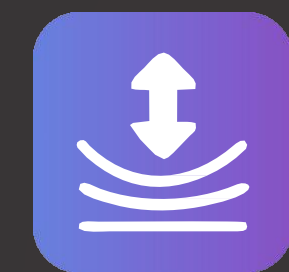


Reshaping Asset Management for a Post COVID World

Banking, Financial Services and Insurance



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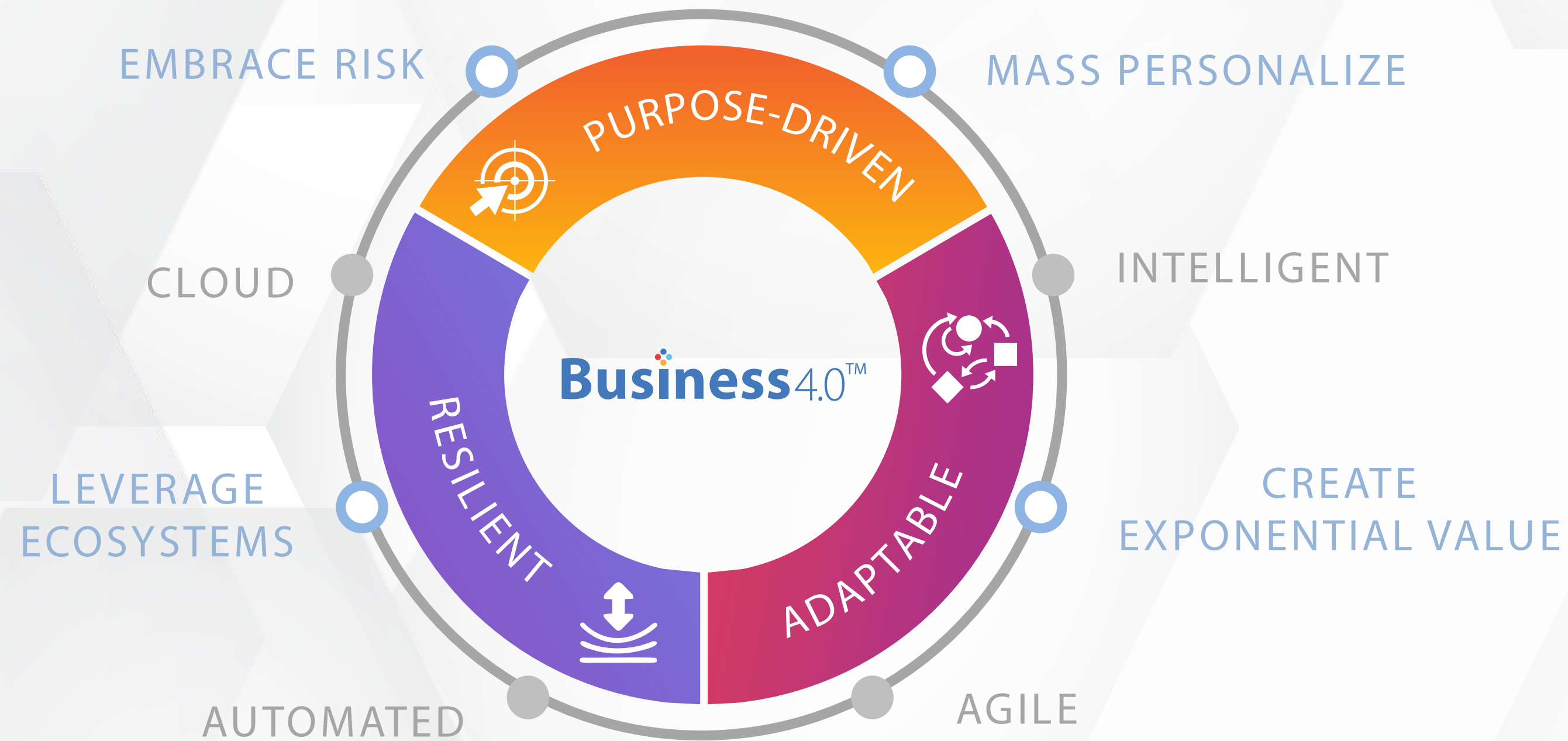


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About the Author

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Ravishankar Poonjolai is a consulting partner with the Capital Markets Industry Advisory Group of TCS' Banking, Financial Services, and Insurance (BFSI) business unit. He has more than 20 years of industry experience in delivering consulting, solution development and program management for TCS' clients in the financial services sector. Poonjolai has a Bachelor's degree in Electronics and Communication Engineering from the Coimbatore Institute of Technology, Coimbatore, India, and a Master's degree in Business Administration from the Indira Gandhi National Open University (IGNOU), Delhi, India.

Abstract



With a fall in the Standard and Poor's (S&P) and other global indices¹ due to the COVID-19 crisis, asset management firms have reported a plunge in assets under management (AUM) and other key financial parameters. The industry is already facing an active-to-passive shift due to investors looking for fee reduction. Meanwhile, investment flow into emerging markets' equity and debt for better returns is on the rise. With high volatility in global markets, it's time for asset managers to review their investment strategy, forecasts, models, and assumptions. This paper focuses on how asset management firms need to gear up for a period of uncertainty as they adapt to new post COVID realities.

