How COVID-19 is affecting Asian asset management operations

stradegi

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Background

According to the Johns Hopkins University, there are over 2.6 million confirmed cases of COVID-19 worldwide, with over 180,000 deaths. This pandemic is impacting the global economy and the wellbeing of people in over 210 countries and territories around the world. Financial markets are in turmoil, and asset managers are navigating unchartered waters.

We spoke to a group of COOs from leading asset management firms, under Chatham House Rules, on how they are coping with the evolving landscape in Asia, the specific approaches being taken, and how their outlook has changed. The consensus has been to stay resilient, respond with agility, and keep pushing important strategic initiatives forward.

We extend our gratitude to those that participated in confidential discussions. And a special thank you to those that agreed to supplement our findings with their valuable insight during one-on-one interviews.

This article summarises our findings.

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Markets down; redemptions up

Asset managers are working through an unprecedented crisis. Markets are dislocated and volatile, redemptions are on the rise, and liquidity is thinning. The S&P 500 closed almost 20% down during the first quarter of 2020 – its worst performance since 2008, during the heat of the financial crisis. Asian markets were no better. Hong Kong's Hang Seng Index fell by 22.4% from mid-February to late March, while Japan's Tokyo Stock Price Index fell by about 29% over the same time period. According to Fitch Ratings, traditional asset managers are expected to lose around a third of their AUM due to a combination of declining asset prices and outflows.

From January to March, locally domiciled equity funds in Singapore and Hong Kong suffered combined outflows of US$1.97 billion, while fixed-income funds reached US$522.17 million in outflows, as reported by Ignites Asia. Allocation or mixed-asset funds were experiencing US$435.46 million in outflows for the same period. Throughout Asia, fund houses are scrambling to raise cash as they brace for a surge in redemptions from investors as a result of the sell-off amid the COVID-19 pandemic.

No business continuity plan (BCP) was designed to handle a crisis of this global magnitude, and there's no playbook to help asset managers respond . Strategic priorities are being reassessed and quick tactical measures are being deployed.

> "Traditional asset managers are expected to lose around a third of their AUM"
>
> \- Fitch Ratings

Singapore and Hong Kong combined outflows

US$1.97 billion

Equity fund outflows

US$522.17 million

Fixed income outflows

Source: Ignites Asia

Business continuity plans were not prepared

A well-designed BCP specifies how an asset manager will continue to operate with limited negative impact during unforeseen disruptions. Most BCPs are well equipped to respond to threats by moving critical operations to an alternative location - however, even the strongest BCPs were not prepared for the unique business challenges associated with COVID-19 in terms of global scale, local variabilities, mandated social distancing measures, and uncertain timeframe.

Dean Chisholm, Regional Head of Operations, APAC at Invesco, stressed the importance of agility in BCP and that asset managers must "adapt their plans based on the local situation, depending on the rate of infection and government response". Although most asset managers echoed this sentiment, many emphasised that planning business continuity to flexibly adapt to every type, depth and duration of crisis is full of practical difficulty.

COVID-19 brings complexity around global scale, local variability, and uncertainty in timeframe

Asset managers must "adapt their plans based on the local situation, depending on the rate of infection and government response"

