

Asia Pacific Asset & Wealth Management Industry (AWM): Responding to COVID-19 global crisis impact



AWM industry outlook further challenged by COVID-19 crisis

The COVID-19 pandemic has pulled the world into uncharted waters. Amidst the uncertainties, AWM industry players need to reassess their top priorities - to not only overcome the challenges posed by the crisis, but also to address industry concerns about the new post COVID-19 world.

Slow growth and wafer thin margins have been key concerns so far, but now there are bigger issues which fund managers need to consider led by the COVID-19 crisis, for instance increased liquidity crunch, large fund outflows besides a potential global recession.



COVID-19 and AWM industry concerns

Significant valuation challenges add to existing slow growth and low margins concerns



Pre COVID-19 challenges

Slow growth of asset management (AM) in APAC (2012 to 2018)

APAC

+13.13%

Top 20 AM worldwide

+75%

Source: PwC AWM Market Research Centre

Squeezed management fees

Active Mgmt. Fees APAC (in %)

1.01

0.64

2012

2018

Passive Mgmt. Fees APAC (in %)

0.81

0.78

2012

2018

Source: [PwC's Asset & Wealth Management 2025: The Asian Awakening](#)



Challenges led by COVID-19

Sharp decline in AuM

Significant outflows in March '20



Very minimal inflows in March '20



Strain on operations

- **Record volumes** (in the short term) - price challenges, phone and web traffic
- Transition to **remote work** environment
- **Hiring freezes** and anticipated reduction in headcount, although more personnel required in the short term

Liquidity crisis

- **Lack of transactions**; causing liquidity impact
- Lack of **price discovery**
- **Increased outflows** putting a strain on liquidity management of asset managers

AWM margins under additional pressure



Cost-cutting and strategic positioning now key priorities



Action plan for asset managers to mitigate the impact of COVID-19



Stabilise Navigating the crisis

- Capitalise on increased system traffic due to high trading volume and increased share lending
- Introduce short-term cost cutting measures; adapt them for the long term eventually
- Enhance business continuity management; reduce risk exposure
- Intensify push towards end-to-end digital integration
- Ensure impactful communications across all stakeholders, including your sales network, continue addressing their needs
- Communicate value propositions to your network and investors; enhance focus on more risk averse products



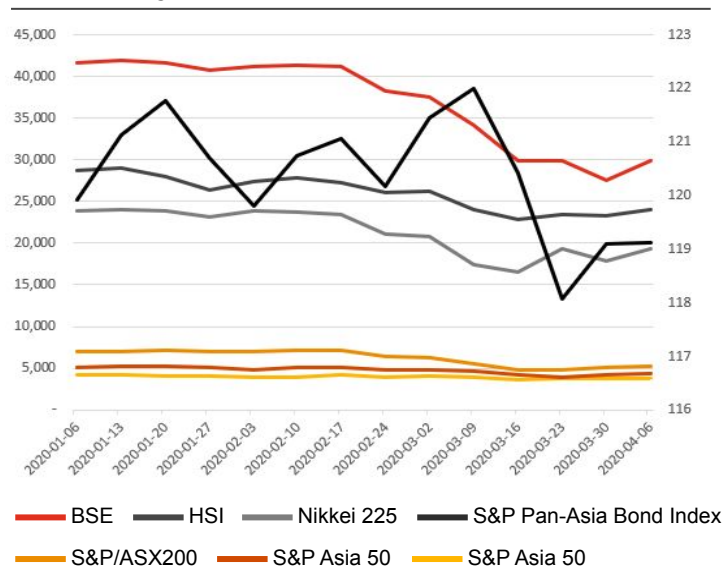
Strategise Emerging stronger than before

- Optimise footprint
- Redesign operating model across supply management, capabilities zero-basing and leverage of IT, aimed at long-term cost cutting
- Look out for possible acquisition targets and joint venture opportunities to extend value chain
- Consider strategic portfolio shift towards more crisis resistant investments (e.g. ESG, Health)
- Strengthen credibility and value for the network (especially as captive)
- Enhance value chain by integrating sub-scale processes with increased focus on cost

