COVID-19 Roundtable asset & wealth management

The need for analyzing the impact of COVID-19 on the business

April 2020







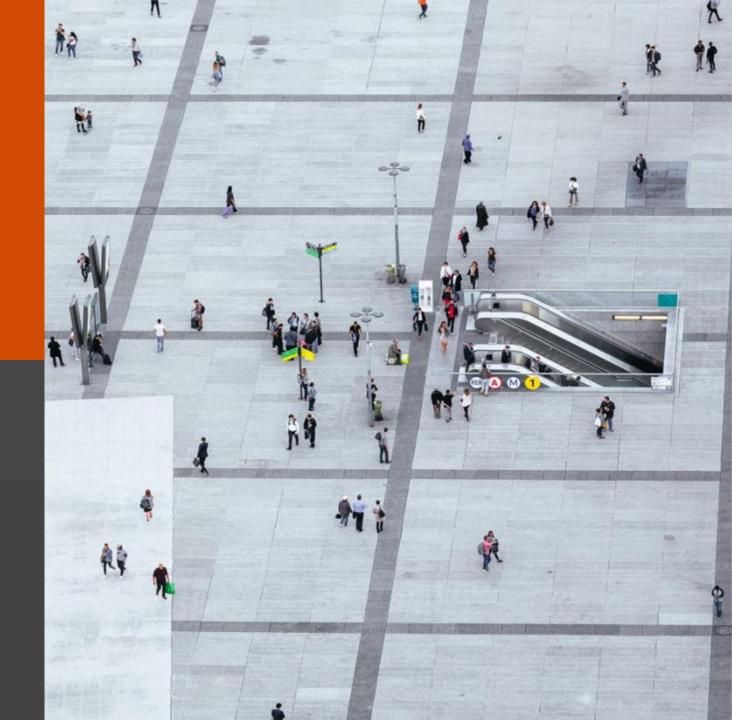
Roundtable: business impact of COVID-19 for Asset Managers

- Introduction: Iris van de Looij (Dufas) and Patrick Heisen (PwC)
- Impact analysis, why is this important?
- Deep dive 'Impact on Markets'
- Deep dive 'Impact on Finance'
- Deep dive 'Impact on Sourcing Strategy'

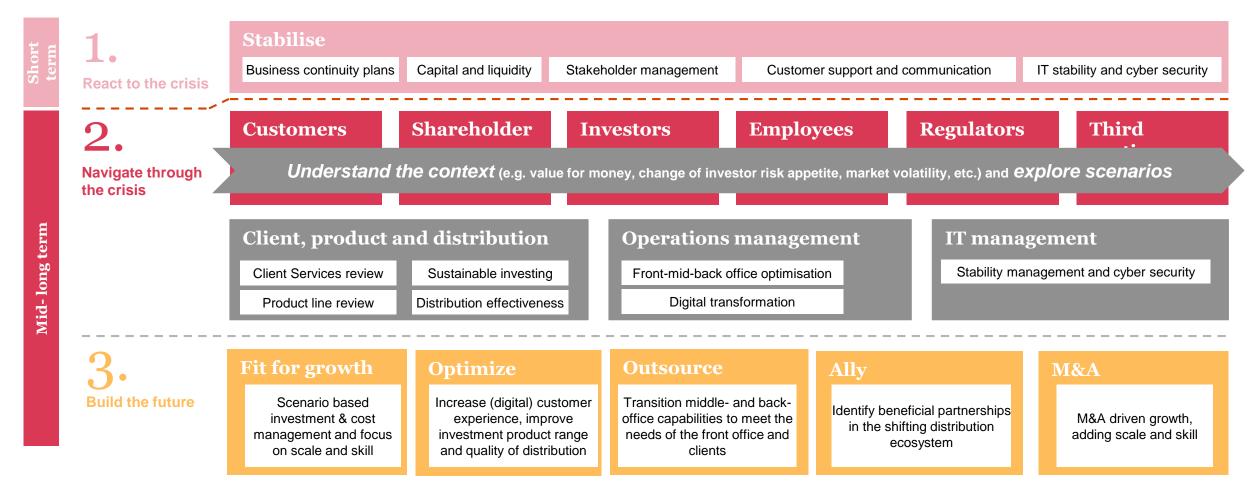
Impact analysis Why is this important?

