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STRATEGY FOR WEALTH MANAGERS IN A TIME OF CRISIS

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Wealth managers need to help clients navigate tough near-term choices, while developing longer-term strategies to position for growth once the crisis subsides.

Like all business leaders, in recent days, wealth management executives' attention has dramatically shifted to the unprecedented public health and financial crises resulting from the Coronavirus. In the immediate term, leaders are rightfully prioritizing employee health and safety, business continuity, and protection against extensive downside risks and threats to the financial system.

At the start of 2020, wealth managers were already facing significant challenges, including continued pressures on fees, the digital arms race, consolidation of the competitive landscape through M&A, and fiduciary regulation compliance costs to meet new state and SEC rules such as Regulation Best Interest.

And now a global pandemic.

How can wealth management executives help their clients and lead their organizations through this turbulent time, while thinking about longer-term strategy?

We believe that in addition to the urgent crisis management underway, Wealth Management firms should not put their strategy efforts on hold. This may seem counterintuitive, given the current climate. As the crisis unfolds, the fundamental challenges are not going away, and the crisis will only serve to exacerbate some of the challenges. Wealth management firms that focus exclusively on crisis mitigation and cost-containment will be left further behind coming out of the crisis.

It is difficult to think about strategy in times of crisis, that is exactly what the best organizations do. They can make tough near-term choices, while also investing through the downturn. Here are the opportunities that we think that wealth management firms need to start pursuing right now.

Individuals and small business owners are extremely concerned about the impact of the crisis on their finances, and many are already beginning to lose work and face tough decisions. In times like these, banks can build trust and deepen relationships by proactively addressing these massive challenges.

NEAR-TERM STRATEGIES

We believe that now is the time for wealth managers to demonstrate they are genuinely acting in clients' best interests. Additionally, while digitization is not going away, wealth managers can demonstrate the benefits of the client-advisor relationship. In this crisis, advisors have a real opportunity to create a lasting connection to their clients and build trust for the long term.

- **Providing proactive client advice** – Financial advisors should not wait for clients to call but instead proactively reach out with education and advice, especially to clients who may be the most vulnerable during the downturn. The behavior of financial markets is confusing to most clients, and they need to know their advisors are there to guide them through the storm.

- **Guiding difficult client investment decisions** – As in past market downturns, a prominent role of the financial advisor is to help clients remain focused on achieving their personal financial objectives. We believe that each client's investment decisions should be considered holistically by revisiting financial plans. Re-evaluating the client's investment goals, time-horizons, and financials may be a time-consuming exercise during a time of scarce resources. Still, it will be time well spent for better near-term decisions. The inclusion of behavioral finance in financial planning will help advisors provide sensible advice (see table I on page 3 for details).

- **Connecting on a human level** – The current situation will impact clients in a variety of ways. Retired clients may be asking, "do I have enough money to live on?". Near retirement clients will be asking, "Can I afford to retire?". In addition, multiple industries have been struck by the situation and are already losing jobs and job security. These circumstances fundamentally alter financial plans. This time of crisis provides financial advisors the opportunity to connect with their clients authentically, understand where they are, and give the right perspective and advice.

- **Staying focused on business development** – Financial advisors are business owners in their own right. They have a responsibility to their clients, staff, and communities to ensure their business continues as a going concern. Financial advisors should not ignore new business development activities. During times like these, there is an increasing need for advice and wise counsel. There will be future clients who lack an advisor now and others who feel that their current advisor does not deliver the insightful advice required. Business development handled sensitively and thoughtfully will lead to increased client value.

- **Pro bono financial advice** - Many people at all income and asset levels need help on how to handle their finances and investments. Wealth management firms should do what they can to increase pro bono financial advice in the communities they serve to support recovery efforts.

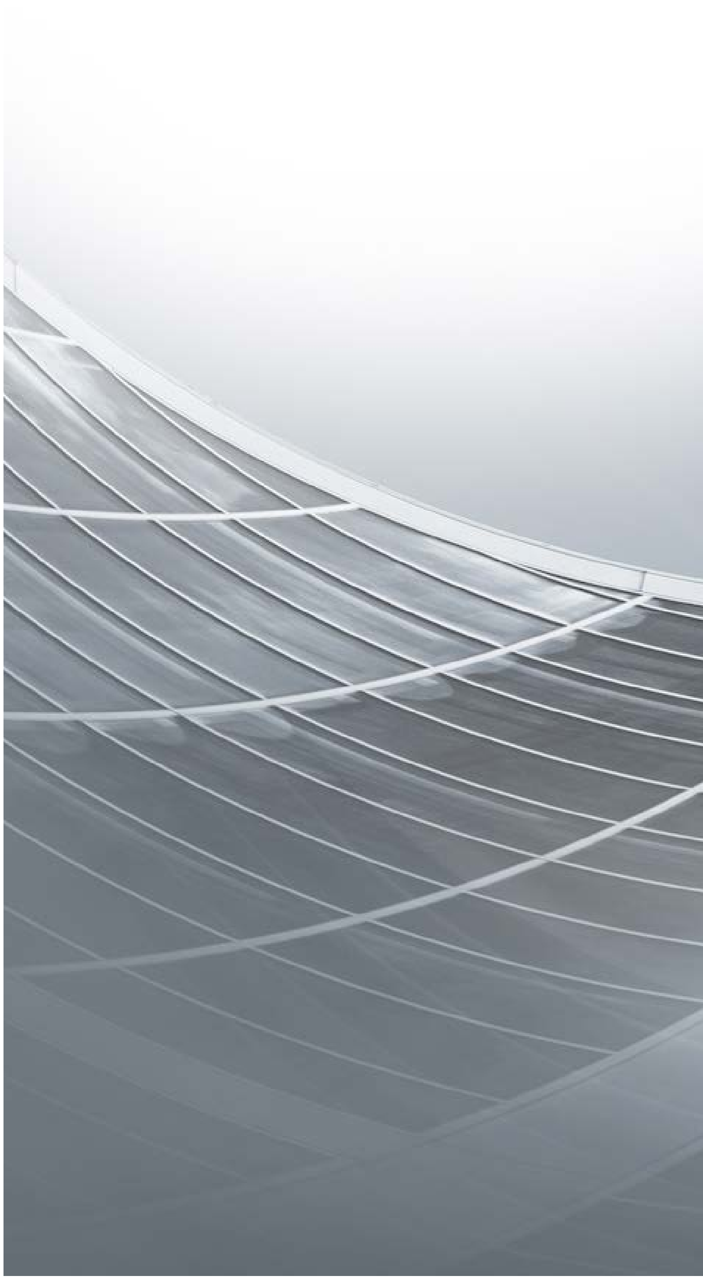
- **Protecting talent and culture** – Given the financial pressure that wealth managers are under today, many executives' first instinct might be to institute furloughs or layoffs. Some large financial institutions have committed to zero layoffs in 2020, setting a high bar for the industry. Smaller firms with less balance sheet protection should look to creatively exhaust alternative options before considering furloughs or layoffs. Over the long term, this will pay enormous dividends in terms of winning the war for talent and creating a differentiated culture. It will also be important to stay connected and strengthen remote working culture and connectivity.

