



WEALTHARC

Technology as Vaccine: How COVID-19 impacts Wealth Management

Data-driven Insights
from WealthArc

October 2020

Content

01.	3
Unprecedented Time For Swiss Wealth Managers	

02.	4
Wealth Managers respond to the crisis: key trends	

- Keeping business continuity
- Accelerating the digital transformation
- Data-driven investment insights

03.	10
Who are the winners in the post-COVID reality?	

04.	13
Appendix: Digital use cases for WMs	

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Unprecedented time for Swiss Wealth Managers

Switzerland is the world's leading wealth management hub. Swiss professionals manage roughly CHF 2.2 trillion assets, which constitutes 21% of the global market share (2). So far, 1'934 Wealth Managers and 272 Trustees have already applied for the new FINMA license, which further proves the size of this market (1).

In the face of the COVID-19 outbreak, WealthArc spoke to Swiss Independent Wealth Managers (WMs), also referred to as Financial Intermediaries (FIMs) or External Asset Managers (EAMS). We discussed their short-term responses, and uncovered long-term implications. What are the key trends & challenges for the industry? How can WMs prepare for the post-COVID reality?

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We are entering a new age of wealth management. New technologies are the key.”

Guillaume van Berchem,
BVB & CIE

Swiss Wealth Managers respond to the crisis: **key trends**

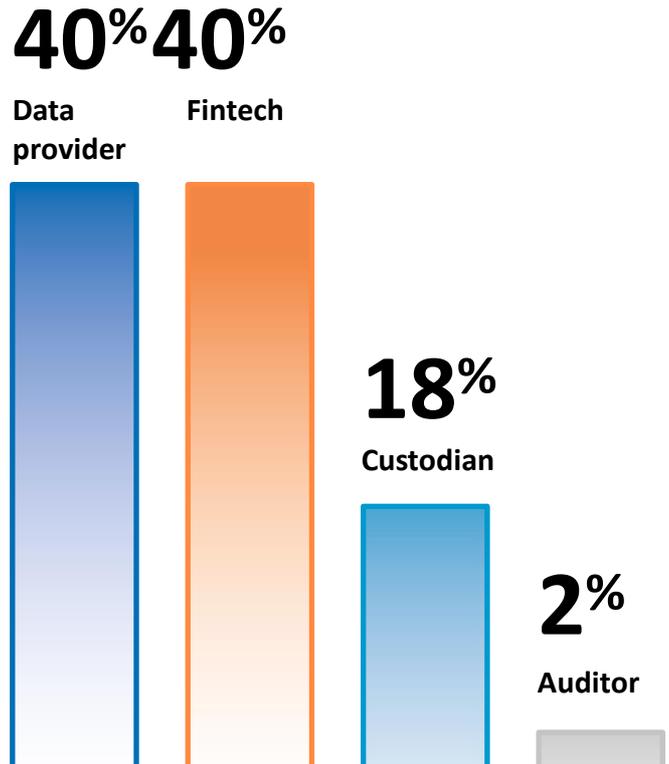
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Keeping business continuity