Patrick Heisen





Resilience in the current situation is going beyond successful crisis management – strategize and capitalize on arising opportunities



Stay in control during all the stages of the pandemic by using scenario's to understand implications for markets, finance, operations and workforce and develop plans and responses

Deep dive Impact on Markets:

What are your clients doing to tackle the COVID-19 crisis?

Patrick Heisen





How insurance companies are dealing with the COVID-19 crisis



Stabilize

- Default and rating pressures lead to jumps in risk premiums for fixed income portfolio and loan/mortgage portfolio.
- VA spread on liabilities reached alltime high in March 2020, due to increasing spreads in corporate and government bonds, leading to capital relief.
- What if the VA relief remains this high; all depends on credit ratings, future defaults, and what's going to happen with the risk-free rate.



Analysis & inform

- Review applicability of risk framework and triggers set.
- Use scenarios to derive effect of potential future developments when reviewing investment portfolios:
 - Revaluations of (non-)listed assets and increased expected credit losses.
 - Re-risking/de-risking of asset mix.
 - Alternative investments (illiquid investments, M&A).
 - · ESG investments.



Restructure & Plan

- Reperform ALM study
- Update investment and/or reinsurance mandates.
- Use **innovation** capabilities to reposition the business in the light of the COVID-19 pandemic and beyond.

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How pension funds are dealing with the COVID-19 crisis



Stabilize

- Market developments result in risk premiums for fixed income portfolio (including loans/mortgages), falling equity markets and declining interest rates resulted in a sharp decrease in pension funds' funding ratios.
- Faced with a breach of risk limits (allocation, cash, concentration) resulting in reconsidering rebalancing.
- Increased communication to stakeholders of pension fund



Analysis & inform

- Use scenarios to assess the effect of potential future developments when reviewing investment portfolios:
 - Assess the viability of the employer and/or sector and pension liabilities.
 - Revaluations of (non-)listed assets and expected credit losses.
 - Re-evaluate on managing long-term ambition and short-term risk?
 - Re-risking/de-risking of asset mix (including alternative investments).
 - Rethink traditional methods, models and ESG strategy.



Restructure & Plan

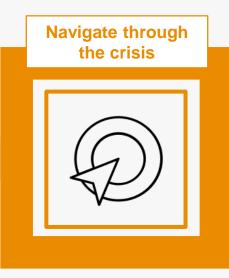
- (Re)perform recovery plan.
- Strategic review on Pension Reform and pension scheme (employer) f.e. DC.
- Reperform ALM study, a review of the investment policy and update investment strategies accordingly.
- Review sustainable investment framework and update in case applicable.
- Reassess the communication towards participants.

How retail investors are dealing with the COVID-19 crisis



Stabilize

- Investment funds suffered redemptions in March due to COVID-19, with bond funds showing higher outflows than equity funds (potentially to counterbalance the losses in equity markets or to raise cash by selling the most secure and liquid assets.
- Despite the challenges posed by COVID-19, fund flows have continued in some instances as investors increasingly use digital channels.



Analysis & inform

- COVID-19 could be life-altering event many individual investors (i.e. illness, loss of employment/income, decrease in the value of their investments), which means KYC information needs to be updated.
- Risk appetite could be changed due to risk aversion behavior.
- Use scenario analysis to answer questions around portfolio rebalancing, potential shifts in asset allocation, and positioning portfolio.
- Inform client on strategic economic outlook.



Restructure & Plan

- Reevaluate investment plans as part of personal finance.
- Based on **risk capacity** (if changes due to financial position, income) and **risk appetite**.
- Visualize (dashboarding or reporting) outcomes of planning to investors on their individual objectives and uncertainties.

