McKinsey & Company

Global Wealth & Asset Management

Asia wealth management post-COVID-19: Adapting and thriving in an uncertain world

June 2020

Introduction

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The COVID-19 pandemic remains first and foremost a humanitarian crisis, augmented by an abrupt, severe reduction in economic activity globally. The potential duration and severity of the economic weakening are subject to debate, but what is clear is that COVID-19 is accelerating disruptive forces already at work within Asia's wealth management industry well before the outbreak. Once the pandemic subsides, Asia's investors and their advisors will find themselves in the next normal.

Consequently, wealth managers are pondering several questions: What will wealth management look like in the post-COVID-19 world? How will we ensure the safety and well-being of our employees? How will customers' behaviors change, and how quickly can we move to meet their emerging needs and expectations? How will the next normal impact the way risks are assessed? To what extent will digital channels become the norm for client interactions, and how will this lead to the rationalization of existing physical channels?

Regardless of how the next normal eventually unfolds, the wealth management industry in Asia will likely remain an attractive market.[1] With an estimated US$34 trillion of onshore personal financial assets (PFA) as of year-end 2019, it has grown at approximately ten percent CAGR from 2014 to 2019, compared to five to six percent growth in Europe and North America, over the same period.[2] Furthermore, wealth management advisory and financial planning remain underpenetrated in Asia, as managed assets represent approximately 15 to 20 percent of the region's PFA. This provides ample opportunity for faster growth than in other global regions.

We remain cautiously optimistic for the future of wealth management in Asia. However, to compete and succeed in a new world will be a tall order. Incumbent firms, traditional financial institutions newly entering the arena, as well as digital disruptors, must reinvent themselves, even as they maneuver through the immediate crisis.

In our view, four pillars will underpin the next normal for Asia's wealth management industry: Renewed emphasis on operational risk, increased reliance on digital and analytics across the wealth management value chain, industry consolidation, and a transition to customer-centric advisory. In addition, there are ongoing structural shifts that will become more accentuated, particularly the new equilibrium between onshore and offshore markets.

Wealth management firms will need to take careful steps to build these pillars across three time horizons: the short term (while COVID-19 is the major influence on world markets and investor behavior), the mid term (continuing through the next two to three quarters following the end of the short-term horizon), and the long term (extending over the subsequent one to two years). In Section II, we discuss in detail the building blocks for each pillar and the specific considerations attendant to different types of wealth management firms and the associated customer segments. We conclude by urging CXOs to examine eight questions about their current state of preparedness across each of the three horizons advancing toward the next normal.

In the Appendix, we discuss six potential opportunities for the major business models that we see emerging in the post-COVID-19 world: Local and regional retail banks struggling to create a customer-centric integrated financial advisory ecosystem encompassing banking and wealth management, insurance firms questioning their right to compete in the wealth management industry, and international wealth managers grappling with the shifting equilibrium between offshore and onshore markets.

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1 For the purposes of this paper, *wealth management* comprises investment advisory services for individuals, households, and businesses with investable assets greater than $100,000.
2 McKinsey Global Wealth Pools.

Disruptive forces pushing toward the next normal

The rapid spread of the novel coronavirus across the world has led to a steep drop in economic activity, as most people worldwide have been compelled to stay at home and keep their distance from others. Public health and safety remain the vital priority in the struggle to end the pandemic, and people everywhere are aware that the appearance of COVID-19 marks a historic change in how they transact almost every aspect of their lives.

The global effort to contain the virus through a succession of lockdowns across countries has affected most sectors, including banking and wealth management in Asia (Exhibit 1).[3]

Investor wealth in Asian equity markets declined by approximately 10 to 15 percent (or approximately $2.5 trillion to $3.5 trillion[4]) between February 1 and April 15, 2020. China, the first epicenter for COVID-19, suffered a

3 *Wealth management* for the purposes of this paper comprises investment advisory services for individuals, households, and businesses with investable assets greater than US $100,000.

4 Total market cap of listed key stock exchanges in Asia is approximately $24.3 trillion; data sourced from the World Federation of Exchanges as of January 2020.

Exhibit 1

COVID-19 has caused significant turmoil in Asian markets, comparable to the 2008 financial crisis and 2000 dot-com crash.

MSCI AC Asia Pacific[1] Price Movement

Quarterly last price, January 1988 – April 2020

- A Dot-com crash, Apr-2000
- B SARS, Apr-2003
- C Avian Flu (H5N1), Jun-2006
- D Lehman Crisis, Aug-2008
- E MERS, May-2013
- F Zika, Jan-2016
- G Covid-19, Jan-2020
- H May 05, 2020

In previous extreme downturns (2000 dot-com crash and 2008 financial crisis), markets typically **rebounded in 12-18 months**

How long will it take for Asian markets to recover from COVID-19 downturn?

[1] The MSCI AC Asia Pacific Index captures large and mid-cap representation across Australia, Hong Kong, Japan, New Zealand, Singapore, China, India, Indonesia, South Korea, Malaysia, Pakistan, the Philippines, Taiwan, and Thailand

Source: MSCI; McKinsey analysis

swift drop in economic activity (13.5 percent decline year-on-year in industrial production in January and February 2020). However, once the number of COVID-19 cases started coming under control and economic activity began to recover, China's markets also began to regain some momentum. Given that Chinese investors account for approximately 35 to 40 percent of PFA in Asia, this initial recovery bodes well for the region's wealth management industry (Exhibit 2).

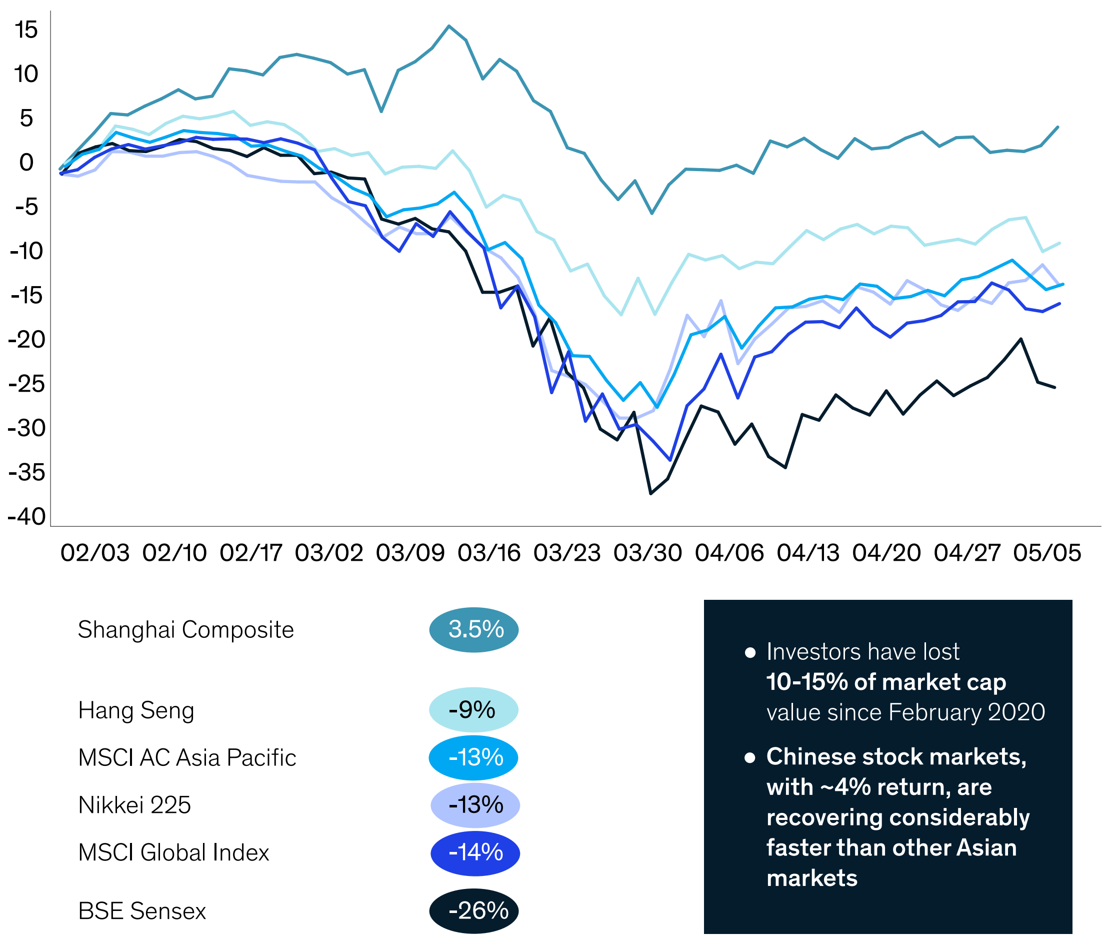
Leaders must plan across three time horizons

While there have been positive developments in fighting this disease, Asia is not out of the woods, and wealth management firms—be they long-established incumbents, financial institutions seeking to grow a recently established wealth management business, or new entrants—must act fast and decisively both to meet the immediate challenges and to

Exhibit 2

Investors in Asian markets have seen their wealth erode by 10-15% in equity markets, with only China showing signs of resilience.

Asia indices and MSCI AC Global index performance since February 2020
% change since Feb 3, 2020, indexed to 100



- Investors have lost **10-15% of market cap** value since February 2020
- **Chinese stock markets, with ~4% return, are recovering considerably faster than other Asian markets**

Source: Bloomberg

emerge in the strongest possible position in a world that will be significantly different once COVID-19 has been brought under control. This will require leaders to think simultaneously across three time horizons, to plan and manage their response to the COVID-19 crisis, while at the same time leveraging the changes required today to prepare for the future and advance their long-term strategic goals (Exhibit 3).

— *Horizon 1: Managing through the crisis.* In the short term, as long as COVID-19 poses a threat to health and safety, ensuring business continuity is the first priority. This includes taking clear, well-communicated steps to protect the health and well-being of employees, educating investors on holding steady through market volatility, and upgrading the infrastructure for alternative channels of engagement, including the systems underpinning remote working arrangements. Especially in periods of severe market volatility, frequent communication is crucial for maintaining and strengthening investors' trust in financial institutions. Wealth management associations and regulators also play an important role in keeping the public informed and reducing the impulse to panic.

— *Horizon 2: Stabilizing and unlocking new growth opportunities.* In the medium term, as markets and economies begin to stabilize, wealth management organizations should focus on upgrading digital and analytics infrastructure across the value chain of wealth management and upskilling their relationship managers (RMs) in preparation for increased reliance

Exhibit 3

Asia's wealth management firms should respond to COVID-19 across three time horizons.

Key actions by timeframe and theme

	Horizon 1	Horizon 2	Horizon 3
Time frame	Next 2 to 3 months (ongoing)	2 to 3 quarters post Horizon 1	Next 1 to 2 years
Theme	Ensure business continuity throughout the crisis	Stabilize, build resilience, and unlock new growth	Prepare for the next normal post-COVID-19
Key actions	• Protect employee well-being • Safeguard investor wealth and minimize panic • Enable remote working infrastructure • Address immediate IT cost pressure	• Plan transition to advisory • Upgrade digital and analytics infrastructure • Assess optimal balance of physical and online channels • Prioritize growth opportunities by customer segment, geography, and channel • Re-assess M&A strategy and plan for consolidation	• Execute shift to advisory • Rationalize physical channels • Optimize online channel engagement • Increase sales force effectiveness • M&A and post-merger management (ongoing from horizon 2)

on digital engagement models, as customers are not expected to return to physical channels at the same levels observed prior to COVID-19. At the same time, they should identify new opportunities for organic and inorganic growth, which are expected to emerge post-COVID-19, and prioritize these opportunities by customer segment, geography, and channel. Organizations should also develop new approaches to needs-based customer advisory, including self-directed digital-led advisory, in anticipation of a quickening shift from execution to discretionary mandates.