¹ BBC News, Coronavirus: FTSE 100, Dow, S&P 500 in worst day since 1987, Mar 2020, Accessed Aug 2020, <https://www.bbc.com/news/business-51829852>



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Asset Management Industry Outlook

Thanks to the ongoing COVID outbreak, a fall in equities and rise in credit spreads have been noticed across global markets. With economic growth forecast cut sharply for 2020², governments and central banks have responded with unprecedented measures such as cutting interest rates and pumping liquidity into the financial system to support economies. This fiscal and monetary support has increased investor confidence and sentiment resulting in market indicators registering record highs.

Apart from governments and central banks, regulators too have done their bit by extending timelines for statutory filings and disclosures to investors. With the COVID crisis disrupting

business, asset management firms will need to assess and identify additional disclosures, over and above the mandatory financial statements and notes, that will need to be made to investors. This is especially applicable to firms dealing in private markets; such firms will need to evaluate the impact of reduced price discovery due to liquidity issues and increased valuation risk and reassess the valuation process, policies, and controls appropriately.

The ongoing crisis has enhanced the focus on sustainability, underscoring the need for a more sustainable approach to asset management. Consequently, corporate decision-making on management of suppliers, employees,

customers, and society must embrace environment, social, and governance (ESG) principles. Going forward, companies that handle this crisis well while retaining unrelenting focus on and ensuring compliance with ESG and other sustainability parameters will fare better during pre-investment due diligence exercises compared with those that don't.

It is therefore time for asset management firms to introspect and build their investment strategy on a foundation of sound principles such as demonstrated competence, integrity, diversification, and customer focus.

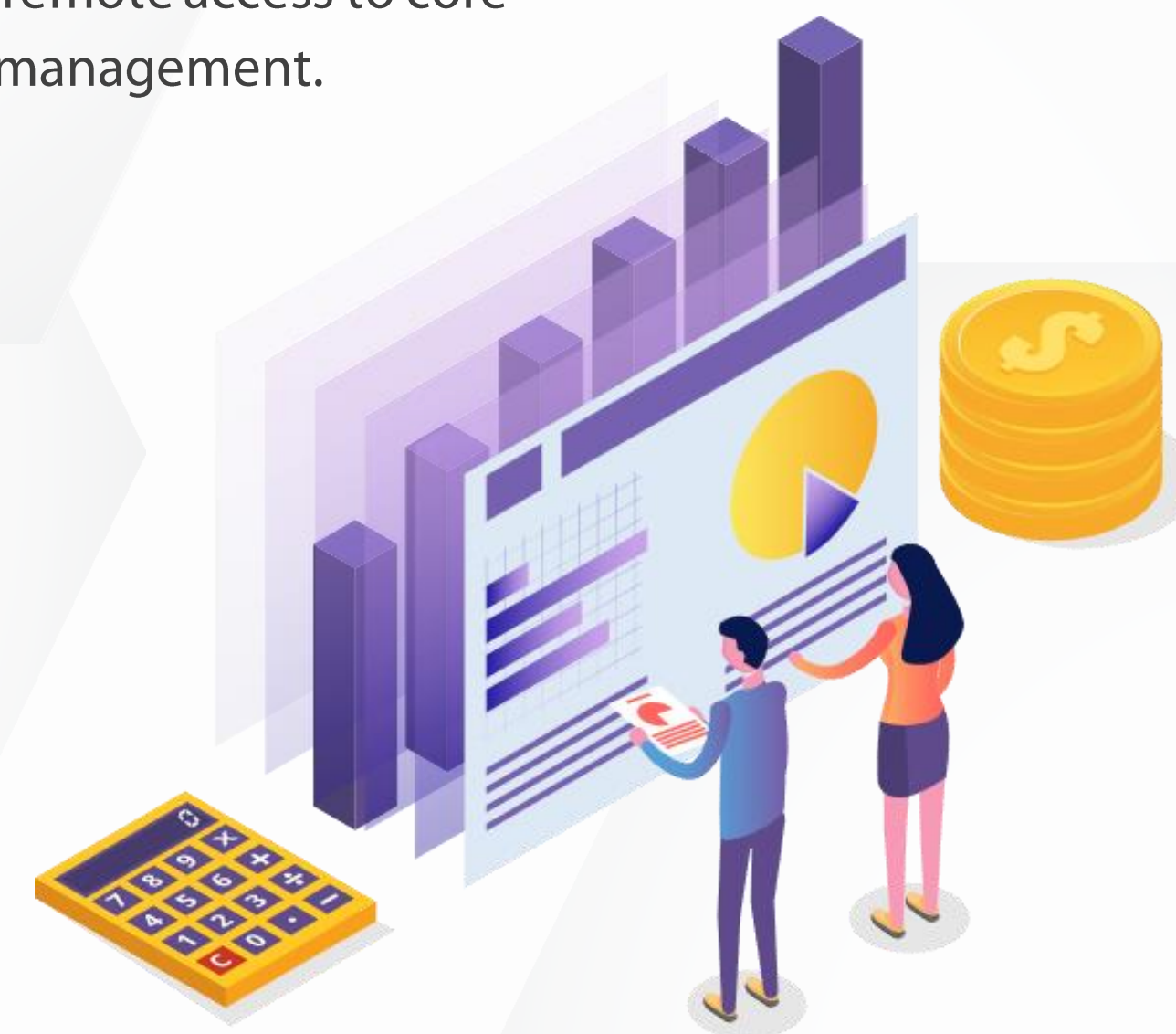
² VOA, World Bank: Pandemic Drives Broadest Economic Collapse in 150 Years, June 2020, Accessed Sep 2020, <https://www.voanews.com/economy-business/world-bank-pandemic-drives-broadest-economic-collapse-150-years>

