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Wealth Advisory In the New Normal –

How will the global pandemic shape the future of wealth advisory

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The global pandemic has seen a shift not only in how wealth managers interact with their clients but also a change in their client's expectations in relation to the support and services they need. In this article, we look at some of these dynamic shifts and highlight some of the ways wealth managers may need to position themselves in the new-normal.

The last few months have seen a number of consulting firms and technology vendors (ourselves included) publish papers discussing the impact of the global Covid pandemic on the delivery of wealth management services.

By now, we are likely all aware of an increased focus on tools that facilitate and enable greater remote collaboration between wealth managers and their clients, a drive towards the automation of more basic services such as client onboarding and a review of digital channels to provide customers with more engaging and meaningful experiences.

The focus of this piece is less on the delivery methods and more on the actual services. How have the events of the past 12 – 18 months impacted the conversations that wealth managers are having with their customers? Have we seen, or can we expect a shift in client focus and are wealth managers ready and able to adapt to this where necessary?

Firstly, I feel we can start with the relatively obvious conclusions. In the UK, over 7.5 million workers have been furloughed and whilst many received up to 80% of their salary by way of a government subsidy, many have still faced significant financial hardship.

2.5 million Self-employed workers are also reliant on government grants but again, many have reported massive falls in income that may well lead to a loss of their business.

With the exception of Zoom's most significant shareholders and a handful of other businesses or industries that found themselves positively positioned, no single country nor any particular demographic has managed to escape some of the negative financial implications.

As a young man, I was taught the '50/30/20' rule to help manage my personal finances. 50% of post-tax income was for needs, 30% was for wants and 20% was for savings. In less than six months, the global pandemic closed down the global economy and no single event before has shone a light so brightly on the millions of households that were woefully under prepared.

Cash has never been favored by wealth managers. Global interest rates have remained at historically low levels since 2008 and it's the only asset class that institutions have to pay their customers to hold. It remains however the cornerstone of effective planning and I hope that going forward, more is done by both intuitions and governments to encourage the accumulation and holding of adequate, liquid resources.

Despite many households facing some degree of financial hardship or uncertainty, some areas have seen unexpected or unanticipated upturns. In Singapore, insurance giant AIA reported a 44% year on year increase in insurance and critical illness sales, a trend also reported by Aviva (19%) and Tokio Marine who reported a 27% increase in term protection sales.

Whilst it is possible that wealth managers have used the global pandemic as a driver to focus their clients attention towards health related issues, the increases were evident across both assisted and self-service channel sales – many customers made a conscious choice to ensure that they and their family were more adequately prepared in the event of a serious illness or death.

A 2019 study by the Life Insurance Association of Singapore highlighted an 80% protection gap of circa $256,000 per economically active adult in Singapore. Whilst it's doubtful that these upticks in insurance sales will have adequately closed a gap this significant, a shift in consumer perceptions of insurance is clearly evident and post-pandemic, these sometimes difficult and often overlooked conversations need to continue.

In order to discuss another significant trend that has evolved more recently I will first discuss a rise in prominence of 'goal based planning' or 'goal based advisory.'

The shift in financial planning from 'needs based' to 'goals based' is far from a new concept but the wider adoption can likely be attributed to a number of factors, including, but not limited to:

- Regulatory reviews such as the UK's 'Retail Distribution Review' and Australia's Royal Commission which have forced advisors and wealth managers to demonstrate more 'value add' in their client engagements
- Many regulators have also introduced requirements for wealth managers to greater evidence product suitability and undertake detailed client knowledge assessments

- The global financial crisis led many wealth managers to adopt more 'holistic' planning approaches to enable additional revenue streams from areas such tax advice, estate planning and insurance
- The use of technology to enable wealth managers to leverage 'robo' type solutions, linking client goals to risk appropriate portfolios that may be easily rebalanced in the event of changing circumstances
- The increased availability of lower cost and more liquid ETF's enabling the easy creation and lower management costs of model portfolios.

To be clear, I am a strong advocate of goal based planning. When used correctly, it encourages a long term, top down holistic view of client circumstances. It helps to evidence suitability, it enforces discipline in clients, can promote longevity in relationships and, I believe, provides better overall client outcomes.

The primary challenge with goal based planning is that it is challenging to implement and can be difficult to manage effectively.