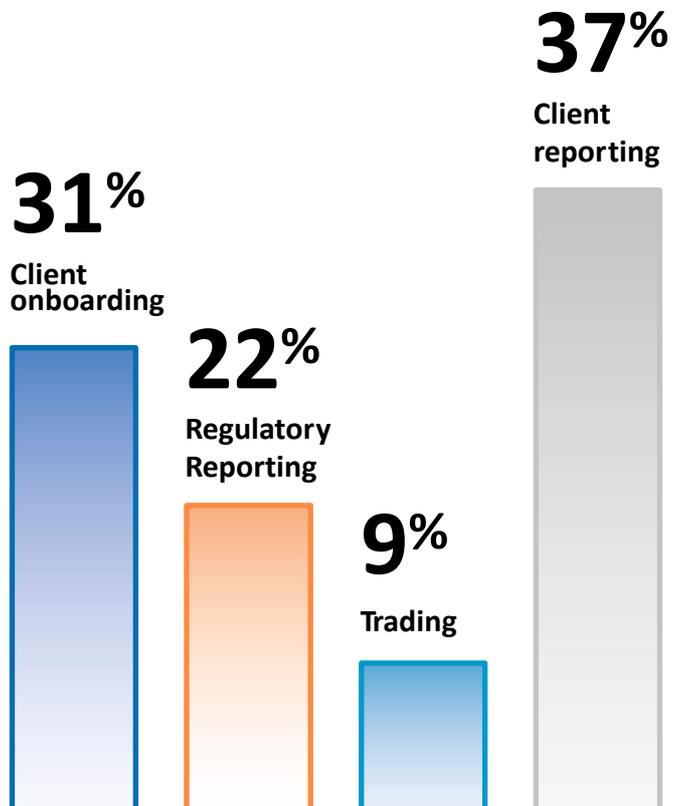
- It comes as no surprise that **87%** of respondents reported unprecedented disruptions in their daily operations. The major area affected by the COVID crisis has been communication.
- According to the survey, both internal and external communication shifted to digital channels. However, wealth managers did not observe a negative impact of this shift on their relationships with clients.
- **42%** of WMs needed more interactions with their clients compared to the time before the crisis. Investors wanted to be updated on the situation and receive more tailored advice on how to achieve their financial goals during the crisis. It gave WMs an opportunity to play an even more important role in their lives.
- Thanks to strong relationships, only a few WMs reported a problem of rash investment decisions made by their clients. WMs using specialized infrastructure (e.g. model portfolios, recommendation lists, quick investment proposals) reported more efficient conversations with clients. WMs did not report loss of clients, but acquisitions of new clients slowed down due to the lockdown and social distancing rules.



From whom do WMs expect technological innovation for their daily business?



Where do WMs see the biggest need for automation in their operations?



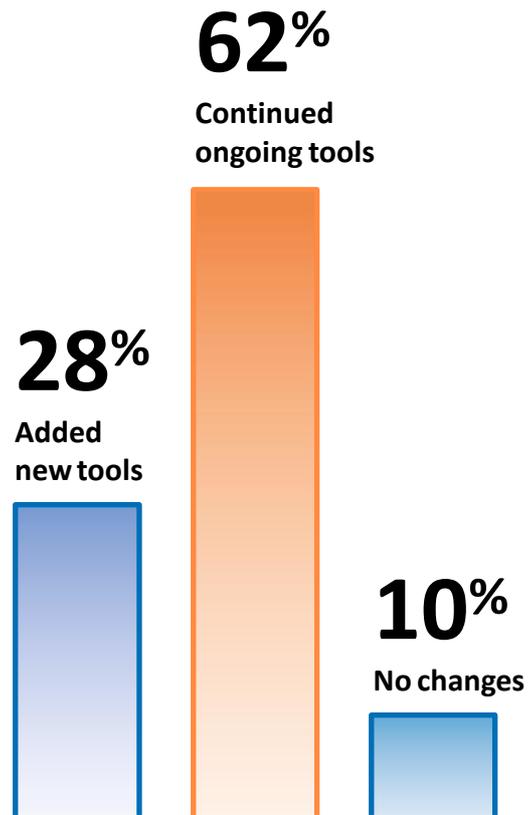
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Accelerating the digital transformation