Understanding the *investor perspectives*, asset managers need to have insights in risks and opportunities to take measures



Customers

- Possible changes of client base due to consolidating market
- Change of investor preferences
 - Asset mix (re-risking, derisking)
 - Investment strategy (value for money)
 - Asset manager (investor perspectives)
- Be clear on your purpose in a consolidating buyers market



Products

- Search for attractive (direct) investment opportunities.
- Robustness of the investment product portfolio
- A need for appropriate diversification of the investment portfolio driven by product innovation.



Services

- More and tailored service for less money
- Ask for more transparency
- Digitization integrated in client servicing and reporting



Channels

- Digital customer journey integrated in the distribution strategy.
- Including investor preferences in reevaluating the quality of distribution platforms and partners

Question

What change of investor preferences will have the largest impact on the market strategy?

Deep Dive Impact on Finance: 'Pressure on profitability'

Jesse IJspeert





Two sides of the same coin

Balance sheet management Reporting Revenues **Operational expenses** Covid-19 impact Declining performance due to Increased regulatory scrutiny on Increased operational risk will lead Potential additional reporting volatility in the market asset managers continue to result to extra required capital towards investors to keep them in extra compliance related informed · Price pressure accelerates, also · Regulator is challenging more and expenses towards safe havens such as more the ICAAP of asset Additional disclosures in the annual alternatives, as the AuM-pie gets The new 1,5 meter working managers. Additional capital report (directors' report, going temporarily smaller environment requires additional requirements are expected concern paragraph, subsequent investments from employers events) Search for yield and capital requirements might result in asset reallocation Valuation of illiquid assets is more challenging Opportunities Performance-linked, fulcrum or other fee structures Further market consolidation Digital transformation **Cross-selling** Outsourcing Niche markets Operational excellence strategy implementation

Question

Are you prepared enough for the threats and opportunities in the medium term?

Deep dive 'Impact on sourcing strategy'

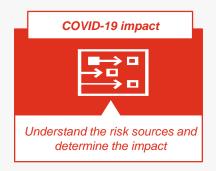
Manoël de Goeij



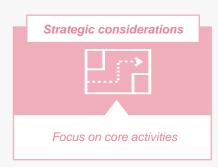


Make/buy/ally?

Outsourcing – Securing the future through 'right-sourcing' strategies



- Business continuity outsourcing partners
- Increased pressure to save cost
- Changing customer needs



- Determine which core activities are considered strategic
- Unlock operational efficiencies and reduce the cost base
- Leverage large scale benefits

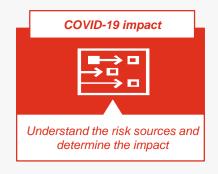


- Carefully consider the important aspects in the business model and its complexities
- Identify critical touch points for communication with clients to drive the outsourcing process
- Remain in control over operational processes and manage clients' expectations
- Where relevant timely involve the regulatory authorities

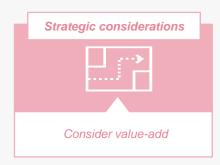
15

Make/buy/ally?

Partnerships and M&A – Market leaders have already started to position themselves by acquiring vertically, horizontally or both



- Changing customer needs with regards to asset classes and strategies
- Increased pressure to save cost
- More urgency to rethink the distribution strategy



- Develop specific skills in a specific area
- Enhance scale and acquire expertise in new asset classes, gain access to new distribution channels and markets



- Take the customers' lens when designing and prioritizing new value propositions
- Build ecosystem deal capability, consistently scan for opportunities and diligently screen partners against clear criteria
- Develop an integration strategy and planning
- · Develop a thorough financial plan
- Clear and timely communication with all the relevant stakeholders

Question

In which area do you expect to take action the coming 12-18 months?

- \overline{A} . Outsourcing
- B. Partnerships
- C. M&A
- D. None business as usual

17

Thank You

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