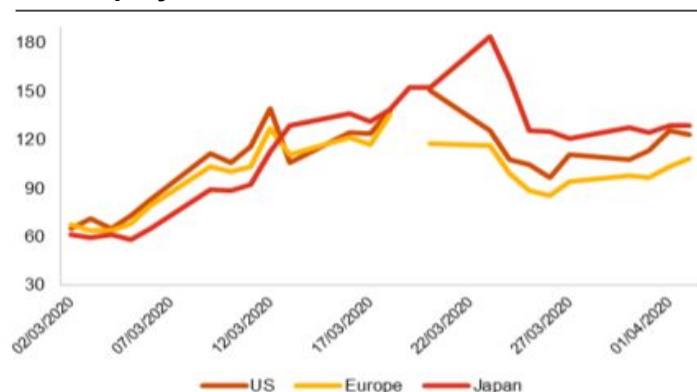
Asset managers' liquidity management and operational framework under stress with suppressed valuations and funds outflow

Market Evidence

Asia Equity and Fixed Income Indices



Asia Equity and Fixed Income Indices



Stock exchange circuit breakers triggered or re-visited by APAC economies since Jan'20

1. Australia	■	8. New Zealand	
2. China		9. Philippines	■
3. Hong Kong	■	10. South Korea	■
4. Japan	■	11. Singapore	
5. India	■	12. Taiwan	
6. Indonesia	■	13. Thailand	■
7. Malaysia		14. Vietnam	

10-year government bond spreads across APAC economies as at April 7

Country	Yield	Vs Bund	Vs T-Note	1-week chg
Australia	0.927	129.5	18.4	1.8%
China	2.518	288.4	177.3	-9.3%
Hong Kong	0.835	120.1	9	4.6%
India	6.418	678.4	567.3	11.3%
Indonesia	8.218	858.4	747.3	4.1%
Japan	0.009	37.5	-73.6	0.9%
Malaysia	3.388	375.4	264.2	2.8%
New Zealand	1.098	146.4	35.3	-2.2%
Philippines	4.705	507.1	396	-10.6%
Singapore	1.096	146.2	35.1	-1.2%
South Korea	1.58	194.6	83.5	3.8%
Taiwan	0.495	86.1	-25	0.0%
Thailand	1.425	179.1	67.9	-6.6%
Vietnam	3.099	346.5	235.4	-33.8%

Effective Liquidity Management

Many APAC jurisdictions have implemented liquidity management tools in their regulatory framework. Their efficacy will be tested now more than at any other time in history. The present market turmoil has had a dual impact on asset managers; causing revenue to fall due to decreased AUM, and increased redemption pressures causing valuation challenges, thereby affecting investors' own investments.

In Malaysia, the Securities Commission (SC) released the Guidance Notes on Liquidity Risk Management (LRM) for Fund Management and Unit Trust Management Companies on 16 December 2019.

SC has observed that fund managers have adequate liquidity risk management processes in place to manage the redemptions in an orderly manner.

Source: PwC Global AWM Research Centre analysis based on Lipper, annual reports, and Bloomberg; Strategy& analysis



Options available to fund managers regionally to address liquidity issues

Liquidity tools - asset managers must operate in the best interests of investors and focus on transparency and good governance

Swing pricing

Due to market uncertainty and its impact on valuations/pricing and increased panic redemption requests, swing pricing mechanics can be one of the more effective tools for liquidity control and management.

Fair valuation

Widening of credit spreads, downgrading of credit ratings, exchanges introducing circuit breakers, suspensions, trading halts, effective valuation policies and procedures will be tested like never before.

Redemption in kind

In-kind redemptions allow fund managers to protect investors by offering resulting investors with the assets without distress sale of portfolio and return of cash, than offer in-kind securities to be held for future upside opportunities and regain of value for investors.

Gating

A tool frequently used to defer sentimental redemptions by allowing for pro-rata redemptions. A common market practice, and often included in the prospectus, which allows for smooth liquidity management in the fund.