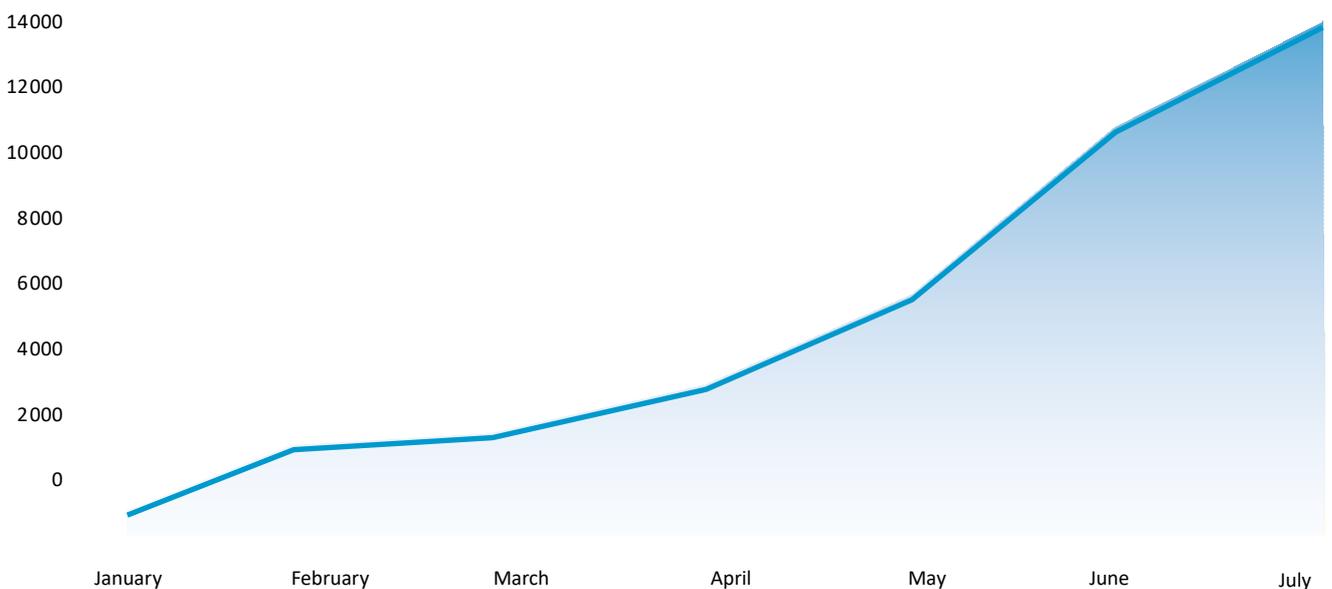
- The outbreak of the ongoing crisis made 28% of respondents add new digital transformation initiatives to their strategy. At the same time, 62% of them continued with ongoing initiatives. 10% of Swiss WMs are planning no digital transformation efforts at all, which shows that the industry is definitely going through a structural change of adapting to new technologies.
- 37% of respondents reported the strongest necessity for automation in the fields of client reporting, followed by client onboarding. Especially digital authorization in the onboarding process has been mentioned as important need, since home office reality disrupted paper-based workflows involving different teams.
- It comes as no surprise that WMs with sound and centralized portfolio management system (PMS) reported less disruption in their operations. They were satisfied with their tools, but mentioned direct trading and rebalancing capabilities as features to be improved. 20% of them would also want to have better access to hedging capabilities and alternative assets to ensure investment profitability.
- WMs expect innovation to be driven first and foremost by fintechs and data providers, followed by custodian banks. Banks seem to be aware of that as they often establish partnerships with fintechs to improve their offering. For instance, banks in Switzerland and Russia have partnered up with WealthArc to improve their eBanking offering for UHNWIs.
- eDocuments are another good example of a digital innovation quickly gaining popularity. WMs are obliged to store transaction receipts dating up to 10 years backwards. When done manually, WMs spend hours by downloading documents from eBanking systems or scanning printed documents. Modern PMS solutions automate the download from custodians and take care of matching and storing of eDocs for each transaction. Covid19 and remote work has already accelerated the adoption of eDocs, clearly visible in the chart, and allows for efficient work from home without access to printed documents in the office.



How have WMs prioritized new digital tools as a result of COVID-19?