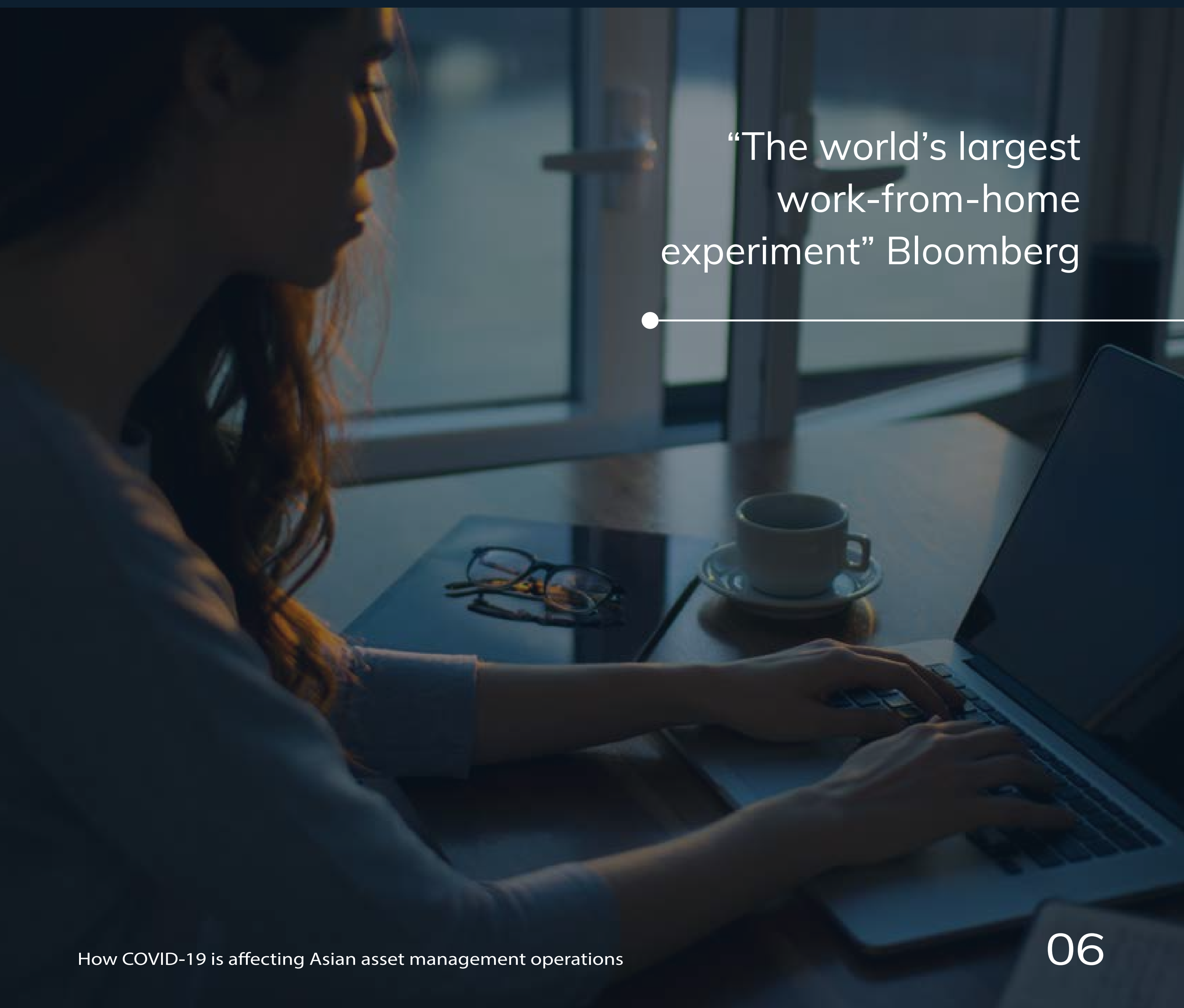
- Dean Chisholm, Regional Head of Operations, APAC at Invesco

Kenneth Lim, Chief Operating Officer, Asia Ex-Japan at Nikko Asset Management outlined how "some level of local autonomy and a strong governance structure" have helped them assess regional developments quickly and make timely decisions to progress their plans.

While asset managers are responding with agility to BCP challenges, mandatory working from home has added to the strain. Teams are struggling to maintain productivity amidst a host of technology, process, and cultural issues.

Working from home

According to a recent Bloomberg article, COVID-19 is forcing the “world’s largest work-from-home experiment”. In order to limit social contact and slow the spread of the virus, millions of people are working from home. In Asia, Hong Kong was best prepared, with many businesses going through a two-week long work-from-home period during the social unrest in late 2019. Other regions have never experienced - or prepared for - most of their employees working from home for such an extended period.



> “The world’s largest work-from-home experiment” Bloomberg

Working from home - people challenges

Inevitably, it will take time and getting used to for people to adjust to working from home. “Once you have work-from-home bedded in, the physical and mental well-being of our people becomes most important” said Mr Chisholm, Invesco. He added “I don’t think many BCP practices really prepared asset managers for that”. The reality is that people are likely working at home alongside their spouses, and with young children needing support as they conduct their online schooling.

“The physical and mental well-being of our people becomes most important”

- Dean Chisholm, Invesco

It can place new strains on a family’s well-being. Mr Chisholm added that, while it’s a good idea to allow flexibility in working hours, he recommends people build a routine, and finish their working day by switching off computers to maintain differentiation between home and office life.

T. Rowe Price has developed a programme in partnership with a cognitive science consultancy to help team leaders manage their people remotely. The programme, called MAP, was a direct response to concerns around morale, activity and productivity, and aims to provide leaders with a platform for virtual learning and to share experiences.

Physical health factors are also important to consider. Many asset managers that we spoke to highlight the importance of taking regular breaks and remaining active. It was particularly emphasised that in Asia - where apartments are generally smaller - it’s important to take time for regular home workouts and short walks, if possible.

