

COVID-19 Roundtable asset & wealth management

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

April 2020



DUFAS 

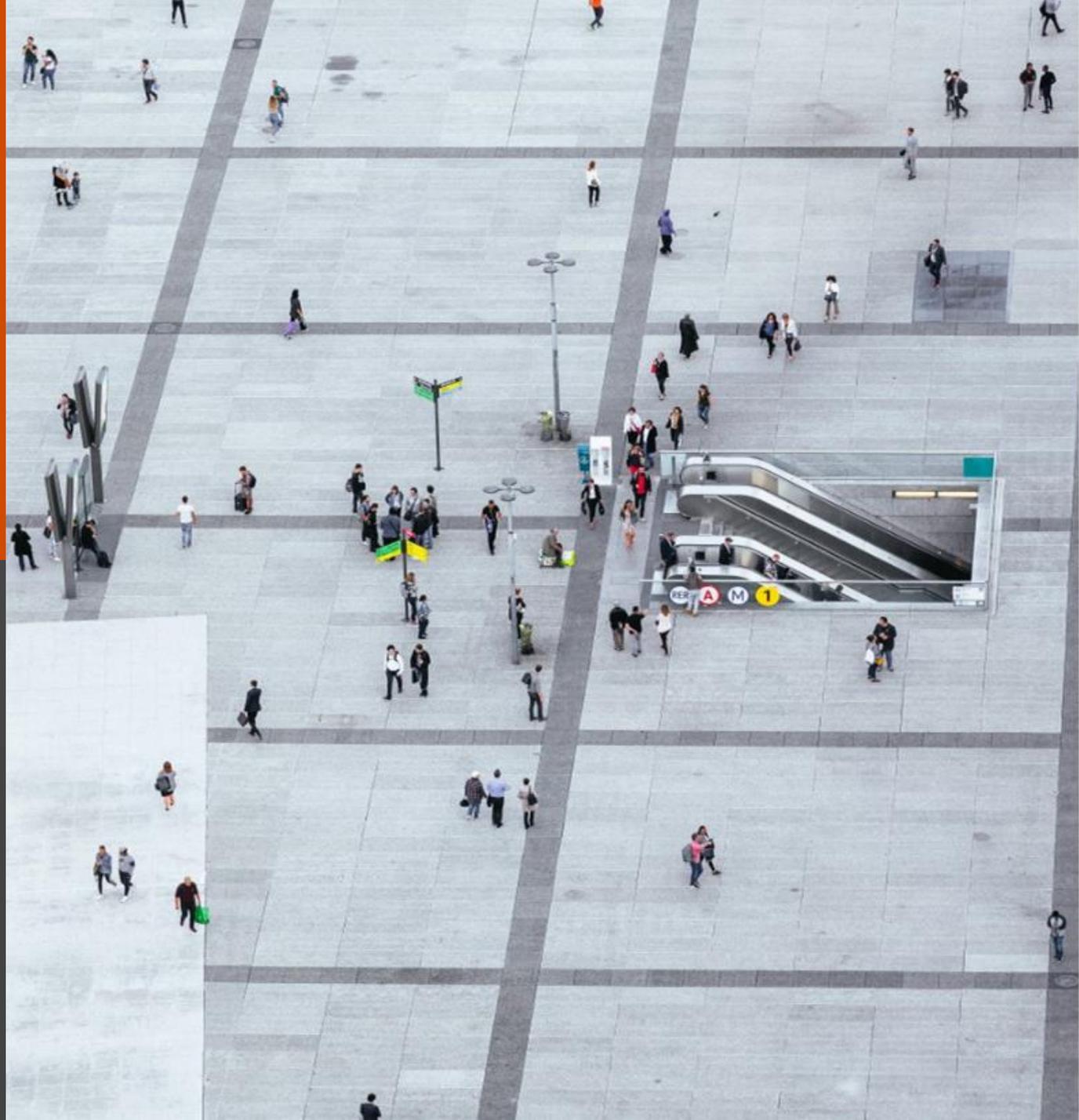


Roundtable: business impact of COVID-19 for Asset Managers

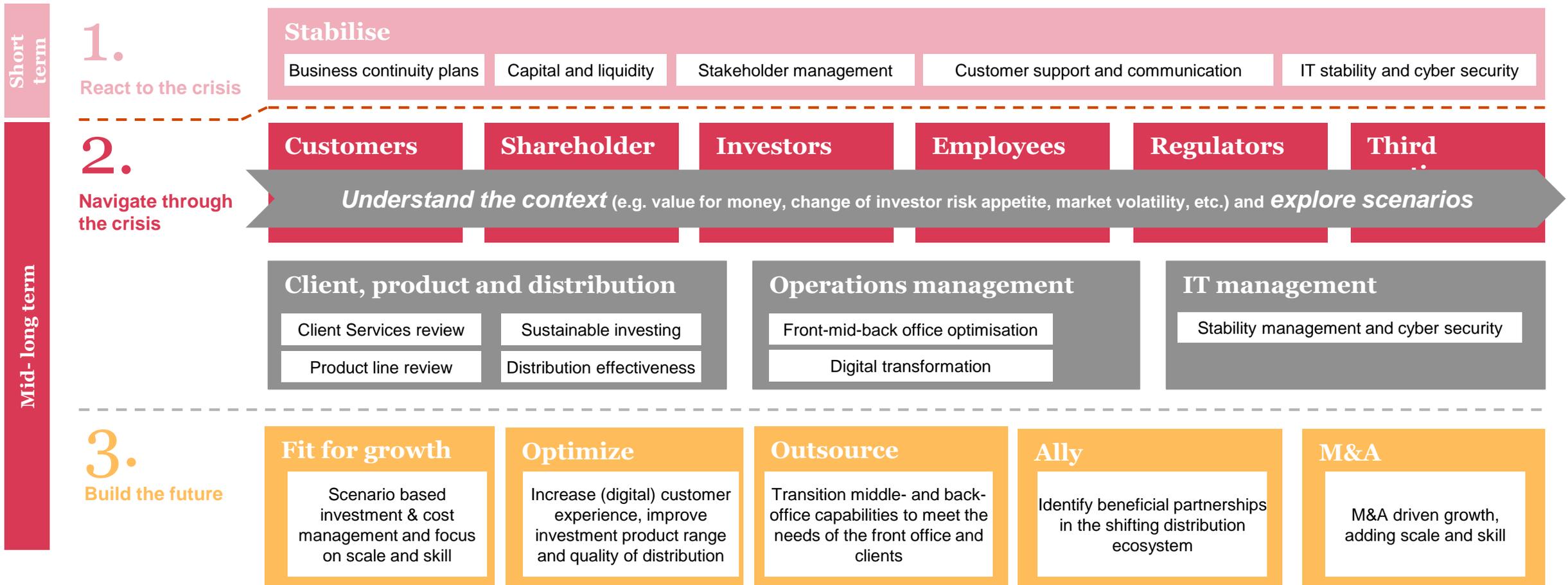
- **Introduction : Iris van de Looij (Dufas) and Patrick Heisen (PwC)**
- **Impact analysis, why is this important?**
- **Deep dive ‘Impact on Markets’**
- **Deep dive ‘Impact on Finance’**
- **Deep dive ‘Impact on Sourcing Strategy’**

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:

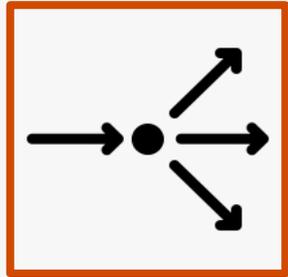
What are your clients doing to tackle the COVID-19 crisis?

Patrick Heisen



How insurance companies are dealing with the COVID-19 crisis

React to the 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 all-time 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.

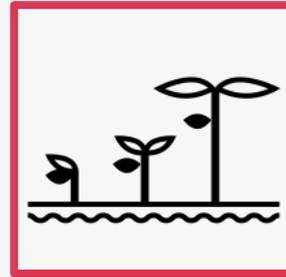
Navigate through the crisis



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.

Build the future

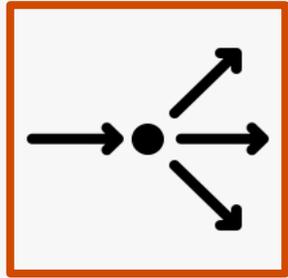


Restructure & Plan

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

How pension funds are dealing with the COVID-19 crisis

React to the 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

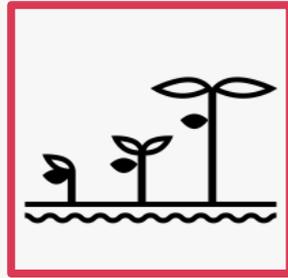
Navigate through the crisis



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.