E-Document downloaded from custodian by WealthArc Platform in 2020



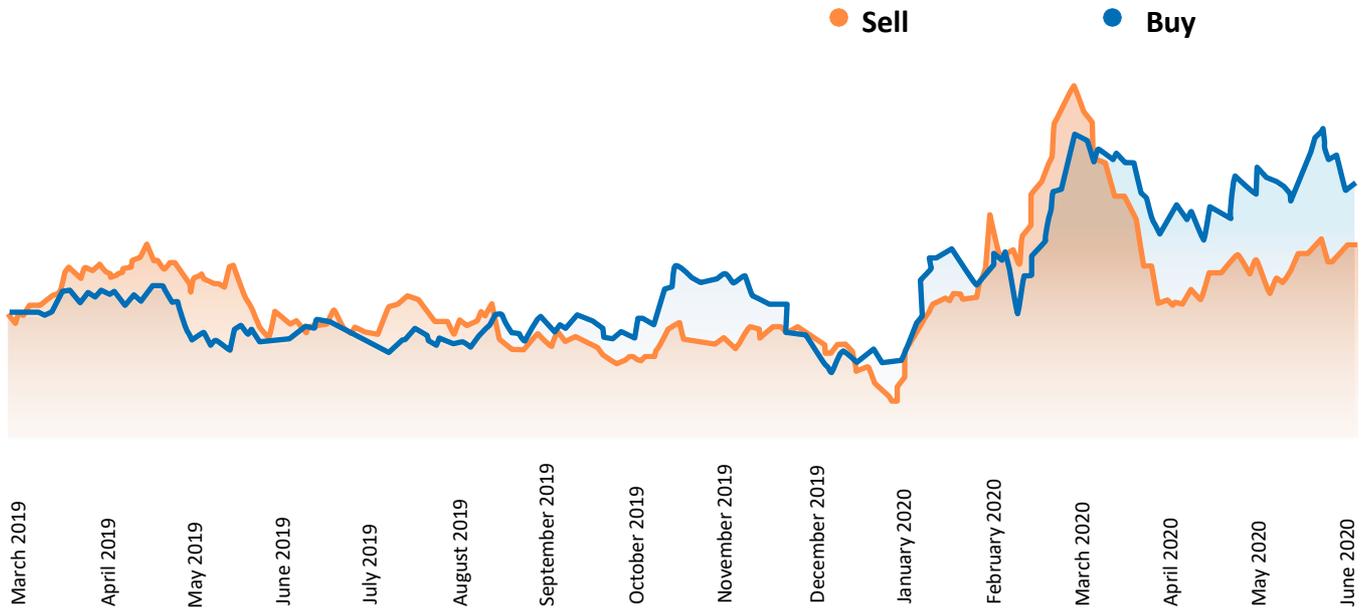
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Data-driven Investment Insights

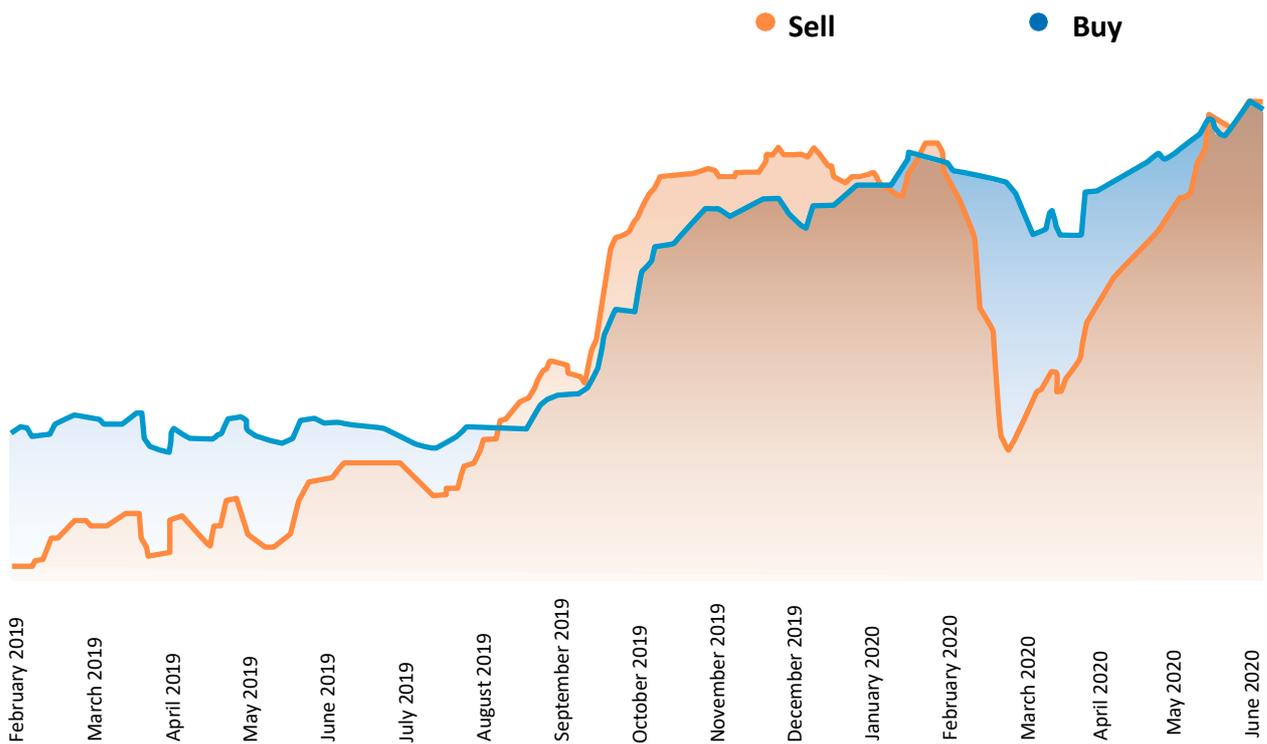
- The COVID-19 crisis has clearly impacted investment behaviour. The insights delivered by our respondents were supplemented by data on daily investment moves gathered on the WealthArc platform.
- Between February and March, WMs observed an aggregated devaluation of the assets under their custody by 15%. However, after the initial sharp downturn, financial markets rebounded in summer and almost reached the pre-crisis level. Consequently, recent months generated opportunities for stronger profits.
- The outbreak of the epidemic was seen as an unprecedented shock rather than a structural crisis like the one observed between 2007 and 2009. Because of that, most WMs were holding on to their equity positions. Those who sold their positions perceived more value in purchasing undervalued equity than in sticking to fixed income.
- In March, buy and sell transactions remained steady, but in April, buy transactions started prevailing. Despite the market drop in March, investors did not withdraw their funds. Deposits and withdrawals remained stable throughout the whole period.
- Looking ahead, 46% of respondents see the uncertain market outlook due to COVID-19 as biggest challenge for the upcoming months. The 2nd (or even 3rd) wave will keep disrupting operations and markets more broadly.
- With 25%, industry consolidation is the second biggest concern of our respondents. Here, M&A serves as fastest route to advance growth agendas.



