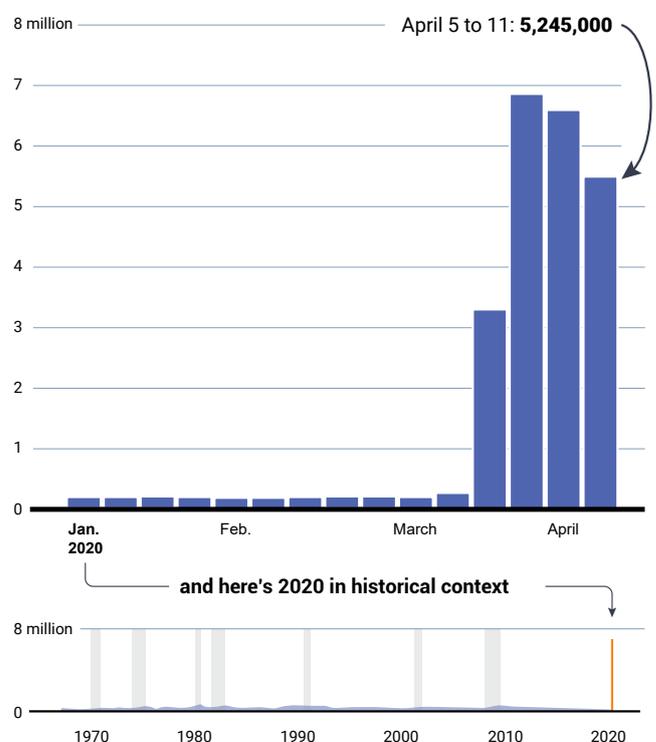
Living in a world made of many moving parts is a demanding challenge and the financial sector is a telling example. It is difficult to make clearheaded financial decisions in an uncertain environment. Accepting reality is just as important as identifying the vast opportunities that shape its future.

Economic impact in the short and mid-term deepens financial inequality

We might not know how long this crisis will last, but we can expect its longer-term implications to ripple through the next decade. That's because one of the main forces that emerges from - and shapes - the financial sector and society at large is expected rising inequality.

The US reports their [highest unemployment rates](#) since the Great Depression. Analysts from the Centre for Economics and Business Research expect the [US GDP to drop twice as much](#) than during the 2009 crisis and become the largest fall in one year since 1931.

US initial claims for unemployment insurance in 2020



Note: Seasonally adjusted
Source: Labor Department, The Washington Post

Closer to home, [the unemployment rate in Switzerland](#) is expected to come in on average at 3.9% for 2020 up from 2.5% in February, with an underlying GDP fall of 6.7% in 2020 according to SECO¹. Pessimistic predictions even hypothesize that job losses could reach 1974 levels. That's why the stakes of ending the lockdown are so high.

Switzerland's Head of Labour Directorate, Boris Zuercher, echoes a fear that permeates the financial sector and governments across the world.

"The longer this situation lasts, the harder it is to get out. If it continues like this for another three or four months, it will also affect solvent companies."

Deploying fiscal and monetary stimulus to revive the economy could make the difference between a V-shaped and an U-shaped recovery, but the world needs more than that. Additional, inevitable changes must contribute to economic recovery.

Governments are bound to demand **new supply chains** that move production and storage of critical goods closer to home. Consumer behavior is bound to **shift away from mass tourism and large events** and towards smaller, more private forms of travel and entertainment - with a higher price tag.

1. State Secretariat for Economic Affairs - Switzerland
Federal government's centre of expertise for all core issues relating to economic policy

The steep income gap will be persistently visible throughout all these transformations because this particular virus appears to spread more across lower income groups living in closer proximity to each other and often suffering from pre-existing health conditions. This being the case, already wide disparities in income and wealth are likely to grow during the course of this pandemic. Studies show that **income-related health disparities** put low-income individuals at a higher risk of health issues and mortality.

"Wealth is even more unequally distributed than income in the United States and may be more important for intergenerational health disparities. [...]"