— *Horizon 3: Competing in a new world.* For the long term, leaders must prepare for an industry that will look significantly different. Incumbents and new entrants must take stock of the new market reality and reinvent the wealth management business for growth, carrying through with the shift to advisory and optimizing the balance of physical and online channels. These changes in business model and delivery channels will also require firms to reskill their sales representatives and RMs, in some cases involving extreme shifts from a "product-push," transactional way of working to a client-focused advisory relationship in which RM and client interests are more closely aligned. Firms should also establish a rigorous process (directed by a team of senior leaders) to evaluate potential merger and acquisition candidates against criteria aligned with the strategic vision for the next normal.

Each horizon presents numerous hurdles requiring considerable agility, and we expect that firms that navigate the turbulence successfully will emerge transformed and well-positioned to thrive in the new world.

What will the next normal look like?

The COVID-19 crisis has already accelerated change in Asia's wealth management industry, and once the pandemic subsides and the global economy begins to recover, wealth management firms must be prepared to compete in the next normal. What will this new world look like?

First of all, it will entail a renewed emphasis on operational risk. The physical distancing adopted in many countries to limit the spread of the coronavirus has required wealth management companies to accommodate mobile working and flexible work scheduling for employees. This will keep business continuity planning and related operational risk management in the spotlight like never before. Regulators may require wealth managers not only to strengthen business continuity plans but also potentially to set aside capital for any similar future scenarios bearing implications for firms' fiduciary obligations.

Second, investors, compelled to increase their use of digital channels, will in all likelihood

Once the pandemic subsides and the global economy begins to recover, wealth management firms must be prepared to compete in the next normal. What will this new world look like?

recognize the advantages of digital interactions and make an enduring shift from "branch-first" to "digital-first" ways of engaging with RMs and customer service representatives. Firms must ensure that their digital and analytics infrastructure is up to the task, including portfolio advisory and execution capabilities, as well as general communication.

A third factor in the transition to the next normal is the potential for industry consolidation. The COVID-19 crisis is already taking its toll on small firms and fintechs, and in time these firms may seek new avenues for raising capital. At the same time, lower valuations amid market turmoil may present acquiring firms with an opportunity to increase scale, gain new capabilities, or enter new markets.

Finally, the current market volatility and related capital-market losses are expected to influence investor behavior. Asia's investors have traditionally preferred execution mandates, which afford greater control over their investment decisions, and over the short term, this will likely be reflected in two temporary trends: 1) An uptick in execution-related trades among investors seeking to take advantage of the volatility; and 2) A move to cash and other low-risk assets by investors seeking to reduce exposure to capital market losses. Over the mid to long term, however, some investors will seek to stabilize the performance of their portfolios through professional advisory. Others, whose trust in financial advisors and possibly the entire financial system could weaken in response to the current crisis, may prefer to seek self-guided advisory. In either case, wealth managers may see an opportunity to provide tailored, customer-centric advisory and discretionary services as an add-on to their existing execution-based offerings.

As a corollary, we also expect to see onshore markets continuing to grow faster than offshore hubs[5] in managed assets for HNW+[6] clients. Diverse regulations, including common disclosure requirements and tax amnesty programs, have already accelerated this shift, with onshore assets under management (AUM) increasing from 43 to 46 percent of total Asian HNW+ AUM between 2016 and 2019. As a consequence of the COVID-19 crisis, we expect that customers will be increasingly inclined to keep wealth close at hand while balancing offshore diversification. Most organizations will need to re-evaluate their onshore and offshore strategies in light of the new equilibrium.

To meet the challenges and opportunities arising from these changes, firms will need to fundamentally reinvent themselves around four pillars: Increased emphasis on operational risk, adoption of digital tools and data analytics, industry consolidation, and the transition to client-centric advisory (Exhibit 4).

Weigh strategic options against three possible scenarios

We remain cautiously optimistic about the future of Asia's wealth management industry and anticipate that leading firms will emerge from the COVID-19 crisis with a new strategic vision and purpose and stronger relationships with customers, shareholders, and regulators. Without a doubt, however, the overall future potential for the industry is constrained relative to what firms had been anticipating (and planning for) before the start of the pandemic. As organizations re-evaluate their business plans and think through structural interventions and tactical steps, it will be imperative to weigh their options vis-à-vis different economic scenarios.

We have modeled potential growth opportunities for Asia's wealth management industry against two of McKinsey's nine

5 *Offshore assets* are those booked/invested outside the investor's country of residence. The primary hubs for offshore investments in Asia are Hong Kong and Singapore. Onshore refers to assets that are booked/invested in the investor's country of residence.

6 *HNW+* refers to both high net-worth clients with personal financial assets above $1 million and ultra-high net-worth clients with PFA above $25 million.

Exhibit 4

The next normal for Asia's wealth management industry.

Influenced by COVID-19

Building blocks for the next normal: the first four rows below

	Potential impact
Increased emphasis on operational risk	Enhanced focus on operational risks, e.g., business continuity planning, cyber risk, reputational risk, and more Increased transparency between risk management and core business areas
Adoption of digital tools and data analytics	Enhancement of digital capabilities across the wealth management value chain Optimization of physical channels aligned to digital channel adoption
Industry consolidation	Comparatively low valuations for the industry with different implications on well capitalized firms vis-a-vis small/niche firms Re-assessment of the M&A strategy aligned to the aspiration of future business, e.g., gaining scale, new capabilities, market access, and financial investment
Transition to client-centric advisory	Managing short-term execution spike to capture market discontinuities Transition from transaction-based business model to discretionary/advisory mandate in the medium term
Shift in onshore/offshore equilibrium	Customer preference for proximity to wealth while managing the global allocation for risk diversification Re-assessment of onshore vs. offshore strategy

scenarios of GDP growth that we consider most probable: A3 and A1 (Exhibit 5). In scenario A3 ("virus contained"), most countries succeed in slowing the rate of contagion enough to resume commercial activity and regain pre-crisis levels of production in the next one to two years. In scenario A1 ("muted recovery"), the epidemic lasts longer, with severe economic impacts that lead to a more drawn out recovery over the next two to three years.

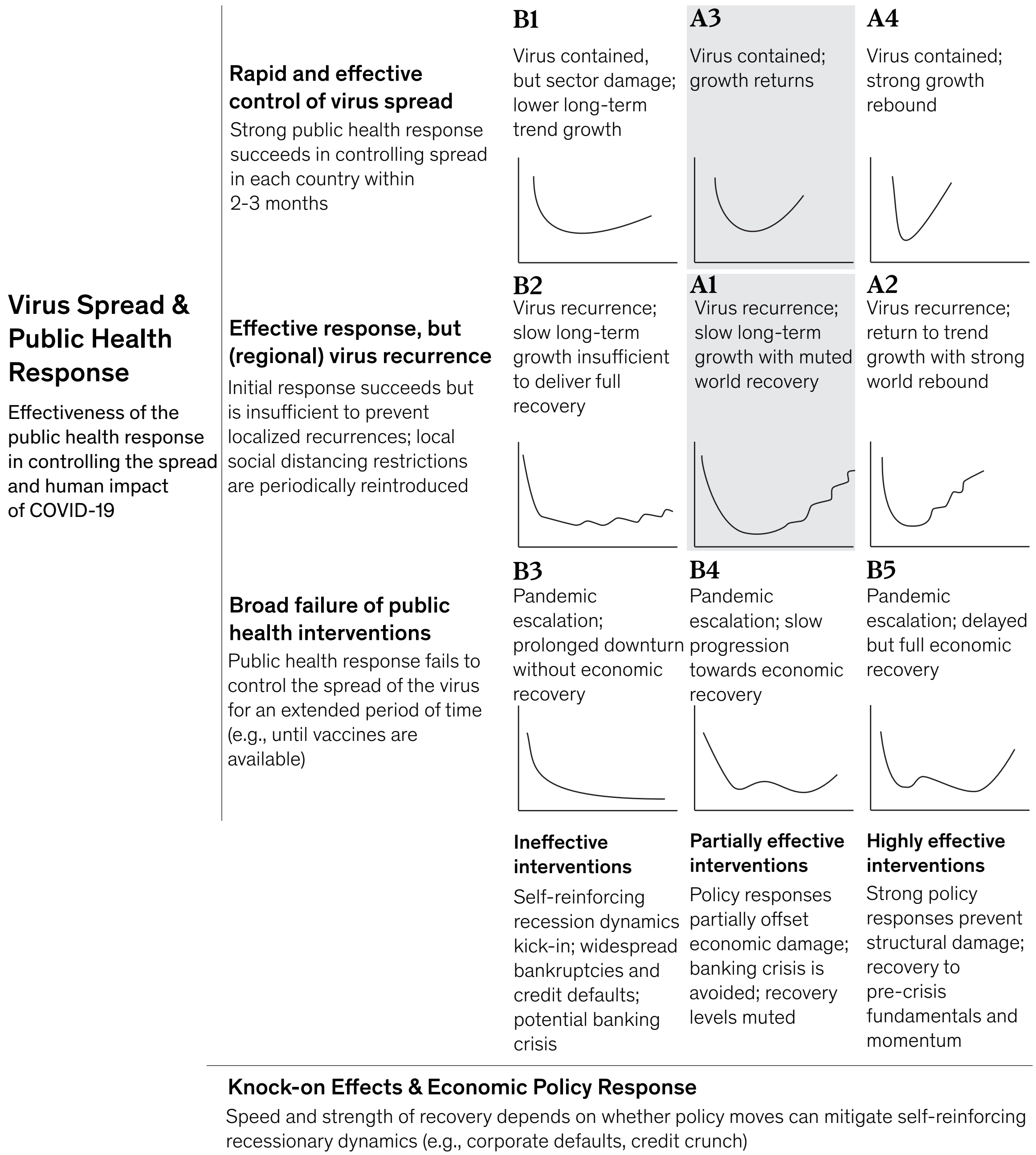
How soon the recovery begins and how quickly it gains momentum will, of course, be major factors in determining the potential for growth available to wealth managers, in line with the growth trajectory of Asian investors' PFA. Depending on which of the three scenarios plays out, the Asian wealth management industry's new revenue over the next five years could significantly undershoot previous projections.

As of year-end 2019, Asia's wealth management revenue pools stood at an estimated $90 billion[7] and (prior to the COVID-19 pandemic) had been forecast to grow by approximately $70 billion in new revenue in 2025. By contrast,

Exhibit 5

We modelled Asia wealth management numbers against 2 (of 9) McKinsey scenarios viewed most probable.

GDP Impact of COVID-19 Spread, Public Health Response, and Economic Policies



Source: In the tunnel: Executive expectations about the shape of the coronavirus crisis, McKinsey article, Apr 2020 forecasts using the assumptions of our "muted recovery" scenario indicate that incremental revenues would reach approximately $25 billion in 2025, with total projected revenue for 2025 being 30 percent less than the original forecast (Exhibit 6).

What is more, the cost structure for the industry will likely change as the customer segment mix evolves, with affluent and mass-affluent segments projected to account for approximately 50 to 60 percent of onshore revenue pools by 2025. Organizations will need to think carefully about how their operating models must evolve to ensure channel rationalization and optimization aligned to the customer segments with direct impact on business economics (Exhibit 7).