Buy & Sell Transaction Count



Total AuM & Position Count

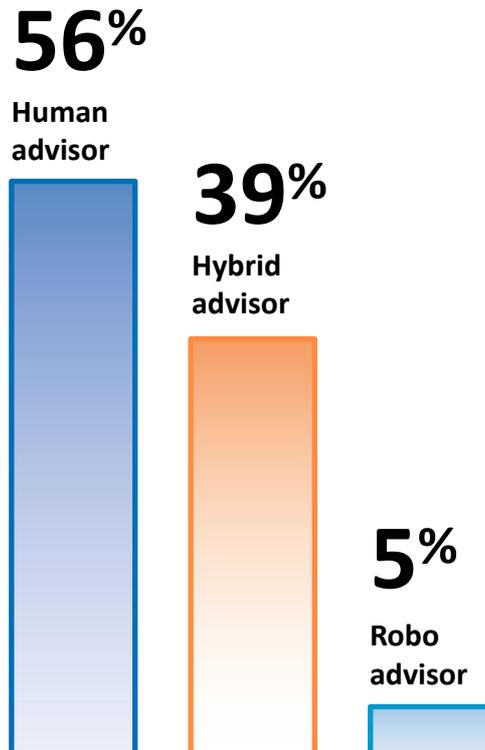


Who are the winners in the post-COVID reality?