Dealing Suspension

In order to avoid forced sale of assets at distressed prices resulting in a portfolio with illiquid assets for non-redeeming investors or forcing a move away from intended strategy, suspension of NAVs is a significant tool typically available to asset managers.

Stress testing

Stress testing is not a new concept but more so now, there is a need for effective and frequent testing of the portfolio which forms the basis for scenario analysis of the funds positions at various market cycles. This will allow plans of action to be set by asset managers at various turns of the market.

Anti dilution levies

Another tool to protect existing investors from bearing the costs of buying and selling the underlying instruments from large outflows from the fund.

Side pockets

Establishing a separate account for the purpose of segregating specific assets from the fund's overall portfolio. Side pockets hold illiquid securities when market values of those assets are very difficult or impossible to obtain.

Tools	AU	CN	HK	IN	JP	SG	MY
Swing Pricing			●			●	
Redemption Fees	●	●	●	●	●	●	●
Anti-Dilution Levy			●		●	●	
Redemption Gates	●		●	●	●	●	
Redemption In-Kind	●		●			●	
Side Pockets	●	●	●			●	
Suspensions of Red	●	●	●	●	●	●	●

Manager's responsibility

Transparency

- Consistency and fair approach
- Enhanced coverage to existing as well as potential investor base
- Robust design and approach to apply the various tools across the affected areas of the business
- Effective and enhanced communication to investors

Governance

- Allows work in the best interests of investors
- Fair allocation and best execution
- Compliance and 2nd line of control strengthened
- Portfolio management/Conducting Officers to monitor portfolio diversification and investment policy rules when (fire) selling securities
- Assess reporting inputs status AND related parties and delegates inputs
- Efficacy of governance model, second and third line of control and objectivity of the governance

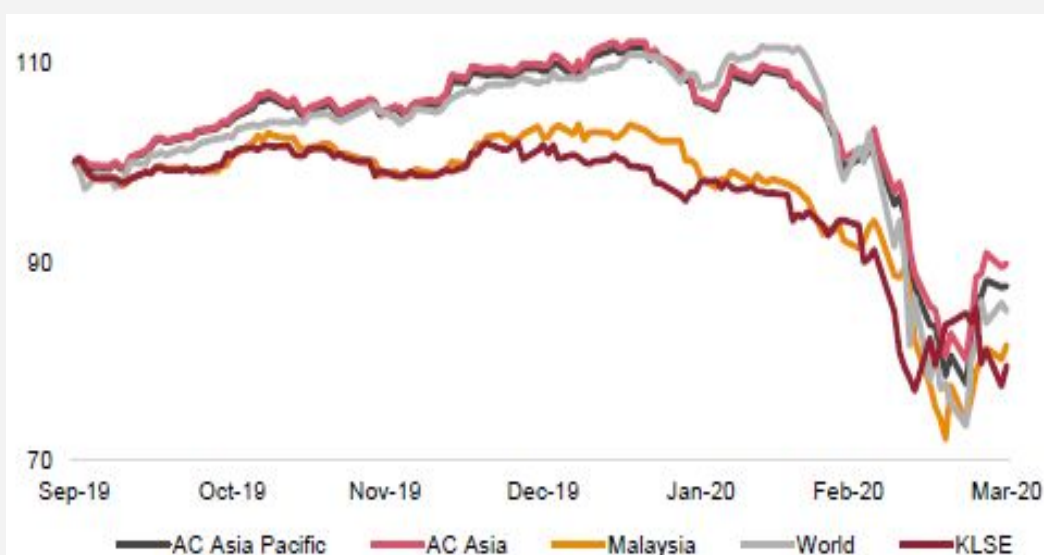
Identifying and reporting breaches

- Due to large redemptions, lack of liquidity and its impact on valuation, increased exposure to illiquid positions, increased exposure to overdrafts; could lead to breaches and violation of pre-agreed investment objectives and regulatory limits
- Increased reporting infrastructure

Impact of COVID-19 to the fund management industry in Malaysia

The divergence between Malaysia market indices and MSCI APAC and World indices was clearly visible even before the pandemic was announced. The gap widened and dispersion was marked through 1Q 2020 as COVID-19 picked up momentum. Over the last year (2019), AUM for equity, money market and balanced funds was fairly stable across the four quarters but declined slightly in 1Q 2020. The AUM of the industry dropped by approximately another 5% in February 2020 but this was largely due to decline in the stock market which affected the equity and fixed income funds.