Health Policy Brief - [Health, Income, & Poverty: Where We Are & What Could Help](#)

Even though equality in many Asian and African countries will continue to narrow (both vs. richer countries as well intra-nationally) wealth inequality might deepen in most developed nations, leaving the poorest individuals increasingly at risk. This will become an essential factor that fuels social instability, especially during longer recessions and as Branko Milanovic points out, where the risk of societal collapse is elevated, governments should not forget that "the most important role economic policy can play now is to keep social bonds strong under this extraordinary pressure."

Nationalistic tendencies are also bound to amplify. As a consequence, demands for wealth redistribution will multiply and confiscatory taxation might follow, creating **a much stronger need for savings and asset protection**.

Heightened perception sharpens what society needs from the financial sector

The pandemic makes everyone painfully aware of **the cascading effect financials have on the world**. This heightened perception changes [what society needs from the financial sector](#) in three major ways.



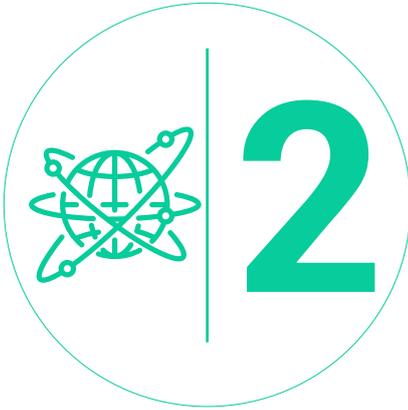
Funding or cash flow liquidity risk will bear a stronger influence on how companies across sectors shape their path.

An altered perception of risk.

The value of revenue becomes more deeply tied to the risks that can be covered to ensure its protection. As a fundamental concern, **funding or cash flow liquidity risk** will bear a stronger influence on how companies across sectors shape their path forward. To support the economic rebound, organizations and financial institutions have to work together closer than they've ever done.

Banks will need **liquidity optimization solutions** that help them - and the private sector - to withstand this stress test. Financial players will need the intelligence of a unified perspective of their customers. This includes having a [credit engine](#) that taps into the expertise of credit risk providers or [a risk analytics dashboard](#) that enables portfolio health scoring based on configurable risk metrics.

The context favors financial players that embrace digital transformation and the capabilities they can build by working with [ecosystem partners](#). As risk awareness amplifies, the value of security soars. Partnerships and technology are essential for managing and reducing risk by providing a unified data model that enables stronger decision-making.



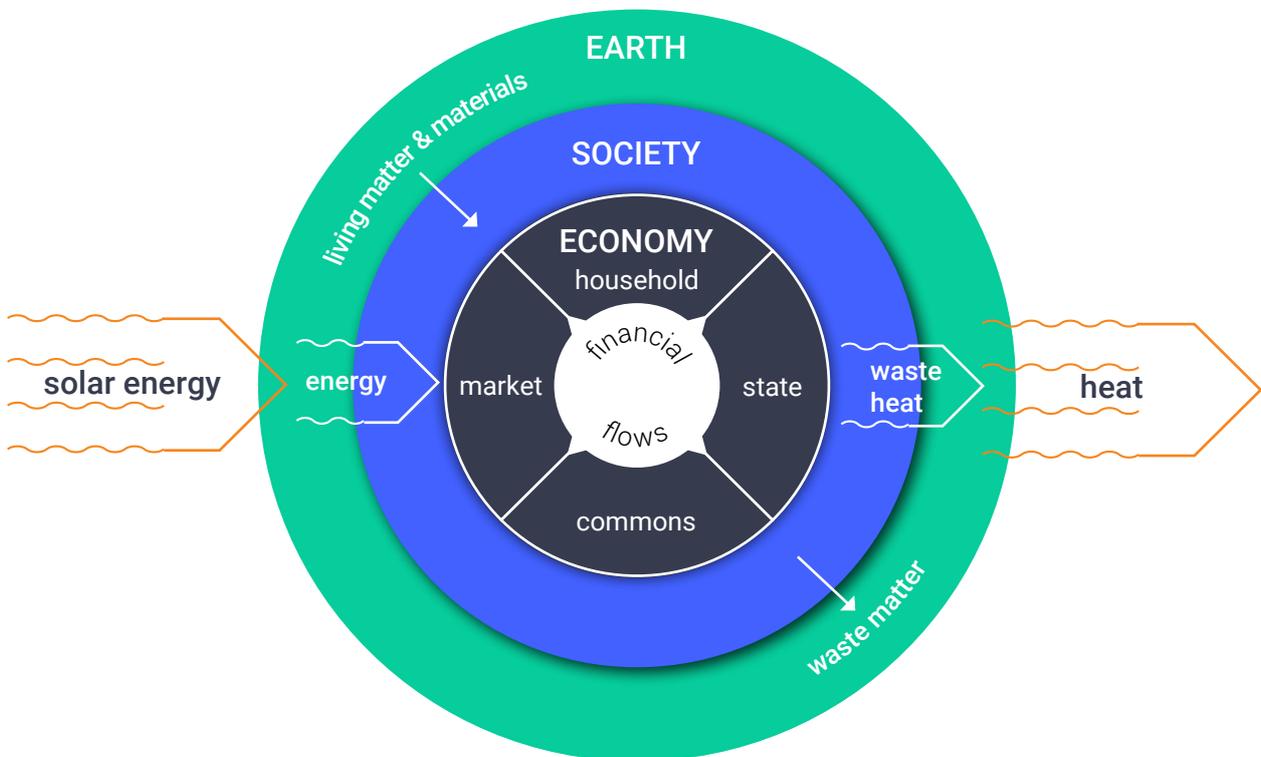
Increased focus on ESG.