Each scenario shows that the COVID-19 crisis will in all likelihood lead to smaller revenue pools for Asia's wealth management industry over the short to medium term than had been projected until the start of this year. They also suggest, however, that investor wealth levels would revert to historical growth rates by 2023. Wealth management firms must, therefore, compete more aggressively than ever to address customers' needs and build market share.

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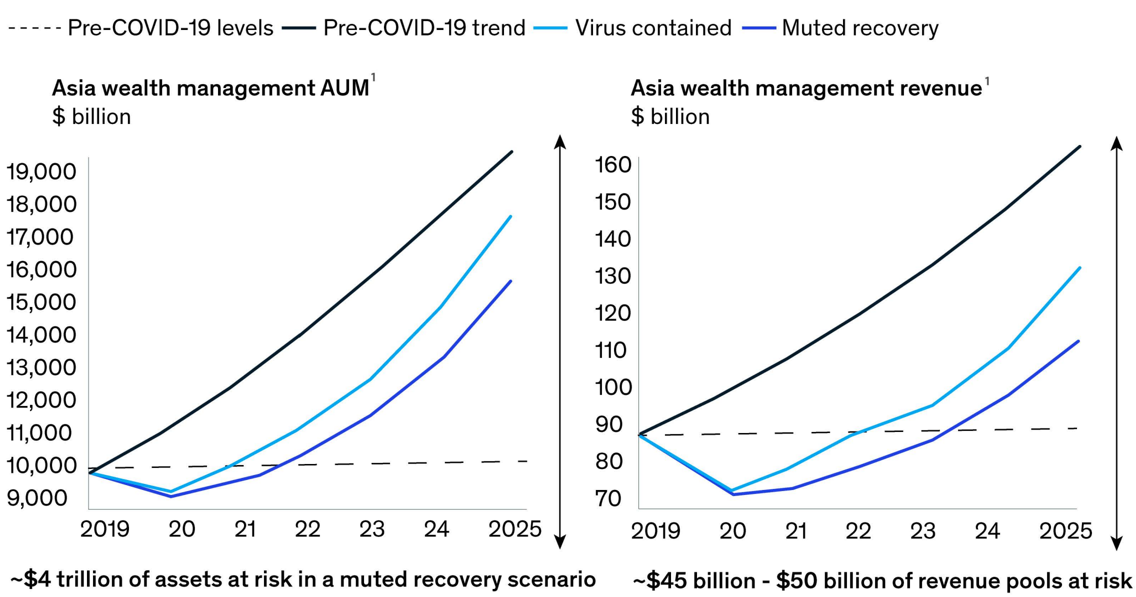
7 As of 2019, based on McKinsey analysis. Includes revenues from both offshore and onshore assets of wealth management customers with PFA above $100,000.

Exhibit 6

COVID-19 could reduce Asian wealth management revenue for 2025 by 30 percent in a "muted recovery" scenario.



[1] Includes onshore and offshore. China is the largest contributor of Asia PFA at ~35%; the model assumes its share of PFA constant across the scenarios.
Source: McKinsey Private Banking Survey; McKinsey Banking Pools; McKinsey analysis

Exhibit 7

Affluent and mass-affluent segments are expected to account for 50-60% of onshore incremental revenue pools by 2025.

Muted recovery scenario (A1) | Virus contained scenario (A3) | CAGR 2019-25

Segmentation based on financial wealth		2019 AUM $ billion	Incremental AUM by 2025 $ billion (A1)	Incremental AUM by 2025 $ billion (A3)	Incremental revenue by 2025 $ billion (A1)	Incremental revenue by 2025 $ billion (A3)
On-shore						
UHNW	**>25 M**	~ 850	~ 550	~750	~ 1 - 2	~ 3 - 4
HNW	**1M – 25M**	~ 2,700	~ 1,150	~ 1,550	~ 4 - 5	~ 8 - 9
Affluent	**250K – 1M**	~ 1,300	~ 900	~ 1,300	~ 5 - 6	~ 10 - 12
Mass-affluent	**100K – 250K**	~ 600	~ 650	~ 1,000	~ 5 - 6	~ 8 - 10
	Total	~ 5,500	~ 3,250	~ 4,600	~ 15 - 19	~ 29 - 35

~50-60% of the onshore incremental revenue pools driven by affluent and mass-affluent segments

Source:McKinsey Private Banking Survey; McKinsey Banking Pools; McKinsey analysis

As customer needs vary by segment and geography, firms will need to craft their strategy in line with their core value proposition and strategic aspiration for the post-COVID-19 world.

For example, international wealth managers operating in offshore locations may choose to double down on their share of wallet among the current HNW+ client base, while in parallel identifying and prioritizing onshore market opportunities and the mode of market entry and/or business growth. Onshore retail banks and insurance firms, by contrast, may elect to double down on the affluent and mass-affluent opportunity with a modular advisory offering leveraging digital as the central building block for a scalable and low-cost business.

In the following section, we examine the four pillars of the next normal and the building blocks that each wealth management firm must assemble in order to reinvent itself. The Appendix outlines the growth opportunities available primarily to three types of firms—local and regional banks, insurance companies, and international wealth management firms—and the crucial steps required to overcome the challenges inherent to each business model, as firms seek to capture new growth and increase market share.

As long as the humanitarian and economic crisis precipitated by the COVID-19 pandemic

Challenges and next steps for wealth managers in a post-COVID-19 world

continues, wealth management firms have two crucial priorities: Maintaining the health and safety of employees and helping investors to remain calm during extreme market volatility. In pursuing these priorities, firms should also undertake steps that will enable them not only to navigate through the current storm but also to lay the foundation for the post-COVID-19 world. This foundation rests upon the four pillars described in previous section: Increased emphasis on operational risk, adoption of digital tools and data analytics, industry consolidation, and a transition to client-centric advisory. Firms must plan the transformation across three temporal horizons, organizing the work required to complete the transformation into a series of building blocks for each pillar (Exhibit 8).

In this section, we examine these building blocks and enumerate additional capabilities which may be required for different types of wealth management firms and the associated customer segments.

1. Increased emphasis on operational risk management

The availability of digital channels has been a mixed blessing to clients and RMs during the COVID-19 crisis, enabling them to keep in touch remotely but also requiring firms to take new steps to control operational risk—the first pillar of the next normal. Going forward, wealth management firms will need to strengthen capabilities in this area, as the traditional focus on investment risk broadens to encompass business continuity planning, cyber risk, and reputational risk. Looking across the three temporal horizons, firms must answer the following questions as they chart their course:

— *In the short term, how will we manage our response to fast-changing conditions, ensuring that our employees stay safe and healthy and that our clients remain calm and continue to have confidence in our operations?*

— *For the medium term, do we have the culture and capabilities required to handle risks related to cyber security?*

— *Over the long term, how will we work with regulators to improve operational risk controls?*

Ensure business continuity

In the short term, that is, as long as physical distancing requirements and market volatility continue, wealth managers must focus on calming nerves and sustaining business operations. Client demand for both execution and advice has already increased significantly at a number of wealth managers, rendering service difficult. In the event of interruption of service or lack of constant, clear communication, clients are likely to become nervous, potentially leading to a loss of business. Wealth managers must mitigate

Exhibit 8

Wealth managers should prioritize their action plan and respond over three time horizons.

	Horizon 1 Active COVID-19 environment, next 2-3 months (ongoing)	**Horizon 2** Next 2-3 quarters post Horizon 1	**Horizon 3** Next 1 - 2 years
A **Increased emphasis on operational risk**	• Set up an **agile, cross-functional COVID-19** nerve center • Enable **safe, friendly remote working conditions**	• Institutionalize **cyber risk guidelines** with required controls and employee awareness of risks • Ensure risk measures are built in the advisory platform	• Engage **proactively with regulators** and develop operational risk scenarios
B **Digital and analytics**	• **Set up remote working infrastructure** • Quick deployment of **customer-facing infrastructure** • **Ensure customer information flow through secured content sharing,** e.g,. digital sign-offs, VCs	• **Build and scale portfolio allocation tools** (RM- or self-guided) and **analytics capabilities (including data lake)** • Launch of remote/**hybrid advisory;** RM **training and upskilling; digital marketing and acquisition efforts**	• Deploy tools such as **RM workbench** and **customer 360-degree view** • **Rationalize physical channels and optimize digital channels** **Change management**
C **Industry consolidation**	• Conduct quick **internal assessment of gaps** in capabilities	• **Develop strategic rationale for M&A (internal and external assessment)** • Prepare for M&A and create short-list of potential targets	• M&A execution and post-merger management • **Realization of value-creation levers (financial and non-financial)**
D **Client-centric advisory**	• **Proactive customer engagement** through RMs and product experts to manage increase in volume of execution/trading activities	• **Appoint a leader/team to execute transition towards advisory/discretionary with work-plan for transition (including pricing, training etc.)** • **Redesign KPIs and incentives,** and communicate changes interactively with employees	• Build pilot client service teams **Change RM and client mindset** away from "active interference" and "frequent trading" • Rationalize **product shelf offering** based on architecture and curation

these risks through three steps:

— *Set up an agile, cross-functional nerve center:* A nerve center should provide timely and coordinated responses, including "a single point of view" for shareholders, the market, and clients, and maintain high levels of employee motivation through troubling times. This nerve center may include four cross-functional teams: 1) A nerve-center coordinating team (headed by a C-level executive and including a project coordinator); 2) a business continuity team (including the head of technology and heads of business) to ensure the safety of on-site and remote work; 3) an internal and external communications team to ensure the right message is developed and delivered to employees, clients, regulators, and shareholders; and 4) a stress-testing and scenario-planning team (led by the CFO) (Exhibit 9).

— *Ensure that remote working conditions are safe, employee-friendly, and well-suited to the work required:* Firms have already shifted their employees' work to remote sessions or staggered work schedules to reduce the number of people in offices. Wealth management leadership must also provide frequent direction (e.g., through clear instructions and frequent check-ins); energizing teams (e.g., replicating normal team setting through video-conferencing, encouraging open communication); and investing in soft features to reinforce group cohesion despite physical remoteness (e.g., a blog or social media space to share market movements, challenging experiences, and success stories).

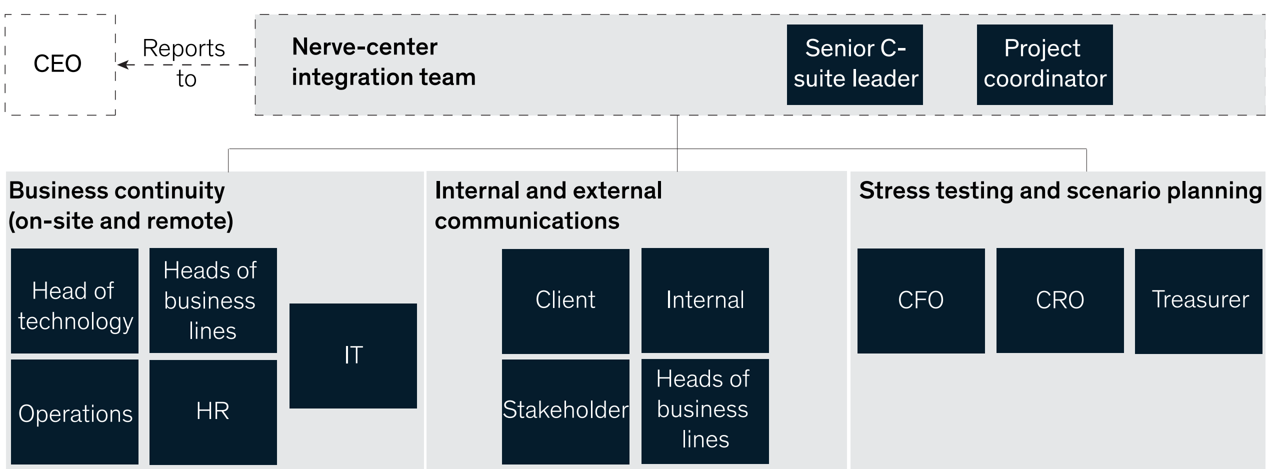
— *Establish regular internal and external communications leveraging technology:* Wealth managers may need to spend a few hours each week engaging with clients on social media platforms such as Reddit, Twitter, WeChat, or WhatsApp, encouraging customers to stay the course in these trying times and potentially take advantage of down markets; the choice to build some of these communication channels either internally or by partnering with a third party will depend on the current technological infrastructure and time to scale up these applications in accordance with regulatory requirements.