NEAR-TERM STRATEGIES CONT.

The emerging field of behavioral finance is highly relevant for financial advisors during a crisis and in the subsequent recovery period. Specifically, understanding the disconnect between how investors tend to behave relative to what financial theory might predict can enable financial advisors to serve their clients during this challenging time better. For example, investors tend to be more loss averse than risk-averse, which translates to a feeling of more distress at a loss than joy at an identical profit. This can play out in an investor's propensity to relinquish winners prematurely and wait too long to do the same for losses. These biases continue during a typical recovery period, potentially compounding the extent of losses and the effects of the crisis on portfolios and the longer-term potential of accumulating wealth. One-way financial advisors can address these biases is by integrating behavioral finance into their financial planning by employing a goals-based management framework.

Working with clients to characterize risk as the probability of not meeting their goals as opposed to the standard deviation of their portfolio could help in several ways. This shift in thinking could establish better communication with clients, help them more effectively achieve their goals, and enable them to emerge from this crisis stronger than before. Surprisingly even before the crisis, many wealth managers were struggling to deliver services aligned to client goals that would facilitate this approach. The current environment is a reminder that wealth managers need to focus on strategic initiatives that provide true holistic wealth management across the client relationship that successfully integrates goals-based wealth planning across the advisory lifecycle.

Table 1: Integrating Behavioural Finance into Financial Planning



BROADER STRATEGIC CHOICES

While wealth managers should rightfully focus on helping their clients navigate near-term decisions, they should not abandon their longer-term strategies and will need to consider the following questions.

- **What is the vision?** Just like their clients, wealth managers need to stay focused on their long-term financial and non-financial goals through the crisis. For example, leaders should evaluate (and re-evaluate in light of the crisis) their multi-year vision for organic or inorganic growth. Only after clarifying the vision, can firms consider some of the harder-hitting strategic choices.

- **What is the target market?** Different geographies and client segments will be affected in various ways by the crisis, and understanding these impacts will help wealth managers clarify their growth strategy and where they should play in the new landscape. For instance, should wealth managers look to expand their footprint into new segments and geographies (targeting more or less affluent segments), or double down on growing within existing segments?

- **What is the right mix of products and services?** Given the substantial market losses during the crisis, clients will likely seek better protection from their investments to safeguard against black swan events going forward (e.g., next pandemic, global warming crisis, etc.). Given that typical safe-haven assets such as gold have not held up well, advisors should work with asset management divisions and/or third-party managers to explore more effective options. Options include new collective investment vehicles with reduced correlation to crisis events with the ability to re-invest in essential service companies during a crisis event.

- **What is the digital strategy for both clients and advisors?** While investment in digital platforms has been taking place for many years, coming out of the crisis, there is likely to be a renewed emphasis on hybrid-advisory and digital collaboration models enabled by technology. Firms that master the mix of virtual and personal services will have an edge. Based on their investment appetite, wealth managers will need to weigh tradeoffs about where to focus, improving the digital experience along the value chain (e.g., onboarding vs. planning vs. servicing) and whether to focus more on the client experience, advisor experience, or both. They will also need to consider whether to build, buy, or partner to gain these capabilities and with whom.

- **What is the target operating model?** Finally, wealth managers should verify that they align the operating model (i.e., the platform, people and processes that support your advisors and clients) with the near-term and long-term strategy. Many clients will look for more hands-on service in the near term. Longer term, it's essential to keep in mind that the downward fee pressures, compliance costs, and operational risk reduction costs will continue. An operating model that enables low cost-to-serve will allow for a sustainable business in the long-term.

Naturally, some of these broader strategic choices have been pushed to the side by the current crisis. It is also possible, even necessary, to take decisive action on near-term priorities to protect clients, employees, and the business while also keeping the bigger picture in mind. Doing so can help wealth managers avoid shortsighted mistakes in a crisis while positioning for growth coming out of it.

If you would like to share ideas, please reach us at Isaac.halpern@capco.com and kapin.vora@capco.com

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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