The needs of people around the world have dropped short term to the bottom of Maslow's hierarchy. We can already see how the extensive need for the basics (food, shelter, employment, healthcare - and the means to provide them) is triggering **ESG** (Environmental, Social, and Governance) **actions**. To make a significant positive impact, these actions will have to support the building of local production and storage facilities.

Through intentional Sustainable Finance, **a new definition for prosperity** can be forged. This new paradigm could be rooted in the principles Kate Raworth advanced in her book, "[Doughnut Economics](#)":

"Economics that helps us to live within the doughnut would seek to reduce inequalities in wealth and income. Wealth arising from the gifts of nature would be widely shared. Money, markets, taxation and public investment would be designed to conserve and regenerate resources rather than squander them. State-owned banks would invest in projects that transform our relationship with the living world, such as zero-carbon public transport and community energy schemes. New metrics would measure genuine prosperity, rather than the speed with which we degrade our long-term prospects."

Source: Doughnut economics: an ecosystem-based view of sustainable growth



As heightened perception changes tolerance to risk and priorities change, **ESG actions become more influential across the board**. Sustainable Finance can help to offset some of the vulnerability that we've become acutely aware of - from our health to our supply chains and even in funding.



Demands for a redistribution of wealth

This series of transformations - some sequential, some simultaneous - is bound to bring about a clear ask for a redistribution of wealth. The risk here is that wealthy segments of the population might see a reduction in their assets, while the poor run no chance of becoming richer - but rather surviving.

[Let's look at the Great Depression](#) to see what history taught us, albeit in much different circumstances.

"Between 1911 and 1949 the income share of the top 1 per cent fell by 62 per cent. This was partly because of inflation, which forced asset holders to sell up to maintain their lifestyles, and partly because of falling asset prices, but also because of rent controls, which forced residential property sales at low prices, and downward pressure on dividends and interest (the dominant part of unearned income)."

Source: Merryn Somerset Webb, FT, April 2020

In the current economic paradigm, a similar crisis (the prolonged U-shaped recovery) could involve **a steep drop in asset prices** at a global level, given how connected financial markets are. **Inflation** - while at the moment more deflationary tendencies prevail due to the consumption shock - might follow as a consequence of changes in the supply chain and reduction in free global trade as food becomes more expensive and less abundant - also because of global warming. **More central influence** is also likely to materialize, as governments urge financial institutions to cut dividends, central banks keep rates at a record low, and higher taxes come into force.

A passage in [A Letter to G20 Governments](#) echoes an idea that supports our belief that we may need to start tweaking the system more substantially.

"The longer-term solution is a radical rethink of global public health and a refashioning – together with proper resourcing – of the global health and financial architecture."