Prepare for cyber risk

Over the medium term, as more and more

Exhibit 9

An integrated COVID-19 nerve center can present timely and coordinated responses to immediate threats.



Cross-functional agile teams with members across business units and functions coordinated by nerve-center integration team to manage crisis discovery, decision making, solution design, and execution

Key activities: Safeguarding employees, protecting clients, communications, operations and technology, scenario planning, and strategic decisions for medium to long term

people work remotely, security protocols could potentially weaken and the risk of cyber-attacks could surge. According to a report by Insikt Group, cyber criminals are increasingly exploiting COVID-19 for phishing attacks.[8] Even a single successful phishing attack seriously risks clients' data and could result in significant legal and reputational costs. To combat this, firms must implement controls, keep employees informed, and build resilience.

— *Ensure that required controls are in place,* for example, by shortening patch cycles for systems and introducing virtual private networks (VPNs), end-point protection, cloud interfaces, and other systems essential for securing remote working arrangements. Controls should also include requiring strong passwords and multifactor authentication (MFA) for access to networks and critical applications.

— *Help employees understand the risks.* Firms must take tangible steps to train employees to be vigilant, recognize possible attacks, and follow agreed guidelines to ensure data confidentiality. They should communicate creatively, for example, setting up two-way communication channels that let users post and review questions; posting announcements to pop-up or universal-lock screens; increasing awareness of social engineering around phishing, vishing (voice phishing), and smishing (text phishing) campaigns related to COVID-19 and beyond. Finally, high-risk users should be identified and monitored for behavior (such as unusual bandwidth patterns or bulk downloads) that can indicate security breaches.

— *Build resilience* by adding capacity (e.g., deploying security-team members temporarily at call centers) while employees are installing and setting up basic security tools, such as VPNs and MFA; setting norms for the retention and destruction of physical copies, particularly in light of lack of access to shredders and secure disposal bins at employees' homes; expanding monitoring by updating security-information-and-event-management (SIEM) systems with new rule sets and discovered hashes for novel malware; and clarifying incident-response protocols.

In addition, firms of all sizes need to develop additional capabilities over the long term, in particular strengthening risk culture:

— *Large firms should engage proactively with regulators and develop operational risk scenarios:* Large firms, especially international wealth managers and banks, may be required to set aside additional regulatory capital for worst-case scenarios, including those related to COVID-19. They will need to model such scenarios, estimating the impact on their businesses and then develop action plans for mitigating security risks during a crisis.

— *Small firms should define allocated roles and responsibilities clearly:* In smaller wealth management organizations, e.g., fintech organizations, a single person may assume multiple roles, and employees must be prepared to fulfill broader roles and responsibilities to maintain service without interruption.

2. Adoption of digital tools and data analytics

In contrast to Asian consumers' enthusiastic embrace of mobile apps for payments and retail banking, Asia's wealth management clients have generally been more gradual in adopting digital channels. This is changing with the introduction of physical distancing requirements. We expect that customers in all segments—including HNW+ customers accustomed to frequent face-to-face consultation—will recognize the advantages of digital interactions and continue to use them even as visits to physical branches resume. To support and sustain increased use of digital channels—as the exclusive access channel for some customers and as the first or second among several channels for others—firms will need to build out their digital and data analytics infrastructure to

8 "Capitalizing on coronavirus panic, threat actors target victims worldwide," Insikt Group, March 12, 2020, recordedfuture.com.

support this change in investor behavior. As they begin to design and assemble the building blocks required to support this omni-channel model, they should consider the following questions:

— *First, in the short-term, what can we do now to ensure that clients will continue to prefer digital even after physical distancing requirements are relaxed? What will the short-term cost in IT be to support this shift?*

— *For the medium term, how will we build a superior digital advisory proposition that appeals to clients and RMs alike? Can some of these tools be provided to customers for self-advisory, including self-execution and straight-through-processing of trades?*

— *Finally, looking toward to the long-term, what must we do to ensure that the current shift to digital channels will enable us to optimize our physical distribution channels (e.g., by closing branches and reducing capacity in select branches)?*

We outline below the steps required to expand digital engagement, including investment advice and consultation. Doing this requires capital investments: first, to upgrade technology infrastructure (either by organic or inorganic means) and, second, to hire and train employees in formulating the advisory infrastructure needed to respond to precise client needs.

In the short-term, firms are focusing on continuous communication with clients through digital channels.

— *Engage existing customers with targeted, relevant communication:* Firms are already taking advantage of digital channels like email and social media to keep clients informed about the actions they are taking to ensure business continuity. They can and should go further immediately, within the short-term horizon, to engage proactively with investors; for example, by inviting them to air their concerns through diverse formats, including customer forums and webinars with asset managers, portfolio managers, and market experts.

— *Deploy client-facing digital infrastructure:* Tech teams will need to adapt the infrastructure with an eye for quick wins as well as develop medium- and long-term execution plans. This may require leveraging third-party mobile and web tools for client communication in the short term. Firms must be careful to secure these tools with robust risk capabilities to ensure privacy and data confidentiality for secured content sharing and remote client engagement. Accordingly, firms should select a vendor and negotiate pricing promptly in order to reduce time to market. A quick ramp up of the essentials, that is, remote working infrastructure and a secured client communication channel, could potentially entail an investment of approximately $2 million to $3 million while working with a third-party vendor. Obviously, the quantum will differ across firms based on their existing technology infrastructure and size.

Establish advisory tools and capabilities

As the crisis subsides, firms should prepare for both RM-led professional management advisory solutions and digital allocation tools for self-guided investors. In many cases, these solutions will require significant capital investments in the medium term to upgrade the firm's digital and analytics capabilities.

— *Establish the digital advisory infrastructure,* starting with client prospecting tools and portfolio construction and rebalancing tools (including risk reviews of customer information flows, client suitability assessment, pre-trade checks, and needs-based goals analysis for investment offers/proposals). Pursuing multiple iterations to refine these models, interdisciplinary teams should build a diagnostics engine for goals-based advisory solutions, automatic rebalancing of portfolios, and access restriction of the digital functionalities on the platform by customer segment, among other things. This carries an increased fiduciary responsibility for firms to ensure the robustness of the digital risk infrastructure.

— *Establish the analytics capability* to support the construction of risk- and needs-based portfolios for informed investment decision making by customers as well as RMs. A combination of internal and external, traditional and non-traditional data sources and advanced analytics and machine learning use cases could be deployed to this end. For example, building vast data reservoirs (that is, secure "data lakes") and using advanced analytics and machine learning to establish micro-segments based on customer needs and behaviors could be a first step toward generating individually tailored offers. Automating the ingestion and analysis of public filings through neuro linguistic programming to increase efficiency in research, compliance, and other areas would be another. Building data reserves and advanced analytical models will expose wealth managers to new risks which must be identified and mitigated.

Design and launch the digital advisory proposition

Across the medium to long term, this infrastructure can be extended to self-guided, digitally inclined customers with a clearly defined strategy for the digital advisory proposition (Exhibit 10). A crucial priority for the medium term is to develop a digital strategy addressing *what*, *when*, and *who*: The strategy should, first, detail

Exhibit 10

There are 14 key building blocks for launching digital proposition.

3 components of digital advisory

1. Goal-based model portfolio
2. Portfolio analytics and advice for rebalancing
3. Machine Learning

Key building blocks for developing a digital advisory proposition

Key questions / Essential building blocks

'What' product?
1. Creation of risk profiles as per goals/ investing behavior
2. Asset allocation model with house view
3. Curated underlying financial instruments
4. Process to invest/ rebalance investments
5. Internal tools to manage the portfolios
6. Digital front-end interface for clients

'When?' Go-to-market strategy
7. Target customer segments to win
8. Servicing/ delivery model
9. Pricing structure/ revenue model
10. Digital marketing/ customer migration or acquisition process

'Who' will do it?
11. Developers
12. Digital marketing team and growth analytics
13. Investment professionals
14. Support functions (HR, finance, legal, compliance, etc.)

Source: McKinsey analysis

"what" products the customer will need; second, define the "go-to-market" timeline for a prompt, agile delivery; and, third, identify which business and technology executives will be responsible for ensuring the success of the digital advisory proposition.

— *Pilot digital advisory capabilities* with a select set of existing customers and then ramp up in waves to engage the full customer base. Firms should analyze customer behaviors to understand which customer segments are likely to adopt digital tools. In addition, firms should develop a clear communication and marketing strategy highlighting the benefits of digital channels and possibly offering time-limited incentives; for example, discounted brokerage rates, or a number of remote/on-line financial planning sessions at no cost.

— *Fire up digital marketing for new acquisition:* Leading firms are already working towards establishing agile digital marketing pods integrating analytics, cutting-edge marketing apps, and agile best-practices to accelerate digital customer acquisition. Going the last mile in this effort requires ensuring seamless end-to-end acquisition journeys for the top three to five use cases (e.g., know-your-customer reviews, document submission) and managing the marketing funnel, e.g., fast-tracking a digital media campaign to engage customers across three or four platforms.

Equip RMs with tools or deploy E2E digital agents

Within the long-term horizon, firms should act swiftly to upgrade and create digital tools, build a mindset for change, and design the coverage model of the future.

— *Build digital tools for RMs,* centered on the RM workbench (with omni-channel engagement, 360-degree portfolio access for retail banking, wealth management, and other divisions). These tools could become important differentiators at a time when clients expect rapid response to the various scenarios their portfolio may encounter. An end-to-end digital and analytics infrastructure for RMs and customers supported by high-powered portfolio analysis will be needed for rapid scaling and should include straight-through processing and order management for self-execution of trades (Exhibit 11).

— *Build a mindset for change:* Moving to digital channels requires new processes, skills, and mindsets. As the shift to digital progresses through the three horizons, clear and frequent communication from the top is crucial for building a new culture, and all employees must understand the risks and costs of holding onto the status quo in a new world. Relationship managers and client-facing teams will need diversified training programs and ongoing support and coaching. Learning-and-development teams and RMs should work together to design multi-channel training programs for clients, including incremental sessions that give clients a chance to become familiar with real-time chat, digital apps for portfolio modeling, and other tools that can supplement (and reduce) voice calls and face-to-face meetings.

— *Prepare for the coverage model of the future:* The central effort for the long-term horizon would be the permanent closure of select physical offices and the optimization of the omnichannel coverage model. This requires a systematic assessment of branch-based activity to determine the optimal balance of physical and digital engagement. This balance, of course, varies by customer segment, and the digital coverage infrastructure must accommodate the needs of diverse customers. For example, in the case of HNW+ private banking clients, the right mix of high-touch and digital enablement may be required, as these clients still expect to talk to their RM for advice across lending, investments, and other bespoke banking services. On the other hand, a purely self-guided digital proposition that works right the first time can cement remotely managed relationships with affluent clients.