The reality is that people are likely working at home alongside their spouses, and with young children needing support as they work through online schooling

Working from home - technology challenges

After weaknesses are exposed, many will emerge more willing to invest in digital transformation

When discussing the challenges associated with work-from-home arrangements, many asset managers spoke of issues around home office setups. Many employees suffer from the inefficiencies inherent to complex or technical work on small laptop monitors. Asset managers have been quick to respond. Efforts have been made to ship supplementary monitors and other office equipment to those working from home – particularly to production teams – however, hardware isn't the only problem. Bandwidth can be insufficient, and WIFI dead spots in homes can cause disruption to video calls and screen sharing sessions

In terms of infrastructure, despite asset managers being quick to purchase additional server capacity, virtual private networks have been overwhelmed by employee demand. There are also challenges around the over-reliance on vendors such as Citrix and Zoom.

Asset managers that we spoke to predicted that many will emerge from the crisis more prepared to invest in digital transformation, after infrastructural weaknesses are exposed. Due to work-from-home challenges, asset managers that we spoke to are already seeing more of their people reach out and make requests - from the redesigning of a clumsy spreadsheet macro, to mechanising small processes using bots. Others were well prepared and only minor process adjustments were necessary. "We had progressively enhanced infrastructure and gotten the teams to adapt to online virtual meetings, digital workflows and digital signatories" said Mr. Lim at Nikko Asset Management.

With more employees accessing core systems remotely from home, asset managers are exposed to new cybersecurity and data privacy vulnerabilities. However, most asset managers we spoke with feel that they have the technical and digital security in place to cope. Devices are protected, access controls are in place, and normal protocols are followed. The key is to assess and understand the unique risks for this crisis and manage them accordingly - one asset manager asked rhetorically, "is an employee's 2-year-old child being able to see their screen a real threat?".

Working from home – process challenges

The consensus from asset managers is that some parts of the industry are prepared, while others are not. Teams are beginning to get into the motion of working from home. Internal communication and collaboration is improving. As people grow more comfortable with these new channels for communicating, teamwork will become more productive. Video calls and virtual huddling are helping teams tackle problems together. In terms of business development and client servicing, asset managers have sufficiently been able to service clients. In many cases, asset managers are already utilising digital communications with clients for pitches and portfolio updates. And even in the absence of physical meetings things aren't so bleak "large institutional investors still have needs; they can't just sit on surplus cash" Mr. Chisholm told us. "After some initial hiccups, you can still see them pushing to do business going forwards" he added.

> "A key outcome of COVID-19 is that everyone will be forced to consider prioritising digital transformation and to refresh their operating model"
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> - Kenneth Lim, Nikko Asset Management

A common issue for asset managers is the pain around the need for physical signatures. Some regulators have taken action to ease the process. The Hong Kong Securities and Futures Commission (SFC) has relaxed some administrative requirements for new fund launches and post-authorisation compliance. The regulator recently published two Q&A documents outlining the new processes which include the acceptance of soft copy application documents. Un-signed forms are also acceptable, provided they are accompanied by an email confirmation from a person who meets signatory requirements. PDF signatures, e-fax, and sending order instructions through online portals have been useful adjustments to help asset managers continue operating. On the retail side, a number of distributors have been sending swift messages electronically or using other forms of messaging, like the Calastone Network.

The overwhelming sense is that industry participants with a lot of manual, siloed processes are experiencing the most challenges . Many still heavily rely on face-to-face meetings and old technology, like fax. Mr. Lim, Nikko Asset Management told us that "COVID-19 is disrupting traditional processes and a key outcome is that everyone will be forced to consider prioritising digital transformation and to refresh their operating model.

Re-evaluating strategic initiatives – but not stunting growth

The consensus was very clear – in the wake of COVID-19, immediate priorities change. In the short term, initiatives must go through a triage process – some projects will be side-lined – but asset managers are not placing all strategic projects on hold. There are still opportunities in the market and with an absence of yield in banks, there's demand for yield and short-term deployment of capital.

Leading asset managers are maintaining a positive long-term view. Given the changes in regulation, many are moving ahead with applications for licences in China. Product launch plans don't seem to have pivoted too much – one asset manager described how new launches in Singapore, Taiwan, Hong Kong and Thailand went ahead as planned. And many are finding new ways to progress important initiatives.

We spoke to one asset manager, with a joint venture in China, about their virtual roadshows ahead of a successful IPO. Another described the new, virtual onboarding process for partners and contractors to progress projects.

The evolution of markets dictate that some businesses will thrive, some will survive, and others will fail. During times of crisis and volatility, the evolutionary cycle speeds up. Some asset managers that we spoke with disclosed that revenue has fallen by up to 25%, and according to Fitch Ratings asset managers are expecting to lose around a third of their AUM. It is critical that asset manager act quickly to adapt their business models to capitalise on new opportunities and ease the margin pressure, linked to outflows and higher AUM-based cost.