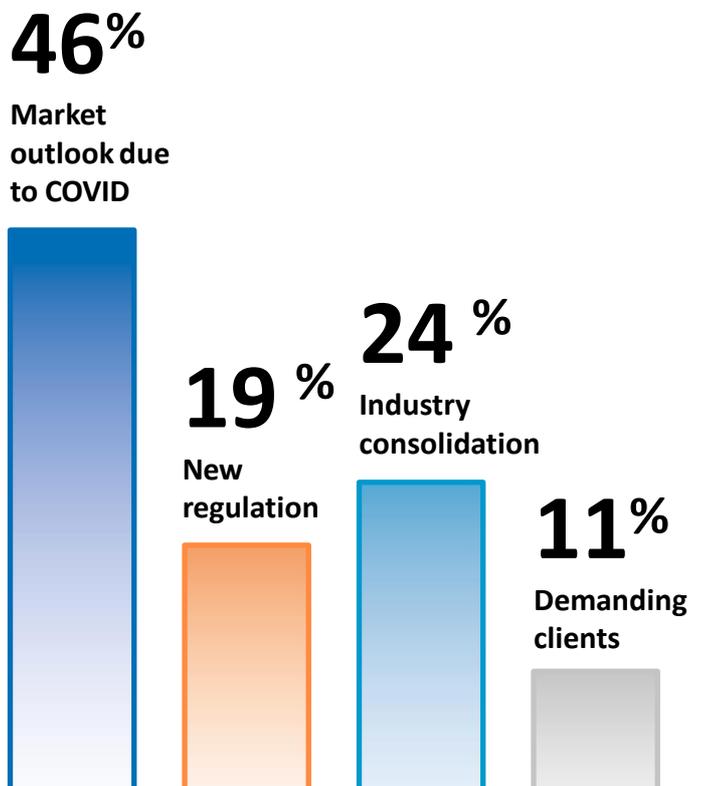
- Wealth management is experiencing a time of remarkable change. Investors are demanding sustainable investments, cost pressure is relentless and regulation is getting stricter. COVID-19 has been increasing the pace of change in the past months.
- To succeed in the wealth management landscape impacted by the COVID-19 crisis, WMs will have to rethink their advice delivery models. The model of the future will need to combine the expertise of the advisor with the efficiency and scalability of digital solutions(5).
- In fact, 56% of our respondents see a hybrid model as future of wealth management. 39% believe in a purely human advisor and only 5% in robo advisory.
- Therefore, the ongoing crisis will continue to reinforce the difference between winning WMs that explore innovative business models, increase their operational agility, and engage with their clients digitally. WMs representing a more reactive approach may increasingly struggle as the industry is bound to be even more competitive than before the crisis.
- For WMs using traditional tools, the shift from a high-touch, in-person client service to partially digitized wealth management will be a major cultural change. Within only six months, COVID-19 gave investors the convenience of digital channels. This shift is likely to provoke long-lasting changes in investor behaviour. It is a chance for WMs with strong digital capabilities to win more clients.
- Switzerland remains the world's leading wealth management centre. However, the growth rate of AuM in Switzerland is slowing down (2). Swiss WMs need to make sure not to fall behind on the technological forefront when competing against other wealth management hubs. It is particularly relevant in the face of a new generation of clients who demand access to digital channels and full transparency in financial advisory. Industry consolidation and regulatory requirements will only add to the cost pressure.



What is the future of wealth management?



What is the biggest challenge for WMs for the upcoming 12 months?





As heavy WealthArc users, we are lucky to have access to all the accounts from home and communicate precise numbers to clients. At RJ Management, we partner with 15 banks; before implementing WealthArc, we had to navigate through every banking system and their individual asset classifications.”

ERIC RODITI, PARTNER at RJ MANAGEMENT

Appendix: Digital use cases for WMs

As other financial service providers continue to improve their digital experience, WMs' clients will expect similar digitization from asset managers. Prioritization of digital implementation efforts will differentiate winning WMs from the losing ones in the long-run.

The following digital use cases are already implemented by progressive WMs in Switzerland:

- Direct trading
- Direct communication between clients and advisors via app
- Digital client portal accessible via app
- Automatic portfolio rebalancing
- Digital onboarding (automatic, guided KYC)
- Access to all statements and documents via PMS
- Lead generation and conversion tracking
- Artificial intelligence investment advice



Author

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Business Development Manager at WealthArc Extensive experience in wealth management gained at Standard & Poor's and Refinitiv, London and Zurich

Methodology

WealthArc conducted interviews with over 30 Wealth Managers from Switzerland between August and September 2020. All of them are directly involved in wealth management on various positions ranging from Managing Director to Portfolio Manager. 60% of them are based in the Geneva area, 35% in the greater Zurich area, and 5% in other Swiss regions.

30% of them represent companies with 1-4 employees, 50% with 5-15 employees, and 20% with more than 30 employees.

Sources

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