Exhibit 11

RM workplace covers all RM functionalities powered by engines that plug into services and core banking system.

Functionalities	RM workplace interfaces	Services	Data layers
Client management and communication	Client documentation Client risk profile (traditional and goal based) Client information Client communication (transactional and formal)	Client profiling Restriction management Interactive strategy comparison	Client
Investment management	Portfolio overview (discretionary, advisory, and execution) Model portfolio CIO information Research Themes and campaigns Investment proposal Portfolio risk analysis Product catalogue Trading	Risk engine Trade/portfolio optimizer Automatic breach management Suitibility check	Portfolio
Basic banking and transactions	Accounts Cards Reporting Lending Payments Money transfers	**AA use cases** Seamless client views STP payment Automated reporting	
RM activity board	Financial performance Operating KPIs Line of credit Individual portfolio Aggregated client book Sales funnel management Actions required Client list	To-do check list Automated alerts and notifications Calendar mgmt	Transaction
RM team management	KPI cockpit Breach report Team communication Library	Paperless workflows Digital audit trail MGMT reporting	Account

Firms can help plot the upgrade of their digital and analytics capabilities by asking: *How many remote centers staffed by senior RMs will be needed for remote engagement with "digital-first" customers? What will the optimal RM-customer mapping be in a digital set-up, on the one hand, and a physical set-up, on the other. Will there be do-it-yourself stores that customers can visit to build their own advisory portfolios? How will we decide which branches to close? Will it depend primarily on neighborhood demographics (e.g., the proportion of millennials and retirees), or will other factors affect the decision?*

3. Industry consolidation: Evaluating candidates for strategic partnerships, mergers, and acquisitions

Based on the assumptions of a "muted recovery" scenario, Asian wealth management could add approximately $25 billion in new revenue in 2025, significantly lower than the $70 billion projected pre-COVID-19. The prospect of a smaller revenue pool poses special challenges for smaller firms and fintechs, which may struggle to grow and raise capital in a constrained market. Seeking an acquirer could be a primary option for many firms. Conversely, well-capitalized firms—whether incumbents or new entrants—will likely seek M&A candidates, evaluating them against pre-established criteria, including the potential to achieve scale efficiencies, increase market share, consolidate capabilities, and strengthen financial returns. All firms, large and small, potential acquirers and targets, should develop a systematic approach to evaluating potential opportunities for partnerships or M&A.

Potential acquirers such as international wealth managers and retail banks intending to grow their wealth management business have no time to lose, as opportunities arise quickly. In the short term, they should assess their existing capability gaps in areas such as customer base, product portfolio, and investment capabilities, channels, geographies, as well as enablers like digital and analytics. How well do existing assets align with the current strategic vision? Over the mid- to long-term horizons, they will need to think more concretely about their strategic priorities for the post-COVID-19 world and the gaps they must fill to achieve their aspirations.

— *Establish strategic rationale for M&A* through internal and external assessments: Firms should align their need for inorganic growth with their overall growth strategy.

  They should start with a detailed assessment of their capabilities and then overlay an external scan of the available capabilities in the market aligned to current and future aspirations. An internal assessment of current capabilities will help to identify the critical gaps. Criteria to evaluate include gaps in products and solutions (active, passive, alternatives, credit and lending, global diversification), alignment of customer segments with the firm's value proposition (HNW+ v. affluent, Millennials v. retirees, or salaried professional v. business owners), geographical footprint (onshore v. offshore), and principal enablers (e.g., technology, mix of digital and physical advisory tools and capabilities).

  Overlaying this analysis with an external market assessment (e.g., identifying which countries have a higher share of digitally engaged millennials) can indicate areas that are potentially ripe for a digital advisory proposition.

  Accordingly, each organization should define selection criteria for identifying suitable targets with the goal of pulling financial and non-financial value levers, including cultural alignment.

— *Create a short-list of potential targets* aligned with investment philosophy: Once the strategic rationale for an M&A search is clear, acquiring firms should develop evaluative criteria to build a long-list of potential options. Broadly, the strategic rationale is four-fold: achieving scale, building market share/entering new markets, consolidating capabilities (e.g., sector expertise, digital talent and technology), or investing in a high-performing business in order to improve financial returns (Exhibit 12). Evaluative criteria may include size of target and ease of aligning governance and risk management.

The long list should include both potential candidates that meet the evaluative criteria as well as those identified through consultations with third-party sources or internal business leaders (ideally a standalone team consisting of leaders from across the firm representing different viewpoints, such as CIO, CRO, CFO, CEO). Following this, the list can be shortened in light of available opportunities, pricing, and prioritization according to evaluation criteria.

— *Prepare to value and execute deals quickly:* During a crisis, targets may experience distress or seek support to expand, and an acquirer must be ready at all times. This could include building automated price monitoring and valuation tools, setting up initial conversations, or reaching out to investment banks to keep a proposal ready.

— *Appoint change leaders in technology and distribution channels:* In parallel to closing the deal, firms should also plan and prepare for integration. To this end, each firm should appoint leaders to be responsible for change management, particularly in the areas of technology and distribution, where operation-level alignment can largely determine the success or failure of a deal. For example, a traditional wealth management firm seeking to acquire digital capabilities needs to overcome the challenge that parts of the business may face while it threatens taking a share of business away from existing (non-digital) channels.

— *Potential targets* may include small niche firms and fintech companies struggling to stay afloat

Exhibit 12

Four strategic rationales for a merger and/or acquisitions.

Typical strategic rationales for M&A deals

Efficiencies of scale

- **Strategy:** Leverage existing operating platform in local markets to **spread fixed costs across larger base of AUM**
- **Evaluation criteria:** Size of target (AUM, revenue), cost optimization and potential synergy between the two organizations

Skills and capabilities

- **Strategy:** Acquire **complementary or competitive** skills and capabilities, eg, client relationships, in-house product capabilities, lending proposition
- **Evaluation criteria:** Depending on the type of capability/ skill needed, eg, number of accounts and cross-selling ratio in case capability needed is client relationship, number of products vis-à-vis top player in case skill needed is product capabilities

Market share/access

- **Strategy:** Strengthen offering and **increase market share** in specific **segments, bands, or geographies**
- **Evaluation criteria: Quality of client assets** and **market standing** in desired segments and geographies, country-specific licenses

Financial investments

- **Strategy:** Focus on investment with **high expected returns** or significant potential for a **successful turnaround**
- **Evaluation criteria:** Ability to generate new money consistently; financial metrics such as AUM, revenue, profitability, share price (in case of publicly traded company)

and raise capital, banks intending to divest their wealth management business, or international firms intending to exit individual countries. They should consider M&A as a potential opportunity, depending on the availability of buyers and the participation of private equity and venture capital firms in the relevant market(s). Preparation should include the following steps:

— *Identify the most attractive prospects:* Through professional networks and third parties (especially investment banks who have relationships with large wealth managers), firms may identify organizations currently exploring opportunities for partnerships or M&A. In addition, firms can leverage internal research capabilities to identify potential buyers and conduct a prompt "SWOT" assessment of strengths, weaknesses, opportunities, and threats as part of initial due diligence.

— *Articulate value proposition:* Firms should also articulate the unique value they bring to an interested buyer. This requires not only a clear understanding of their own strengths and weaknesses, but also a consideration of needs across the industry and the strategic gaps in the assets of attractive prospects. For example, a local wealth manager in Thailand, Indonesia, or India may consider international wealth managers with offshore hubs in Singapore or Hong Kong and focusing on expansion onshore. Accordingly, it may proactively think of ways to serve an acquirer's needs for understanding local markets and gaining access to customers.

— *Conduct parallel negotiations:* In order to maximize acquisition/revenue sharing price as well create the highest value, firms should identify multiple acquisition/partnership opportunities and negotiate in parallel.

The transition to the next normal will exert enormous pressure on smaller organizations, as an increasingly crowded field of competitors divides a revenue pool that will be significantly smaller than had been projected just prior to the appearance of the novel coronavirus. As the third pillar of the next normal, developing a strategy for managing partnerships, mergers, and acquisitions is of equal weight and importance as each of the other pillars.

4. Transition to client-centric advisory

A shift to client-centric discretionary/advisory mandates has already been underway in Asia, albeit at a much slower pace than has been observed in the US and Europe. In anticipation of the rise in investor demand for professional advisory (self-directed or RM-guided) over the medium to long term, wealth management firms must prepare to meet customer needs across target segments. This would require building a holistic view of customer needs and goals, building digital advisory platforms and portfolio allocation engines, while upskilling RMs for advisory and discretionary mandates. Wealth managers who are able to establish trust in their infrastructure for financial advice and demonstrate fiduciary commitment to customers will likely enjoy a strong competitive advantage.

Some customers seek professional advice in the form of a managed portfolio, while others opt for self-guided advisory supported by digital tools. This ongoing transition offers wealth management firms an important opportunity to develop truly customer-centric business models that leverage new technologies and related skillsets to address investors' evolving needs and preferences. For HNW+ customers, this will also require addressing their needs for credit and other banking services. This is a momentous undertaking, requiring far-reaching changes in product design, pricing, and employee training and compensation. In the short term, the priority is to manage a spike in execution-related activities, as clients—according to their risk profiles—will either try to convert their portfolios to cash or take advantage of the increased volatility. In the medium to long term, firms must plan and develop an advisory-based fee model, as well as steer the organization (and clients) through the significant change in skills, solutions, and mindset. This transformation must be directed from the top:

— *Establish a CXO-led team to assess impact and prepare for change:* A project leader (with direct CXO backing and supported by a cross-functional team) should be responsible for assessing the impact of the transition from execution to advisory on each link of the value chain, including products, pricing, and revenue mix. The team should chart a course in response to three questions:

  - *In preparation for the medium term, how do we identify promptly the best options for introducing flexibility in pricing?*
  - *How will we assess current RM skillsets and identify both those who are likely to embrace the fee-based model and those who might move to organizations still running on a commissions model? And, how will we design the communication and education programs required to prepare RMs and customers for the transition?*
  - *And finally, over the long term, how will we rationalize our product offering and embed advice in our solutions? How will our product portfolio change (e.g., from thematic, high-cost investment products to risk-appropriate products aligned to advisory products such as low-cost and high-quality funds, ETFs)?*

— *Evaluate the options for transitioning to flexible pricing:* The change leadership team should introduce flexibility in pricing for customer segments while evaluating the pros and cons of pricing options across the mix of transactional, AUM-based, and subscription-based revenue as per customer needs. It is important to analyze customer segments to identify speculative and transaction-oriented customers for whom AUM-based fees may be a short component of overall pricing as compared to DIY customers, who may be more inclined toward subscription fees. The transition should be planned in waves. For example, 20 to 30 percent of client accounts could be moved to fee-based transactions over a course of 9 to 12 months. Depending upon success, the remaining accounts could move incrementally to the new pricing model (Exhibit 13).

Exhibit 13

Wealth managers should consider a range of pricing options based on target customer preferences.

From account value		From outside of account value	
% of managed assets	**% of value**	**Fixed annual fee**	**Subscription based fee model**
Client pays a % AUM fee to advisor	Client pays a % fair market value as fee to advisor	Client pays an annual financial planning fee to advisor (eg, $5,000)	Client pays an hourly fee (eg, $500/h) to advisor for financial advice/ planning
Advisor fee is pulled directly from fund as a % of AUM	Advisor fee is deducted from a separate money market account/ SMA	Advisor fee is paid separately by client every year as a fixed, pre-agreed amount	Advisor fee on a consultation basis

Source: LIMRA; McKinsey Wealth and Asset Management practice

— *Build "first-wave" client service teams:* In the medium term, firms must identify the RMs who share the vision and sense of purpose for the advisory business and establish a bench of RMs and customer service managers responsible for guiding the first wave of clients through the transition. Train them for the transition and determine the optimal size of account portfolios for each client segment.