Source: G20 Extraordinary Leaders' Summit, March 26, 2020

The accelerating pace of change

The pace of change pre-pandemic was rapid, but there's no reason to think these trends won't accelerate post-pandemic.

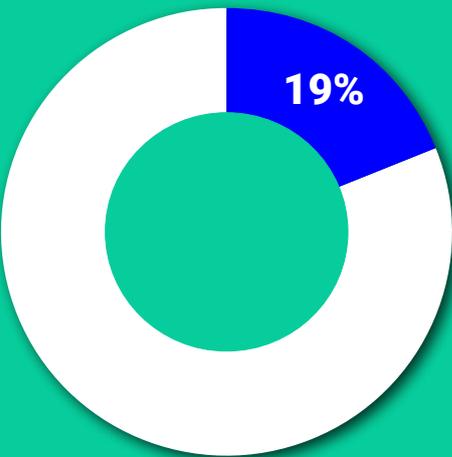
In a Darwinian sense, the companies that are faring best are those that are either digitally-native or have invested the most in digital. These companies will take market share at the expense of all other companies and, in turn, raise the level of digitalization across the economy.

We can also see how many of the corporate, social, and regulatory impediments to change are being swept aside by the overpowering force of the pandemic and the lockdown, in turn driving innovation.

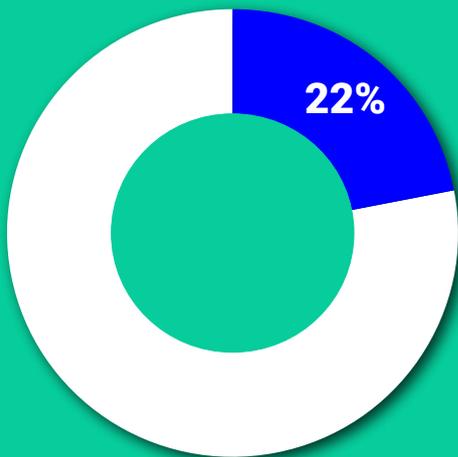
Take e-commerce, for example: the pandemic has brought forward the projected level of e-commerce activity by 5 years according to Mercatus, with retailers in the US seeing a 1,200% increase in online shopping account registrations in March.

The same thing is happening with working from home. Formerly the realm of freelancers and corporate employees too hungover to come to work on Fridays, remote working has become mainstream overnight (Zoom has gone from 10m daily users to 200m daily users since the start of March!).

Similarly, many countries quickly removed regulatory restrictions around telemedicine to allow remote consultations between people and their doctors during the pandemic. This quote from a [NYT article](#) sums it up pretty well:



The increasing returns on being digital: Microsoft + FAANG, share of S&P Dec 2019 vs April 2020"



Source: Thomson Reuters

"We're basically witnessing 10 years of change in one week," said Dr. Sam Wessely, a general practitioner in London. "It used to be that 95 percent of patient contact was face-to-face: You go to see your doctor, as it has been for decades, centuries. But that has changed completely."

Source: Dr. Sam Wessely, The New York Times, April 2020

As we all getting used to convenient, fast and, low-cost digital services, it's difficult to see how these trends won't accelerate – let alone go into reverse – post-pandemic.

The implications for wealth management

Like in many other industries, the rate of digitalization in wealth management has accelerated markedly as an effect of the pandemic. This clearly requires wealth managers to adapt their operating, servicing and sourcing models. However, the pandemic has wider ramifications that tie into changing customer and societal needs and, by extension, the services that wealth managers need to offer going forward.

Digitalization in wealth management was gradual until it was sudden

Pre-crisis, most wealth managers and private banks were working through 3 or even 5-year digitalization plans.

There were certainly some ripples of digitalization. Younger clients especially liked the convenience and autonomy of self-service portals. Some new entrants were generating noise and making life a bit difficult at the lower end of the market. Fee income was under pressure as well. But, in general, while not golden years, profitability was flat to marginally up driven by cost reductions and, most importantly, there was time – and money – to invest in digitalization.

With the pandemic the situation has changed.