**MSCI and Country Indices Value
(Base Value = 100), Sep 2019 - Mar 2020**



Source : PwC AWM Market Research Centre

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In the weeks leading to the Movement Control Order in Malaysia (March 2020), there was higher net redemption in the money market and fixed income funds, however some of these redemptions involved switching activities into equity funds as the undervaluation of the stock market became attractive to the investors. However in April, the industry recorded net sales in the funds.



1 Seeking Alpha and higher yields

With Bank Negara Malaysia (BNM) cutting the Overnight Policy Rate (OPR) to 2%, and bringing the rate to the lowest in 10 years, there will be a shift of wealth into unit trust funds as investors hunt for higher yields. At the same time, BNM reported that the hunt for higher yields has resulted in a slower growth rate of household deposits with the financial institutions.

2 Digital innovations

COVID-19 has accelerated digital adoption by people from all walks of life. The Securities Commission (“SC”) reported that activation of online trading accounts exceeded 10,000 in the month of March 2020. The behavioural shift will be welcomed by the 5 new approved digital investment management (DIM) players in 2019. In just 2 years, the DIMs have recorded a total of RM74 million from over 20,000 accounts and there’s definitely room for further growth in the new norm.

3 Boost from EPF

The Employees Provident Fund (EPF) announced fee reductions for the EPF Members Investment Scheme. With this revision in fee structure, the upfront fee will be reduced from a maximum of 3% to a maximum of 1.5%, while no upfront fees will be imposed for investments transacted through i-Invest via EPF i-Akaun. The lower fee would make it more attractive to invest in unit trust funds. At the same time, the service fee charged by EPF to the fund managers will be reduced to 0.0625% from 0.125%.



Cybersecurity challenges in the new normal

The new norm of working from home (WFH) is now accompanied by a surge in cyber security incidents almost hand in hand with the current crisis as fund managers are now largely trading on the stock market from the comfort of their homes. Globally, our Threat Intelligence research¹ has found a mixture of espionage and cyber crime activity capitalising on the current situation. Cyber criminals are using COVID-19 based phishing lures as part of their efforts, often copying legitimate content to enhance their authenticity. With this, fund managers now need to invest in ramping up their cyber security defenses.

The front office is one of the most supervised departments in the fund management industry due to various risks such as front running and insider trading. With WFH and remote trading continuing to be the new norm for most players, asset managers need to develop enhanced monitoring to enable them to return to pre-crisis risk levels.

We have learned from our experience that a successful remote trading solution would have the following elements:

- i. Audio and visual monitoring of remote trading environments
- ii. Identify remote trader locational events, such as the trader leaving the immediate vicinity
- iii. Link to trading platform for active compliance alerting on certain events
- iv. Additional controls asking traders to account for periods of non-activity
- v. Transcribing trader conversations into high quality transcripts
- vi. Analysing collected data to detect unusual activity and anomalies
- vii. Ability to understand potential use of other devices or to avoid manipulation of surveillance systems

¹ Impact on cyber security, 2020, <https://www.pwc.com/jg/en/issues/covid-19/covid-19-cyber-security-uk.pdf>



Next steps



Review of valuation policies and procedures, and benchmarking to best practices, including governance framework and investment compliance



Review of house policies with respect to gates, redemption-in-kind, dilution levies, swing pricing, side-pockets and benchmark to best practices



Review of governance and oversight on funds control over operations, redemptions and outsourced service providers



Independent review of the portfolio stress tests



Independent review of fund rationalisation and benchmarking of funds performance versus peers and industry standards



Fortifying cyber securities and business resilience checks



Target operating model design to stress test to purpose fit for change in operating design