— *Conduct RM training:* A fee-based model putting client needs at the center of the business model requires that RMs build up their knowledge, skills, and credentials. This includes moving beyond basic product knowledge to learn behavioral finance, personal finance (inheritance planning, tax planning, estate planning, asset allocation), gaining skills focused on relationship-based consultative sales to serve as a trusted partner and coach and—ideally—credentialed as a certified financial planner (CFP) or the equivalent.

— *Enhance RM productivity:* Evaluate the option of a team-based structure, where an RM relies both on a team of product experts and an RM support team dedicated to client acquisition. This teamwork is vital, as it enhances productivity by freeing RMs to focus on the core activities of servicing and advising clients. Optimal RM-client mapping typically ranges between 30 and 50 customers for each senior private banker actively advising HNW+ clients, and 200 to 250 clients for each RM serving the affluent segment.

— *Prepare for change internally:* As the compensation model changes from commission-based to AUM-based (that is, from gross sales to net sales), companies should devote adequate resources to training RMs and helping employees make the transition to the new business model, which entails fundamental changes in responsibilities, compensation, and mindset. This may also require some investment for a limited period to cover the gap before benefits start to be fully realized.

— *Redesign KPIs and accompanying incentive structure* to reflect each RM's ability to retain and grow AUM. In terms of incentive designs, RMs will see their compensation become less predictable, as their bonus would not be determined by products sold but by the retention and growth in AUM. To manage the short-term impact, firms may introduce a temporary sales bonus (for example, based on the number of discretionary mandates sold) to make up the potential drop in RM compensation.

— *Communicate with employees about changes in compensation.* Engaging formats like interactive modelling and live Q&A can help to secure employee buy-in for the new model by addressing their concerns and giving them time to adapt.

— *Identify and educate clients to change mindsets:* Wealth management firms will need to educate clients to support them in the transition from the old norms of "active interference" and "frequent trading" to the new model of discretionary portfolio management and seeking advice as a service. In the short term, discretionary portfolio mandates and advisory mandates are likely to show negative returns due to the current situation. However, leaders should demonstrate clearly the long-term benefits of the advisory model, including, for example, the potential for higher risk-adjusted returns over time while also improving customer satisfaction by reducing complexity and increasing convenience.

— *Rationalize product shelf offering and embed advice in solutions:* Over the long-term horizon, firms should achieve excellence in designing and developing solutions. This requires, first, product experts who have the skills to embed advice functions within products, for example, a solution for specific goals. The solutions group should also include a team of researchers to conduct due diligence on third-party products, for example, identifying products that serve the customer's best interest, without regard to whether the product is developed in-house or by a third party. Wealth managers should consider carefully the balance of internally designed solutions and those delivered by third-party manufacturers in their offering. Over time, the product shelf should reflect an AUM-based fee model and should be organized according to two factors:

- *Architecture:* Choose between an "open-architecture" model (with products from different manufacturers) and a "closed-architecture" model (with products exclusively from proprietary or single asset management company).
- *Curation:* Choose between a "supermarket" approach to maximize availability irrespective of quality or need and a "highly curated" approach with a short-list of products based on defined client needs and manager/product due diligence.

The transition to client-centric advisory is closely linked with the adoption of digital and analytics capabilities to improve customer experiences and productivity across all segments. For example, building a best-in-class, fully digital customer experience with portfolio allocation tools and access to market research and insights would be crucial for capturing mandates from affluent and mass-affluent self-directed clients. By contrast, for organizations seeking to capture mandates from HNW+ clients, the balance of digital tools, remote advisor interactions, and face-to-face advisor consultations will be significantly different, requiring an omnichannel solution. Enhancing operational risk controls is also integral to the transition to new business models. Finally, in planning the implementation of each pillar across each of three temporal horizons, organizations face the critical choice to "build, buy, or partner." The answer should follow from an unbiased, value-based assessment of the best use of limited capital resources to consolidate scale and capabilities. While each wealth management organization—depending on its size, markets served, and core competencies—will take its own approach to shaping and balancing the building blocks of each pillar, all organizations should give equal weight to each pillar in crafting their strategy for the post-COVID-19 world.

Starting points

As they guide their organizations through the humanitarian and economic challenges posed by the COVID-19 pandemic, wealth management leaders would do well to emphasize the linkages among the pillars of the next normal and ensure that a cross-functional team of C-level leaders directs an enterprise-wide transformation. A "CEO think tank," led by the CEO and including functional heads like chief risk officer, chief digital officer, and the head of human resources working side-by-side with the heads of finance and technology, should provide the vision and sense of purpose necessary for the organization to adopt new tools, acquire new skillsets, and most important, build a new mindset and culture. The questions below may provide a starting point for exploring where an organization stands now and how far it must go to reach its goals.

1. What are the investments and timeframe required to quickly build additional infrastructure to ensure continuity in case of an extended remote working environment?
2. How will we strengthen our communication strategy, including branding, to reassure our stakeholders—employees, clients, partners, shareholders, and regulators—that ours is a healthy and stable organization?
3. How will we transform our core value proposition to increase resilience in face of different economic scenarios, e.g., a virus contained scenario, a muted recovery scenario?
4. What is our vision of the next normal for wealth management in Asia, and how will we add value

in this new world? What are our strategic priorities for moving to the next normal across the short-, medium-, and long-term horizons?

5. How will we create a robust risk culture and infrastructure to recognize and mitigate new threats emerging with increased reliance on digital tools and customer data from diverse sources? What additional investments are needed to mitigate cyber risk? How will we work with regulators to strengthen the resilience of the enterprise and the industry as a whole?

6. What steps must we take to build a digital-first omnichannel delivery model and rationalize our physical branch offices as we emphasize remote consultation and digital advisory? What criteria will we use in determining which branches to scale down and which branches to retool for self-guided digital advisory?

7. In what ways can our organization become more customer centric, and how can we prepare our clients, employees, and systems to shift from execution mandates to the advisory model?

8. Are we prepared to scale the technology and organizational infrastructure required for the operating model we envision for the next normal? Which elements will we build, and which will we acquire through partnerships, mergers, or acquisitions?

Whether it seeks to compete in Asia's wealth management market as a new entrant or as an established incumbent, each firm must reinvent itself as an agile and flexible organization in order to thrive in a post-COVID-19 world. This requires an immediate strategic re-assessment of short-, mid-, and long-term priorities. In doing so, a wealth manager should consider what the next normal will look like for the industry and what this implies for the firm's market position and competitive strategy going forward. Firms that see change ahead, chart their path, and advance quickly will thrive in the post-COVID-19 world.

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Appendix: How to excel with new business models in Asia

Having examined the four pillars underpinning the next normal and the building blocks firms must assemble in order to thrive, we turn our attention in this Appendix to the major challenges and opportunities as they pertain to each of the main wealth management business models: local and regional retail banks struggling to create a customer-centric integrated financial advisory ecosystem encompassing banking and wealth management, insurance firms questioning their right to compete in the wealth management industry, and international wealth managers grappling with the shifting equilibrium between offshore and onshore markets (Exhibits 14,15).

Local and regional retail banks: Build an integrated banking and wealth management business for onshore affluent and mass-affluent customers

The opportunity: As the ranks of Asia's affluent and mass-affluent segments continue to grow, local and regional retail banks have a potential opportunity to leverage their trusted brand, extensive networks, and depository relationships to build a customer-centric and trust-based wealth management business. An integrated offering of retail banking and affluent wealth management would be the natural extension of current capabilities.

Challenges: Retail banks have been late movers in wealth management, and those that aspire to build a wealth management business face diverse challenges. Many banks have separate, "siloed" business lines for retail banking and wealth management, making it difficult to offer an integrated solution. What is more, local and regional banks often lack the data and analytics capabilities to tailor product offerings according to granular needs-based segmentation, resulting in an undifferentiated value proposition. Creating the right data infrastructure for customer analytics and adopting digital broadly across the value chain in a culture that is still paper-heavy in front and back offices remain crucial challenges. High attrition among RMs (as high as 40 to 50 percent) also weaken these banks' ability to gain traction and increase market share.

As volatility in capital markets continues and losses mount during the current crisis, some investors may lose confidence in the advisory capabilities of local banks and transfer assets to international banks, which have stronger brands in wealth advisory.

How to excel:

— *Leverage advanced analytics to create a truly customer-centric business model:* A combination of in-house data and external data sources (including traditional data like credit reports, utility/telco bills and non-traditional data like social media data) can be analyzed to predict changes in customer needs and behaviors with a high degree of accuracy. The banks will need to move away from existing AuM-based high-level segmentation to a granular sub-segmentation built on detailed assessment of needs and behaviors.

Exhibit 14

Firms active in the wealth management market in Asia have opportunities across offshore and onshore markets.

Focus of this section

Types of firms	Affiliation, if any	Offshore opportunities	Onshore opportunities
Local wealth manager	**Affiliated with local banks or brokers** **Affiliated with local insurance companies** **Independent**	Collaborate with international private banks to supplement offshore offering for their existing clients	1 Build an integrated banking and wealth business model for the onshore affluent and mass-affluent segments leveraging digital 2 Build (and partner) to deliver wealth management advisory as the natural complement to life insurance policies
International wealth managers	**Affiliated with global banks or asset managers** **Affiliated with global insurance companies** **Independent**	3 Double down on HNW+ segments in offshore markets by improving advisory capabilities (emphasis on discretionary and advisory mandates) 5 Expand to new client segments by tapping into the offshore family office market	4 Enter new geographies in the onshore market(s), focusing on HNW+ segments and family offices through organic and/or inorganic routes 6 Create a digital-led advisory proposition for affluent and mass-affluent segments (significantly different from the existing "HNW+ DNA")
Non-traditional wealth managers	**Small fintech firms**		Distinctive low-cost advisory solution with best-in-class customer experience for affluent and mass-affluent segments
	Ecosystem firms		E2E wealth management ecosystem while integrating with broader financial and non-financial services, e.g., merchant businesses, often led by tech giants

— *Differentiate solutions and pricing by customer segments* and use diverse channels to ensure that customers can readily determine which solution best serves their banking and wealth management needs. In addition to having a detailed model for addressing customers' service queries and concerns, wealth managers should establish a cadence for onboarding customers.

- *Create an open architecture platform* to offer a balance of internal and third-party solutions to be aligned to the best interest of the customer. Most local banks will need to establish both partnerships with external manufacturers (e.g., public funds and retail private placements) and a strong research capability for due diligence.

- *Create a flexible pricing strategy:* Pricing should be flexible to optimize the value of each customer segment, including usage. This can be achieved, for example, by balancing transaction-based, asset-based, and subscription-based pricing. It is also important to gather feedback from clients through diverse channels.

Exhibit 15

RM workplace covers all RM functionalities powered by engines that plug into services and core banking system.

	Opportunities	Revenue pool 2019, $ billion	Revenue pool 2025, $ billion	
Local retail banks	1 Build an integrated banking and wealth business model for the onshore affluent and mass-affluent segments leveraging digital	22[1]	~33	~42
Local insurance companies	2 Build (and partner) to deliver wealth management advisory as the natural complement to life insurance policies			
International wealth managers	3 **Priority 1:** Double down on HNW+ segments in offshore markets by improving advisory capabilities (emphasis on discretionary and advisory mandates)	18	~20	~22
	4 **Priority 2:** Enter new geographies in the onshore market(s), focusing on HNW+ segments and family offices through organic and/or inorganic routes	29	~35	~41
	5 **Priority 3:** Expand to new client segments by tapping into the offshore family office market	20	~23	~25
	6 **Priority 4:** Create a digital-led advisory proposition for affluent and mass-affluent segments (significantly different from the existing "HNW+ DNA")	16	~21	~26

[1] Local banks and Insurers are aligned to mass-affluent and affluent revenue pools.