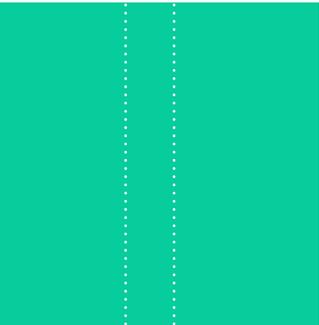
From one day to the next, physically meeting with clients became impossible, which demanded a rapid change in servicing models. In the meantime, markets were extremely volatile and clients needed advice and reassurance. Simultaneously, financial institutions' workforce was sent home under quarantine which meant running the company with everyone working remotely. That marked the onset of a fundamental and mandatory rethink in their operating model. Suddenly, digitalization was no longer a 5-year roadmap item.

Fast action required at a time when firms are least well equipped for it

Budgets for digitalization investments won't be a free-flowing, at least not without reprioritization. What is most likely happening in most institutions is a risk of freeze on all new projects until the economic climate improves or until hope of a recovery emerges.

Nonetheless, wealth managers will need to find a way to invest in, and accelerate, digital roadmaps. One option is to **revisit existing projects** and stop many in favor of digitalization operating and servicing models. Another- better - option is to do this in conjunction with **undertaking smaller projects** which can be pushed into production quicker, with a more predictable return on investment.

Whatever the route, it's clear that **digital projects cannot be postponed until after the economic crisis**. Wealth managers need to look and invest through the cycle to be ready for what is on the other side, which won't be a return to normal so much as moving towards a new normal. This quote from David Galbraith, a Partner at Anthemis, sums up this somewhat counterintuitive reality:



“This ecosystem view is why, when there is a shock like a pandemic, paradoxically, businesses that look to cut back and optimize will fail as they need to invest to traverse to a new local maximum in a changed fitness landscape.”

What does this new fitness landscape look like for wealth managers?



What is digital wealth management?

Well, while we might not know the shape of the recovery or the length of crisis, we do know the future of wealth management will almost certainly be (more) digital.

But what does that actually mean?



In our perspective, this goes far beyond just providing the same products and services over a digital channel. We see digital wealth management as a transformation of a bank's or wealth manager's business model because it allows them to **capitalize on the native properties of digitalization**. Two notable opportunities stand out: the ability to produce at near zero marginal cost and the capacity to gather and process a significantly larger amount of data about customers to personalize services - and do so at scale.

With this in mind, we think that digital wealth management can - and should - be opened up to a much larger demographic segment of customers. By lowering the fees attached to wealth advice, we believe **the addressable market could expand** from the **42 million** people who have a personal wealth manager today to the **1.8 billion** people who have more than \$10,000 in investable assets.

The delivery channels change, but not in a crude switch from physical to digital self-service. Instead, we see a **blend of**:

self-service, augmented advisor interaction, where technology makes the experience richer and more seamless

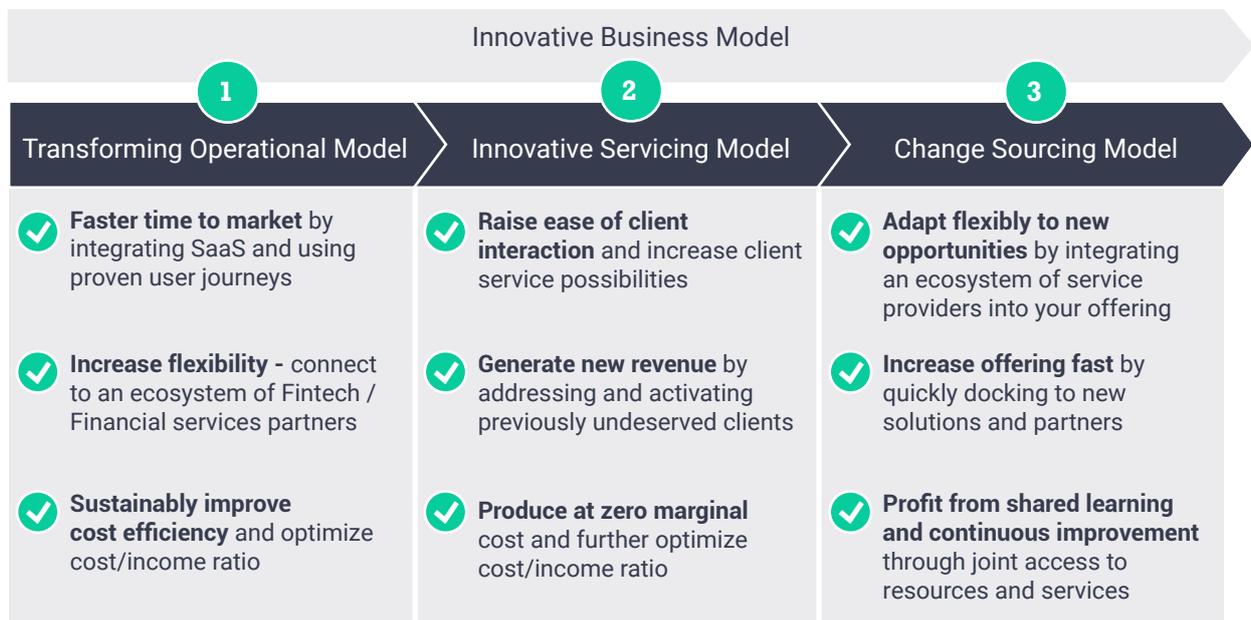
and embedded services, where wealth management is offered up through other horizontal channels like Wechat, for instance.