Independent review of vendors and their performance to the service level agreements



Independent review of contracts for clauses to accommodate the current scenario



Reformat fund fees to changing circumstances and stress testing of such changes to the revenue model of fund managers



Cost and performance tracking to identify opportunity areas



Feasibility assessment to enter new markets, considering market opportunities for in-organic growth



Contact us



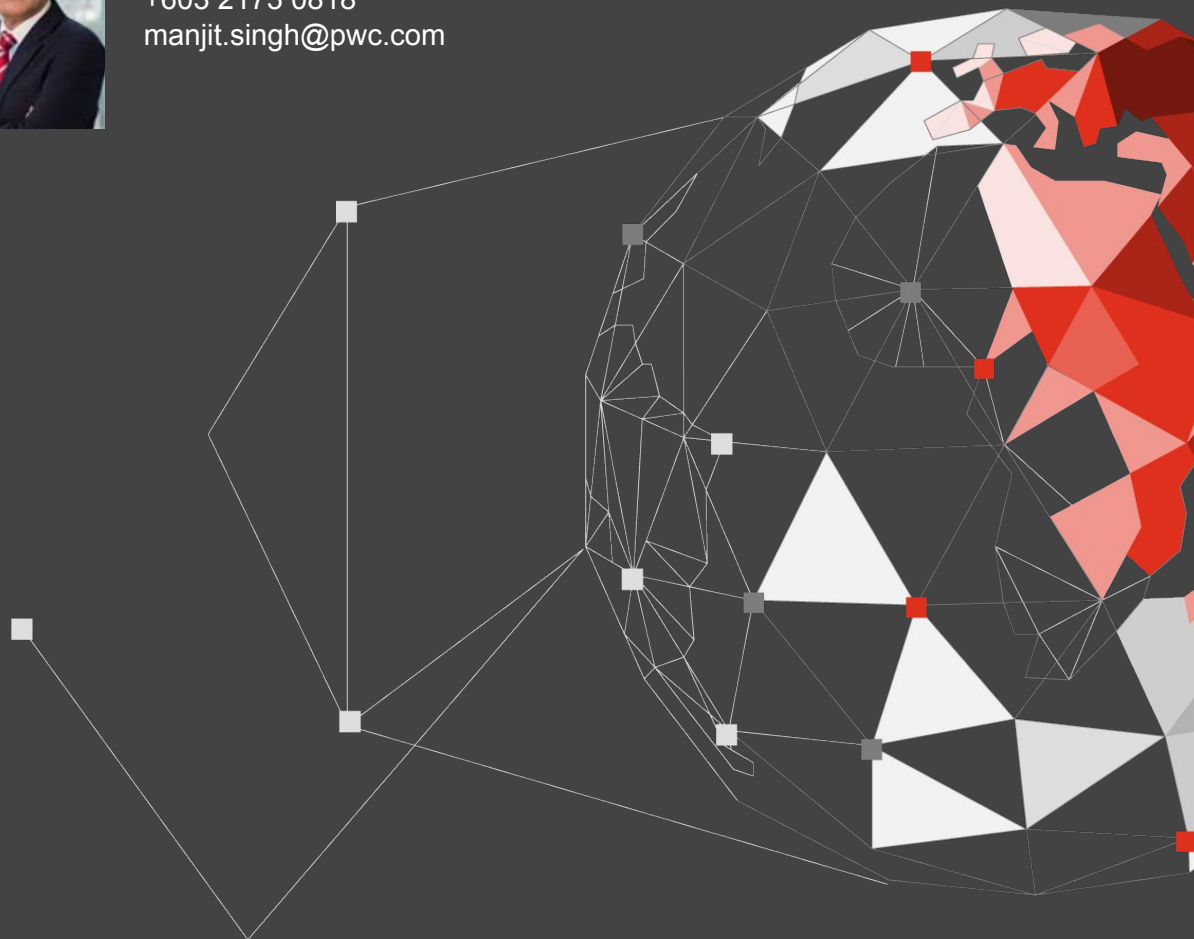
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