- *Communicate pricing tiers and associated benefits:* Wealth managers should communicate clearly the terms, pricing, distinctive solutions, and other benefits for each customer segment across multiple channels of communication (offline and online).

— *Rebuild the organization's technology infrastructure:* To achieve the flexibility and agility required to compete in the next normal, firms will need to rebuild their legacy platforms, leveraging modular design. Agile delivery of innovative applications is crucial to enable RMs to recognize and respond to customer needs across diverse channels, regardless of location.

- *Upgrade data-and-analytics capabilities:* In alignment with the enterprise-wide strategy for advanced data analytics, bank executives should establish a roadmap for prioritizing and developing analytics use cases and form a cross-disciplinary group responsible for implementing the strategy, including data architecture, governance, and security. It is also important to train RMs to incorporate data analytics into their daily activities.

- *Create RM workbench and customer access to 360-degree view of portfolio:* Consolidate diverse tools on an RM workbench, including multi-channel tools for client engagement and communication, investment management (research and news, comprehensive portfolio view, self-guided tools for allocation and balancing), banking (deposits, loans, transactions), RM activity board (e.g., sales funnel management, client list) and RM team engagement (e.g., KPI cockpit, team communication). Banks should also invest in automating back-end technology to reduce processing times, increase accuracy, and support higher RM productivity. Banks should also design digital tools that give customers a 360-degree view of banking and wealth management portfolios, including during remote consultations with RMs.

— *Build a modular advisory and coverage platform:* Based on customer segmentation, the service model should be designed to reflect customer needs and channel preferences. For example, affluent seniors and retirees would potentially require more frequent face-to-face interactions, while millennials in the mass-affluent segment may prefer entirely digital interactions.

- *RM mapping:* The prioritized channels and the potential life-cycle value of relationships will also determine RM/customer mapping, e.g., banks might have an average RM loading of 200-250 affluent customers, while a digital mass-affluent channel can have 1000+ customers per RM with limited interactions in a remote, self-guided model.

- *Update analytics risk governance and controls:* A higher proportion of digital interactions necessitates that risk related to models and data be identified and managed. For example, controls should be put in place to monitor the underlying assumptions and output of portfolio recommendation engines for customers, especially those using self-guided tools to manage goals-based funds (e.g., education, retirement).

- *Understand investment requirement:* A typical digital advisory platform may require an investment of US $30-50 million to build, pilot and launch within 9-12 months; the investment will depend on the current technology infrastructure of the bank and what can be leveraged for the digital wealth offering.

— *Retain and upskill RMs:* RM attrition causes significant customer dissatisfaction, and local wealth managers should address job satisfaction and employee loyalty as a top priority. The major levers include:

- *Training and certification:* While competitive compensation is important (both absolute pay and the mix of base salary and commissions), having a clearly defined training program can lengthen RMs' tenure. Regular formal training, or sponsorship on certification programs, enhances the professional value of the job. Internationally recognized certifications for financial advisors (e.g., CFA) and courses offered by professional associations, training firms, and ed-tech institutions can strengthen both upskilling and retention.

- *Pairing RMs:* A team-based approach can be an effective way to improve experiences for recent hires. For example, a set of junior RMs may report to a senior RM, who is not only responsible for team management and training, but also serves as needed as an investment counsellor to the clients managed by the junior RMs. The senior RMs receive shadow revenue for a share of the portfolios managed by the junior RMs.

— *Clear and attractive career path:* HR functions will need to play bigger roles in the organization as talent retention becomes more and more critical. Organizations should clearly articulate the career trajectory, including the financial and non-financial performance thresholds required for promotion. The career path should also be flexible enough to accommodate different aspirations, e.g., allowing those with managerial ambitions to advance while respecting those who choose to continue as senior RMs interacting frequently with clients. Allowing individual preferences to determine their career path is critical for career satisfaction.

Insurance companies: Provide wealth management, retirement planning, and wealth protection to the affluent/mass-affluent segments

The opportunity: In the broad value chain of wealth advisory, retirement has been one of the biggest gaps in Asian markets. Retirement penetration in Asia[9] is an estimated 20-25 percent of GDP compared to 80 percent in North America and 50-55 percent in Western Europe. Insurance companies are realizing the need to expand their offerings as a natural extension of their capabilities and solutions. Various insurance products, including life insurance, often lead to multi-decade customer relationships and provide a solid basis for long-term wealth advisory. Financial planning done by insurance advisors can be converted into a full wealth advisory process, leveraging similar skillsets and knowledge.

Challenges: Though there is synergy between insurance and wealth management, organizational changes are still required for a smooth transition, particularly in the areas of agent reskilling, product management (including cannibalization), and rapid technology upgrades to accommodate digital propositions that reach an insurance company's wide base of mass-affluent and affluent customers. Despite these challenges, Asian insurers have a potential opportunity to catch up with traditional incumbents and create an end-to-end advisory infrastructure.

How to excel: Insurance companies will need a detailed transformation roadmap to develop an "advisory DNA" in place of commission-based distribution. To create distinctive end-to-end financial solutions aligned to customers' life-cycle journeys, insurance companies must understand customers' wealth management needs and preferences, prepare RMs for the shift from commissions to advisory fees, and build a new product offering.

— *Survey customers to assess needs:* Insurers should begin by building a comprehensive understanding of customer preferences, including a detailed customer survey to establish a profile of needs and behaviors for each micro-segment. This survey should be organized along three dimensions: financial protection (from "no guarantee" to "principal guarantee + annual return"), asset allocation (from money market, to equity and alternatives), and liquidity needs (e.g., short-term interest-free policy loan, leverage for re-investment). Based on a holistic set of data, agents should then begin to customize portfolios, including insurance products.

— *Support agents in the transition to financial advisory:* Resistance to change can be strong, as agents are accustomed to commissions in the range of 400-600bps[10] on insurance policies, compared to 100-200 bps on mutual funds. Firms must train agents in advisory skills and help them in their pursuit of professional certifications (internally as well as with external wealth management institutes). Agents will require training on products and principles of portfolio management, as explaining investment concepts (e.g., return, volatility) is quite different from explaining insurance products. Hiring programs should focus on salespeople with finance qualifications in order to ensure that customers receive high quality advice and to promote the transition from agents earning high commissions to financial advisors rewarded for building portfolio value over time.

— *Develop product excellence capability:* Wealth solutions spanning the full life cycle and building on life insurance offerings can set an insurance company apart from the competition. There are two ways to structure the offering:

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[10] Varying from country to country in Asia.

- *Option 1: Create an in-house asset management unit:* Build internal product expertise with the aspiration to expand the life insurance portfolio rather than considering it as a cannibalization of existing solutions. Firms will need to adopt a phased approach with an initial target to create a comprehensive financial planning product suite to serve retail investors with combined AM Life-synergies for retirement solutions under the full purview of financial planning. The second phase may address the potential extension of capabilities to serve external institutions, building on strong insurance expertise and the asset management product capability, e.g., liability-based investments, outsourced CIOs for other insurance companies, pension funds, and sovereign wealth funds. Achieving success would depend to a significant extent on the organization's ability to complete the transition to the advisory platform and its ability to align diverse business lines to leverage synergies from the convergence of asset management and life insurance businesses. The remaining building blocks include regulatory licenses, collaboration across business units, training of agents, and sales KPIs.

- *Option 2: Partnership with third-party manufacturers:* The other option is to rely on third-party product manufacturers, which can be a cost-efficient way to speed time to market. However, these partnerships must be governed by contracts detailing how costs, benefits, and liabilities will be shared. In addition, having a distinctive research capability is crucial, and firms must also ensure that they have the right talent for due diligence, manager selection, portfolio analysis, and revenue-sharing agreements. Typically, two to three FTEs are needed to manage fund selection and maintain relationships with external fund houses.

— *Digital platforms (and ecosystems):* Building upon the wealth management strategy explained in Section II and industry case studies, a typical time-frame of more than a year can be expected for an insurance firm to create a digital wealth management platform.

International wealth managers with multiple options to restructure the offshore/onshore equilibrium

International wealth management firms, already facing an increasingly crowded field of competition, must also adapt to rapid changes in Asia's wealth management landscape, as both customers and regulators respond to new pressures arising from the current crisis.

First, offshore hubs have been losing market share to onshore markets for some time, as investors increase their holdings in local markets. Between 2015 and 2019, local banks increased their market share among the top-20 private banks in Asia from 12 to 19 percent, thanks to significantly faster growth in AuM than that achieved by their international peers.[11] This trend is expected to continue and potentially increase during the COVID-19 crisis, as investors seek safety and stability. Second, MiFID II in Europe, RDR[12] in the US, and the adoption of CDR[13] in Asia have focused attention on fee transparency and disclosures, pushing the industry toward advisory fees based on AuM rather than transactions-based commissions. We expect this shift to accelerate in a post-COVID-19 world, as regulatory oversight typically increases following a crisis. In light of these mounting challenges, international firms may be pressed to strengthen the internal business case for continued capital investments in Asia's growth story.

In short, international firms must rethink their strategic vision for Asia and chart a course to increase market share. Some may concentrate on strengthening their leadership

11 Based on Asian Private Banker, McKinsey Asia Private Banking survey and McKinsey analysis.
12 Retail Distribution Review.
13 Common Disclosure Requirements.

in offshore hubs; even more will likely target fast-growing onshore markets in a more broadly diversified strategy. As shown in Exhibit 14, there are four main opportunities available to international firms in Asia: A) doubling down on HNW+ segments in offshore markets, B) serving HNW+ clients and family offices in onshore markets, C) focusing on family offices in offshore markets, and D) creating a digital-led advisory proposition for affluent and mass-affluent segments.

A. Double down on HNW+ segments in offshore markets by improving advisory capabilities

The opportunity: Asia has been slower than the US and Europe to adopt advisory mandates in place of execution mandates. However, rising demand for advisory in volatile markets is expected to accelerate the shift away from execution mandates. In the past two to three years, some of the major private banks operating in the offshore hubs of Hong Kong and Singapore have already seen growth of 20-40 percent in discretionary and bespoke mandates[14] from Asian clients and expect it to grow even further.

Challenges: The opportunity, while well recognized and anticipated among existing firms, entails a herculean task of managing the transformation across RMs, customers, and the broader organization. This has direct implications for how organizations think of the short-term impact on their revenues as the business model transitions from transaction-based fees to advisory fees, which in the long term can be stickier and demonstrably higher (Exhibit 16).

How to excel: International wealth managers, on the back of their existing knowledge of an advisory fee-based model in their home markets (particularly in the US), enjoy a significant advantage against local and regional firms in establishing a distinctive edge. They can play to their perceived independence in providing advice and run a truly customer-centric model. However, this will need time and concentrated effort as discussed above in Section II (Pillar 2, transition to client-centric advisory).

B. Enter new geographies in the onshore market(s) by offering services to the HNW+ and family offices

The opportunity: International firms, with their deep experience in serving HNW+ clients and family offices globally would be best placed to serve onshore investors in emerging markets like India, China, and select countries in Southeast Asia. These markets have a large concentration of such clients, who tend to be reluctant to engage with offshore hubs.