The service becomes more personalized - for everyone. With more data and content, ideas and personalized ideas will become more relevant. More importantly, wealth managers will be able to **create portfolios that are exactly matched to individual needs**, complete with specific and granular risk profiles. Constant optimization enables them to retain this level of personalization throughout their evolution.

The sourcing model will change too. To retain clients and give them a constantly improving value proposition – at scale – wealth managers will need to combine own-label products and services with those of third-party ones. Further technology will allow financial providers to source solutions and to relabel as happened already in payments. This will enable them to **offer a broader range of services** – helping customers make smarter commercial and financial decision across greater ranges of their financial lives. At the same time, it will enable wealth managers to innovate faster by crowdsourcing services.

All in all, **the value proposition of wealth managers will shift**, which will require a reboot of the business model. Safeguarding assets with discretion will no longer be enough. Safeguarding will come to include assets and data. Convenience will take center stage as customers expect the same frictionless service they get from all digital services. And, lastly, there will be **more focus on added value**: the personal advice, the financial literacy, the education, and the asset performance.

The 3 pillars of business model innovation



What does post-pandemic digital wealth management look like?

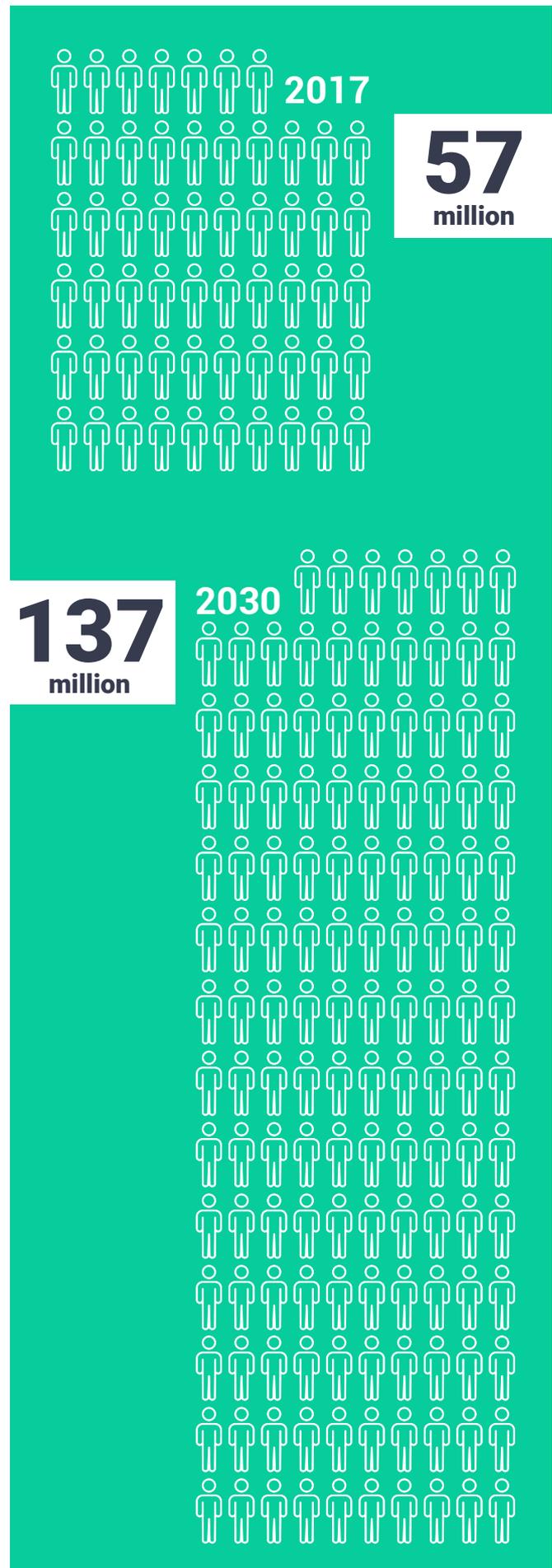
Besides becoming generally more digital, what else will customers expect from wealth managers in the post-pandemic world?