Implementation requires a significant training commitment both in terms of defining and setting goals and in subsequently translating these to workable solutions.

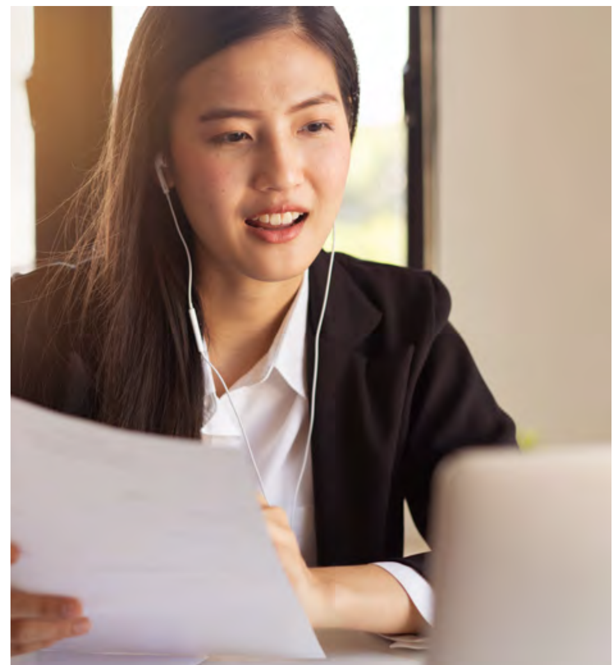
More and more clients' 'multi-bank' making it virtually impossible for their advisors to provide a truly 'holistic' view of their overall circumstances. Both clients and their advisors are more transient than ever, moving both organizations and regions making continuity difficult to manage. I have personally been assigned four separate relationships managers by my bank in the past four years – granted, I am far from a HNW individual but it makes any form of continuity very hard to manage.

Numerous studies have evidenced the value of setting goals and this is why most employers (including mine) use KPI frameworks for performance measurement. Individuals that have written concrete action plans will generally accomplish significantly more than those who do not.

The challenge is that humans are not wired to visualize a future that is substantially different to what we experience today.

Answers to the most obvious questions, for example, 'where do you see yourself in 5 years' time?' will tend to be either vague or completely unrealistic. In the case of the latter, the advisor may need to be the voice of reason and risk being painted as 'the bad guy.'

In Malcolm Gladwell's 'Talking to Strangers' he highlighted that people only tend to change beliefs when we finally encounter massive contradictory evidence that undermines our current position. In 2015, Cancer Research UK indicated that one in three men and one in two women would contract some form of cancer in their lifetime, a statistic that holds true in almost all developed countries... and yet protection gaps of 80% are the norm, not the exception.



So on to the final trend I mentioned earlier. In setting goals, either for ourselves, both professionally or personally or for our clients, we are generally advised that they need to be SMART – specific, measurable, achievable, realistic and time-bound.

This framework will help our clients to repay their mortgage, put their children through university and retire with a sufficient level of income – but only if those adviser continually adjust the underlying assumptions to ensure the goals remain accurate and that any required investment returns remain sufficient.

More recently, the SMART formula has been extended to include 'ER', SMART(er) goals will now encompass outputs deemed to be both ethical and responsible.

The concept of ESG and socially responsible investing is by no means new – the term was first used in 2005 and the FTSE4Good index was launched in 2001 – but during the global pandemic, an increased focus on community responses and social inclusion has seen a massive increase in prominence. Forbes estimate the value of ESG focused investments accounts for almost ¼ of all professionally managed assets and in November 2020, Barclays reported a 40% increase in the issuance of ESG focused fixed income securities. In 2020, the market cap of Tesla grew to over $100 Billion despite their less than 1% market share and more recently, the Reddit fueled #wallstreetbets manipulation of Gamestop shares should be enough to highlight the coming of age of socially responsible planning. How I achieve my goals is now as important as 'if' and 'when'.

2020 was a remarkable year and although global vaccine rollouts offer some light at the end of the tunnel, in many areas, we may never see a return to 'normal.'

The post-pandemic wealth landscape will see a multitude of changes not only in the way we interact and engage with clients but in the services themselves that are being offered.

When investing in tools and solutions to facilitate more engaging remote interaction with customers, organizations may wish to consider the services being offered and whether or not they will continue to meet client needs in the post-pandemic environment.

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