Navigating the COVID-19 Cycle



The immediate **crisis phase** of the pandemic has now settled down, though the virus continues to cause loss of lives, livelihoods, and damage to economies. In this phase, firms faced additional threats and vulnerabilities due to higher levels of remote access to core systems with major focus on business continuity management.

To support and educate clients on COVID and its impact on their portfolios, firms implemented client outreach programs through emails and website notifications, reviewed investment strategies, and performed portfolio rebalancing as required. Despite facing innumerable obstacles, firms rose to the occasion in the **crisis phase**, ensuring business continuity and seamless service delivery while displaying a high degree of resilience and adaptability.

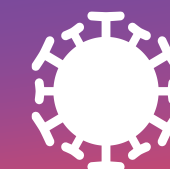


The pandemic has now entered the **transition phase**, likely to last up to one year, marked by a decline in the rate of infection and deaths setting the stage for relaxations in restrictions and uptick in economic activity. We believe that the **transition** and **post-COVID** phases will define the next normal for the asset management industry. The **post-COVID** phase will see a gradual resumption of growth with solutions becoming more purpose-driven, focused on fulfilling the underlying purpose that drives customers. Over the next couple of years, infusing resilience and adaptability will be top of mind as firms focus on enhancing preparedness to tackle COVID-like crises in the future. Resilience and adaptability will pave the way for a sustainable transformation in turn **future-proofing** firms and ushering in a balanced approach toward growth, continuous transformation, and sustainability.



Transition phase

During the ongoing **transition phase**, asset management firms must accelerate their digital transformation programs and focus on improving digital touchpoints, transparency, and automation. Given the increasing demand for ESG assets, adopting a framework that can enable firms to offer a variety of ESG funds with the required level of transparency should be a top priority. Cost and operational efficiency optimization through intelligent automation must also be a key focus area. In addition, firms must reposition themselves by reevaluating and optimizing their operating models through back office and enterprise wide transformation, in turn laying the foundation for a future-proof organization with the capabilities to deal with shocks like the COVID crisis.



Post COVID phase

During the **post COVID phase**, asset management firms will need to assess crisis handling in the previous phases, while continuing the focus on strengthening core values and niche skills in products and markets. Firms will need to identify new areas for transformation, ascertain avenues to drive business growth, and invest in secure and scalable technology infrastructure.



Future-proofing phase

In this phase, asset management firms should look at the business functions that were impacted by the crisis and relook at business continuity plans to adequately cover potential future disruptions. Establishing additional channels for communication and interaction with institutional customers and strengthening backend support processes and teams must be top of mind. For other customers, the existing communication channels must be strengthened, discussions held to evaluate the impact due to volatility, the required changes to portfolio strategy identified and initiated, and the agreement documents suitably amended.

In our view, asset management firms must undertake change programs aimed at building resilience to withstand shocks, fostering adaptability to rapidly detect and respond to change in the business environment, and create ecosystems with interdependent stakeholders to deliver value leadership. To achieve this, asset management firms must take action across the following specific themes:



Virtual customer engagement: Adopt digital solutions aimed at driving virtual customer engagement through digital channels as in-person meetings are at a dead halt.



Touchless operations: Implement document digitization and intelligent automation to improve efficiency of the operations teams and comply with social distancing norms that could well become a permanent feature going forward.



Adaptive distribution: Increase digital customer interactions through new channels for know your customer (KYC), automated advisory, and other processes to enhance direct-to-client distribution services.



Data driven enterprise: Leverage new and/or alternative data from social media and other public sources for sentiment analysis, forecasting, and so on, to drive informed investment management decisions.



Products for a new beginning: Implement niche solutions such as automated advisory, ESG based funds, private equity, and research desk, which will be instrumental to driving strategic growth.



Resilient core: Transform core functions through focusing on themes like cloud adoption and retirement platform transformation.



The Bottom Line

Accelerating the digital transformation agenda has emerged as a key imperative for asset management firms after the COVID crisis. Speeding up the digitalization journey is essential to developing the capabilities required to build next-gen digital solutions. Asset management firms, however, are likely to be constrained by a lack of in-house resources and talent. Firms must look at strategically partnering with an experienced IT service provider with the necessary contextual and domain knowledge as well as best-in-class technical skills and take the digital leap essential to leading in the post COVID world.

Contact

For more information on TCS' Banking & Financial Services, please visit <https://www.tcs.com/banking-financial-services>

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