Better advice, more transparency

In a general sense, and as we discussed in [our last flash note](#), there will be a bigger push towards **greater transparency and sustainable investing**. This won't change. We will have a greater sense of having passed through a collective experience with more concern for our society and our environment.

People will need more of a helping hand in the immediate aftermath of the crisis. In the mass affluent space, wealth managers will differentiate themselves if they can provide access to affordable loans as well as help customers **make better savings and budgeting decisions**. We expect financial advice and solutions interlinked with employers' human resource systems to grow in importance. Responsible employers will increasingly get involved in **the financial wellbeing** of their staff.

There is also the massive wealth inclusion opportunity in South-East Asia and Africa. Wealth is growing significantly, but to address this growing need for financial management, providers will need to deliver the right services – simple, transparent, low cost – over the right channels: mobile channels and super apps.



Source: "Beyond the "Crazy Rich": The Mass Affluent of Southeast Asia," Boston Consulting Group (November 2018)

People will also need better advice. Digital sales will be critical, tailored to the need and portfolio of every client. In the post-pandemic environment, it won't be right to just plonk all clients into the same ETFs and indices only. These are too broad to perform well in a context where winners and losers will be more clearly defined, making data analytics and personalized advice more important.

Of course, wealth planning will also matter more: helping clients, against a changing economic picture, achieve the assets necessary for a comfortable retirement. For the richest, planning might take a different form: helping them preserve their assets and optimize their tax planning against a potentially harsher tax environment. No matter its practical form, **financial planning will be considerably more valuable.**

New services aimed at decumulation of assets

Simple, low cost, and highly personalized automated investment portfolios will continue to grow in importance, both as a share of customers but also as a share of assets. People will turn increasingly to automated professional advice for accumulating retirement assets, but their tolerance for fees will be lower. As such, providers that offer demonstrably better-performing automated investment services will take the lion's share of the market.

The gap in the market for wealth decumulation services will quickly get filled. Most wealth managers have focused on the wealth accumulation market and there have been few solutions aimed at the **decumulation of assets** – helping retirees draw down their assets in a structured way. However, this is a **massive market opportunity** and a pressing need.

The World Bank expects a **\$400 trillion shortfall in pension assets** as a result of ageing populations, lack of reforms and low interest rates and, if the pandemic induces a protracted economic slowdown, this is likely to look much worse. So the burden will fall increasingly to individuals to set aside the assets for retirement and then to make them last. Along with traditional wealth managers and asset managers, insurance companies are also well positioned to provide these services to complement wealth planning services they already offer.

Risk and wealth preservation

One of the factors that is already playing out mid-crisis is a **flight to quality**. Banks need to **prepare for how "quality and trust" might increasingly be perceived in future.**

In a digital world, the perceived safety of a bank is determined much less by the size of its balance sheet or the strength of its physical vault. Instead, the robustness of its cyber defenses and its ability to shield customers from cyber-criminals will matter more. Moreover, and paradoxically, all the physical manifestations of safety – the skyscrapers, the vaults, the billboards – may actually come to undermine the perception of safety if they keep costs and fees high and erode customers' capital.