Challenges: As they establish an onshore presence, international firms will need to recognize challenges specific to the local market and learn how to navigate cultural, regulatory, and legal differences.

How to excel: International wealth managers seeking to enter onshore markets should begin by identifying and prioritizing target geographies. In order to successfully execute their expansion plan, they should first create a pilot, e.g., opening a representative office with four to five business development managers to build relationships with family offices, HNW+ investors, and regulators in local markets. They should then explore partnerships with local firms. In some markets, forming a JV with a local firm is a requirement, though in some countries regulators now allow foreign firms to take a controlling stake in JVs. This has two benefits: It enables foreign firms to have faster access to markets and a stronger presence in the country, as well as providing offshore capabilities, global diversification of products, and transfer of institutionalized wealth management know-how. A detailed plan of execution follows:

— *Identify and prioritize markets:* In order to enter onshore wealth management markets, firms need to have a clear view of the

[14] https://www.bloomberg.com/news/articles/2019-02-20/asia-s-richest-delight-banks-by-abandoning-their-trading-egos.

Exhibit 16

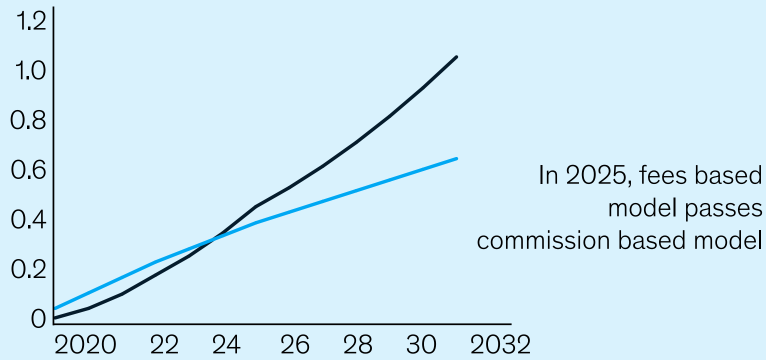
Fee-based model can generate greater revenue over the mid to long terms, making revenue model diversity attractive to WM firms.

USA EXAMPLE—ILLUSTRATIVE

Assumptions

- Advisors A and B start wealth management business in 2020 and gather $2M of (additional) AUM each year, i.e. cumulative $6M by third year and so on
- **Advisor A (commission-based):** charges commissions on AUM "brought in" each year[1]
  - Starting with average 3% commissions through year 4, drops to 2.5% from year 5 through year 7 and eventually settles at 2%, as bigger clients come onboard hitting higher breakpoints and reducing sales charges
  - A 0.25% ongoing distribution fee (e.g., 12b-1 fee in US) has been added on top
- **Advisor B (fee-based):** charges fee of 1% on cumulative AUM[2] through year 4, 0.8% from year 5 through year 7 and 0.5% eventually

Annual revenues, A vs B[3]
$ million



- Due to compounding effect, Advisor B finishes with 60% more revenues than advisor A after 12 years
- If at any point both advisors stop bringing in new clients, the fee-based advisor's income continues, while commission-based advisor's, income will drop quickly

[1] Advisor A revenues = (annual cash-flow * commissions) + (cumulative AUM * distribution fee)
[2] Advisor B revenues = cumulative AuM * 1%
[3] For the purposes of illustration only and contains simplified assumptions such as no redemption

addressable market opportunity across four lenses:

- *Size the opportunity (revenue and profit pools, margins, growth rate):* Asia's markets are heterogenous, and it is important to understand their subtle distinctions. Some markets, e.g., China, may appear to have high potential for growth; however, building the business requires a long-term orientation to allow time for the organization to adjust to the local culture, regulatory environment, and legal system. By contrast, Southeast Asian countries generally offer smaller opportunity pools, but international firms can access the needed infrastructure and league tables much faster. Firms must prioritize the key markets in line with their business aspiration and value proposition.
- *Assess competitive and regulatory landscape* (existing competitors, regulatory restrictions, licensing requirements, and more): Some markets may be more focused on developing local infrastructure and tightening controls on capital outflows. It is important to clarify the relative importance of onshore and offshore markets in the firm's strategic vision before budgeting the capital investment and anticipated return.
- *Assess local capabilities* (availability of talent, digital capabilities of customer segments, local risk infrastructure): It is preferable both economically and culturally to build or acquire infrastructure

and capabilities locally rather than importing foreign capabilities into local markets on a rotation basis.

- *Identify synergies with the group* (Alignment with enterprise global strategy, potential for linkages with other offerings): International banks must build the business case for investments in the Asian growth opportunity and detail the plan by country.

— *Develop and deliver core value proposition:* While creating an initial foundation or exploring partnerships, the core value proposition must be developed and clearly articulated within the scope of regulatory standards, e.g., an international wealth management firm may offer a wide range of product offerings if it has access to strong product development capabilities (public and private placements); funding and provision of lending to local consumers if it is part of a large bank that already has a significant presence in Asia; learnings from advisory fee-based models that can potentially be implemented in the local environment; and digital wealth management capabilities such as single customer view and automated risk engines (as discussed in Section II above).

— *For partnerships, a firm should plan each step carefully, from due diligence through scaling up.*

- *Conduct due diligence to identify partners in target markets:* As local firms tend to have close relationships with regulators and hold significant customer deposits, a partnership would enable foreign firms to have faster access to markets and a stronger presence. International firms, on the other hand, could bring to the table offshore capabilities, global diversification of products, and transfer of institutionalized wealth management know-how. Firms must conduct proper due diligence to screen local candidates, considering in particular local firms' customer base, distribution network, digital capabilities, and more.

- *Create a cost competitive model:* To compete in local markets, international firms must deliver superior service at low cost. This could mean scaling down the use of expensive senior RMs, emphasizing digital engagement and self-service channels, and rationalizing the product offering according to local demand. Collaboration with fintech or other enterprise productivity startups should be considered to create to a much more cost-competitive model.

- *Scale infrastructure capabilities, including RM hiring:* Firms should seek RMs who share linguistic and cultural ties with the local community. Creating an employee value proposition attractive to RMs with experience and relationships in the local market is often the most efficient way to enter.

- *Have a clear business plan with estimation of required investments and clear revenue sharing plan: T*ypical new market entry can entail an investment of US $30-40 million over the first two to three years for labor and capital. However, under a revenue-sharing scheme, international firms would be able to access local firms' customer base, distribution network, and connections with regulators.

C. Expand to new client segments by tapping into the offshore family office market

The opportunity: Family offices (FOs) are growing in popularity among HNW+ clients in offshore hubs, offering comprehensive financial and non-financial services, consolidation of banking relationships, and central reporting, as well as scale in asset pooling. There are two types of family offices in Asia: the first is single-family offices, which handle large amounts of assets (usually approximately US $1 billion) and are typically run by senior private bankers. As the name suggests, a single-family office is dedicated to one family and is responsible for growing the family's wealth and supporting its commercial and financial aspirations; the second type is multi-family offices, a fast-growing segment of organizations serving new wealth families (with up to US $1 billion in assets) who lack the time and resources to set up a single-family office and, therefore, outsource many functions to multi-family offices. While single-family offices are best suited to clients with significant AuM, multi-family offices are appealing to those who do not need highly personalized service but still want to enjoy the scale advantages that come from pooling investment assets, which will enable the multi-family offices to negotiate better transaction costs with banks. If pooled assets are sufficient, multi-family office clients may be treated as institutional clients, further lowering their costs.

Challenges: In order to build a dedicated service line for FOs, wealth managers need to bring together the best of group offerings by leveraging their existing platform and infrastructure. This would require substantial alignment across business units on an ongoing basis.

How to excel:

— *Set up FOs service lines:* Create a dedicated team to serve family offices, under a branded program that promotes a sense of dedication and privilege. The team should be led by an RM with experience in family offices, e.g., an RM formerly employed by a multi-family office. A one-bank model could be emphasized here, as the family office service line acts as a single point of contact to access resources throughout the bank. Within the service line, there should also be business developers who maintain relationships with external service providers, in fields such as tax and legal advice. The needed team and infrastructure will vary across organizations building on the existing infrastructure, e.g., custodial and brokerage services within the existing banking infrastructure.

— *Use existing banking infrastructure to act as a service provider:* International wealth managers already have the banking capabilities in place and only need to use the dedicated service line to connect FOs to the banking platform. International firms can reinforce relationships with FOs by providing non-financial services (e.g., cloud-based accounting, payroll, and human resources solutions), some of which can be provided through partnerships with third parties. Building a community of FOs with networking events, seminars, and knowledge sharing programs is another way to increase client loyalty.

— *Set-up a transparent fee structure, either based on service or solutions:* Families have diverse financial needs, and FOs are increasingly looking to wealth managers (primarily private banks) to help them meet these needs. Some wealth managers assist families in setting up and managing their respective FOs. Family needs typically span three categories, with fee structures varying according to scope of service.

- *Succession planning and wealth protection:* This can include guidance to FOs for sustaining families through successive generations as well-tailored insurance solutions for intra-generational wealth transfer. A full suite of services should address the entire scope of the family's assets and detailed, in-depth discussions. Consequently, the fees for these services would typically be the highest.
- *Investment management:* This can include a variety of services, ranging from managing a family's entire investment portfolio to providing advisory services or providing execution-oriented services for self-directed investor families. The fee structure should reflect the level of service.
- *Banking needs including financing:* This involves leveraging a "one bank" model, for which international wealth managers with associated banking services are well suited. Family needs for banking vary from premier credit cards to foreign exchange transfers to facilitate global movement of assets. Some families may also need access to credit, including needs as diverse as residential mortgages and aircraft loans for personal and business

jets. Fees charged for such services would be ad-hoc and needs-based.

D. Create a digital-led advisory proposition for affluent and mass-affluent segments

The opportunity: The affluent and mass-affluent segments account for approximately 35 percent of onshore AuM in Asia as of 2020 and are expected to rise to approximately 40 percent by 2025. This fast-growing, relatively young segment offers international firms an opportunity to establish long-lasting relationships with potential for significant growth.

Challenges: Many, if not most, international organizations have long focused primarily or exclusively on the HNW+ segments, and creating an affluent offering requires a significant change in mindset and a new coverage model centered on digital tools. The three crucial steps to capture this opportunity are building a dedicated service line, developing the appropriate RM capabilities, and establishing the necessary digital capabilities.

How to excel:

— *Launch dedicated and tailored service proposition for affluent investors:* Serving HNW+ clients is written into the DNA of international wealth management firms, and firms must manage all aspects of the new focus on the affluent and mass-affluent segments, potentially creating a separate business vertical, while leveraging internal products and capabilities originally developed for HNW+ customers and restructuring the business model. Ultimately, it is important to reduce reliance on expensive RM-led, high-touch consultation in favor of digital tools and to determine the right balance of digital and human interaction to optimize productivity for each sub-segment.

— *Build new RM capabilities:* Firms newly focusing on the affluent and mass-affluent segments will need to build a new team of RMs. These RMs must first have proven sales skills and strong relationships within the local community (including cultural and/or linguistic ties). The advisory needs of affluent and mass-affluent clients typically do not require knowledge of advanced economics and complex financial instruments, and many RMs in this service line may come from non-financial backgrounds.

— *Set up digital capabilities:* Serving these segments requires a robust digital platform, and firms will need to attract new talent in order to build digital tech and data analytics teams to support operations. Digital marketing, for example, should be a main channel of customer acquisition. Robo-advisory should be the main channel of giving investment advice and designing portfolios. Much of the technology can either be developed or adapted in-house or by partnering with start-ups.