

COSTS, CLIENTS AND CONDUCT IN THE TIME OF CORONAVIRUS

Like other industries in the UK, wealth and asset management firms are currently grappling with the impact of the coronavirus pandemic on a week by week - if not day by day - basis. With new provisions and restrictions announced daily, uncertainty remains high, and it is paramount that firms stay on a business as usual footing for the sake of their people and clients. As the country battles with the COVID-19 pandemic, the 'three Cs' - cost, clients and conduct - will be their personal frontlines.

REVIEW YOUR COSTS - NOW

The FTSE100 Index has been impacted by the sharp correction in world stock markets caused by COVID-19. On Monday March 23, the Index opened at 5190 - a fall of almost one-third in just over two months. This will feed through to management fees quite quickly, and revenue is likely to be down between 20 and 30 percent. At present, most firms expect prolonged disruption to markets, so firms will have to come to terms with living in a lower income environment for some time to come.

Inevitably, this also means firms must turn their attention to the cost base of their business and look at ways that it could be trimmed further. Executive teams should be asking a number of key questions:

- Given the pressure on revenues, do they have the right operational gearing in their business to manage costs?
- Do they have a clear picture of their operational costs, segmented by lines of business, investment products / offerings and distribution channels?
- Is there an opportunity to achieve some swift benefits by outsourcing adjacent services to third-party suppliers, and accelerating automation and digitisation, particularly where capacity issues have emerged?

THE STRENGTH OF CLIENT RELATIONSHIPS AND SERVICE MODELS

The market volatility generated by the pandemic is testing the agility of wealth and asset managers' operating models, and nowhere more so than when it comes to managing client relationships. MiFID II's 10 percent rule requires money managers to report the value of client positions immediately, which will likely only serve to fuel anxiety amongst the investors. In this environment, opportunities may emerge to provide a distinctive and responsible service to clients that recognises and understands an underlying investor's needs, readjusts the portfolio in their best interest and - crucially - effectively communicates these provisions to the client

The same applies for money managers with institutional books, where the top client management teams are making contact and engaging with their client base. Given clients are also demanding instant evaluations of their positions and exposures, those firms with a modern service model - incorporating integrated CRM, portfolio reporting and valuation engines - can generate these customised reports, error-free, within a matter of hours.

THE STRENGTH OF CLIENT RELATIONSHIPS AND SERVICE MODELS CONT.

Capco's own [research](#) has highlighted that the client-adviser relationship remains at the heart of high-quality service in wealth management and is a key driver of revenues. Strong relationships and service models will outlast the disruption caused by the pandemic, so firms should quickly evaluate the performance of their service model:

- Are they upholding their values when it comes to managing clients' money?
- Are they communicating their investment philosophy effectively?
- Are they managing client relationships effectively based on considerations such as service type, underlying impact and exposures, size of portfolio and future potential?

The current situation should encourage client servicing and operational teams to review the underlying flexibility of their operations and systems, and the performance of third-party suppliers.

MANAGING CONDUCT RISK

Extreme market conditions will inevitably test the robustness of conduct and compliance mechanisms and policies, and firms need to monitor those mechanisms and policies carefully to ensure that they continue to operate as designed.

The core pillars of conduct extend into business models, cultures and behaviours, clients, markets, governance and oversight:

- Leadership should ensure that their governance framework is working effectively to identify the material risks and conduct scenarios relating to clients, employees, external suppliers and key stakeholders;
- They need to re-assess whether reward and incentive structures are promoting the right set of behaviours and culture - and actively helping them to manage conflicts in a time of crisis;
- They should be encouraging an open and flexible workplace environment that allows challenge, debate and resolution at all levels.

Firms who actively embrace the spirit of the Financial Conduct Authority's 2019 [paper on conduct risk](#) will be well-placed to stand out from the crowd.

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