Trust will be increasingly bound up with preservation of capital, stability of service, and fairness.

Much maligned by Anand Giridharadas in his book, *"Winners Take All"*, we can expect the super-rich to double down on creating and supporting foundations. These lower the tax effect on wealth, both directly, through lower taxes, and indirectly, by building goodwill.

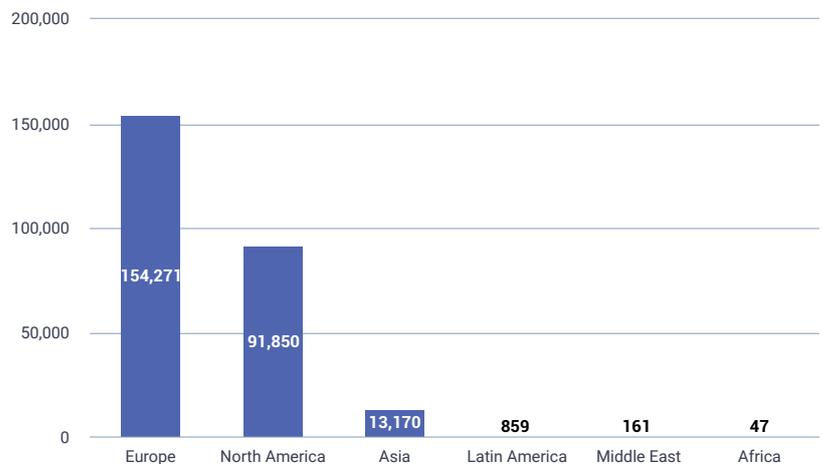
In addition, foundations help these individuals create significant influence which can be used to further their personal influence. However, in all cases, foundations will just be used to give to and invest in good causes supporting society and protecting the planet.

Global foundations proliferate and their assets reach \$1.5 trillion

Global endowment assets



Number of foundations by region



Alongside this proliferation in foundations, expect private banks and wealth managers to expand their foundation-supporting business practices. These will entail helping the super-rich to structure and manage these foundations, as well as help find ESG opportunities to invest in, most of which will be non-listed securities and proprietary projects.

A full shake-up: moving from assets under management to assets under intelligence

The societal and business impact of the pandemic will be widespread. Even though we don't yet know its shape, the pandemic will produce a sharp recession. But recessions are nothing new. It is the broader implications of the pandemic that we have looked at in this report. Expect, for example, that matters related to rising inequality will gain in importance, prompting a call for greater wealth redistribution as well as a move to measure the societal and environmental impact of policy decisions.

For wealth management, we can expect a rapid acceleration in the rate of digitalization. As we explored, this means much more than just providing wealth management through digital channels. It entails a reappraisal of the servicing, sourcing, and operating models to **deliver greater quality at scale**, which will mean more plentiful and personalized access to wealth planning for society at large.

We can also **expect the bundle of wealth services to change and grow**. There will be more focus on education and planning. New services will add to the current offer, especially around helping clients to draw down their wealth in a structured and optimized manner. And there will also be a different interpretation of risk, with cyber defenses becoming more critical than physical defenses, for example.

If we had to point to one meta trend in wealth management, it would be the move from assets under management to assets under intelligence.

Post-pandemic wealth management will be characterized by firms' abilities to add value to clients by interpreting and drawing insight from multiple datasets to deliver services that are more personalized, more helpful, more optimized for risk, and which deliver stable and high returns against their financial goals. And it's all happening at once.

If we had to point to one meta trend in wealth management, it would be the move from assets under management to assets under intelligence.

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Established in 1998, additiv partners with the world's leading financial institutions to help them capitalize on digitalization. Its market-leading DFS® (Digital Finance Suite) is an orchestration engine that lets financial institutions quickly launch new propositions as well as giving them the intelligence to maximize customer engagement. Headquartered in Zurich, additiv is supported by a broad ecosystem of implementation and solution partners that enable it to deliver unparalleled customer success to wealth managers and credit providers globally.

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