Reducing cost without compromising the service opportunity

“We have a fiduciary duty to manage people’s money; and there’s a fixed cost associated with that”

- Dean Chisholm, Invesco

Many asset managers are exercising usual cost cutting measures such as hiring freezes, reducing business travel, and cutting marketing expenditure. More complex business model adaptations include the closing of small or impractical products, merging products where appropriate, and stripping projects back to what is strategically essential.

Many asset managers - such as BlackRock, Capital Group and AXA Investment Managers - have been outspoken about not reducing headcount. And those that do, face practical challenges associated with HR teams working from home, reputational damage, and cutting from relatively lean teams operating in Asia.

Perhaps even more fundamental, asset managers that announce redundancies during this period may be weakening their ability to capitalise on a critical opportunity. “We still have a fiduciary duty to manage people’s money. And there’s a fixed cost associated with that” Mr Chisholm, Invesco told us. He expanded, explaining that service is very important in downturn markets. “Product isn’t only sold on performance, there’s a high service element in terms of keeping both retail and institutional clients satisfied” Mr. Chisholm added. How your response to a crisis like this is perceived by clients and other stakeholders will form powerful brand associations that last for years to come.

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Looking forward

An abundance of opportunity - innovate and focus on service

The market still presents huge opportunity. Asia is still generating cash, and cash needs to be deployed from both a retail and an institutional perspective. China remains an attractive opportunity with the private funds market opening up, relaxing of foreign ownership, consistent socioeconomic trends, and strong economic recovery post-COVID-19 crisis. According to Ignites Asia, China's mutual fund industry AUM jumped by 5.6% in February, boosted mainly by money market funds.

There's a spiked interest in ESG and sustainable investing - according to Bloomberg, UBS Group AG's sustainable portfolio more than doubled in assets since the beginning of last year. Chinese firms are already seizing the opportunity, with more than 100 planning to introduce ESG strategies going forward. Clearly, COVID-19 is a catastrophic public health crisis, with negative implications on the world economy. However, there are some businesses thriving - and therein lies an opportunity. Asset managers are moving towards products with themes centred around industries that are well suited to changes in the way we work and live - such as e-commerce and firms that enable better remote working. In Korea, healthcare funds have been excelling amidst the crisis, according to Ignites Asia.

In order to capture value, adaptations must be made. Without losing sight of the macro picture, asset managers must triage their current initiatives and pull back resources on anything deemed unnecessary. Flexibility in traditional processes and adopting new digital forms of communication will help reduce the negative impact. And asset managers should not neglect the service opportunity – client centric thinking is even more important during a downturn - clients and stakeholders will remember how they were treated.

Flexibility in traditional processes and adopting new digital forms of communication will help reduce the negative impact

BCP and working from home

There are many challenges to operating effectively when almost 100% of employees are mandated to work from home. Once those challenges have been overcome and productivity has increased, the reality is that working from home will be more embedded in our culture than ever before. Some employees have begun to embrace working from home, and with the right infrastructure and process changes, a new work-from-home movement could benefit both employers and employees.

This raises some interesting questions around the suitability of outdated BCPs. For instance, why should asset managers spend so much on physical BCP centres – would having a supply of equipment to distribute to people's homes be a better solution? Adverse weather conditions restrict safe travel to work for many people across the world at some point each year – one asset manager used the flooding in Mumbai as an example. Being able to initiate working from home for all employees with minimal disruption to productivity could be a better solution going forward. Asset managers must embrace technology, upgrade from legacy solutions and explore cloud as a viable solution.

A bump in the road

Despite facing an indefinite and unprecedented crisis, most asset managers seem to have things in hand. Many are holding a positive long-term view, citing that wherever there's challenge, there's opportunity. Charles Darwin is often quoted "It is not the strongest nor the most intelligent species that survives, but the most adaptable to change". Asset managers that can adapt their business models to capture value, without losing sight of their mission, stand to emerge stronger than before. In times of war, we put huge demand on resources, forcing nations to innovate. COVID-19 has reinforced the need for digital transformation in order to build the agility necessary to navigate challenging times, push ahead with strategic priorities, and capitalise on new opportunities.

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About us

Stradegi Consulting is an award-winning global consultancy, focused exclusively on factors that impact investment products, distribution, investment research, investment process and regulation. We are a collaborative team of specialist consultants, across five countries with one shared focus – delivering pragmatic advice and fit-for-purpose solutions to investment managers.

Our clients are some of the largest asset managers, insurance companies, pension funds and sovereign wealth funds in the region. Outside of our consulting engagements, we are committed to sharing knowledge and promoting discussion. We work closely with leading investment management firms, regulators, and other institutions to understand the latest issues and opportunities. We host our own educational workshops and roundtable forums, in addition to participating in events across the globe.

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