Build the future

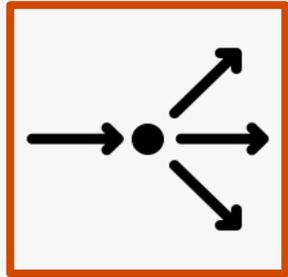


Restructure & Plan

- (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

React to the 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**.

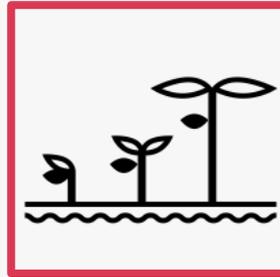
Navigate through the crisis



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.

Build the future



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

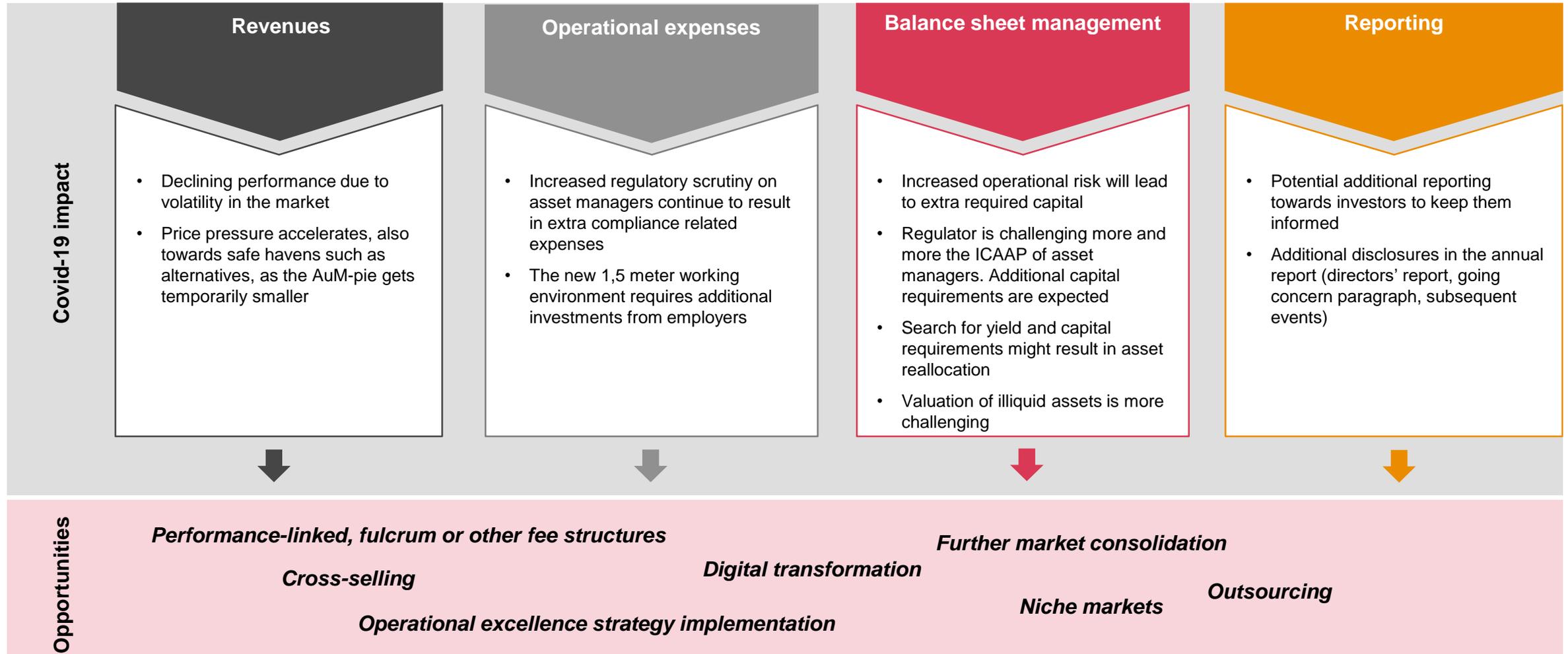
What change of investor preferences will have the largest impact on the market strategy?

Deep Dive Impact on Finance: 'Pressure on profitability'

Jesse IJspeert



Two sides of the same coin



Question

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

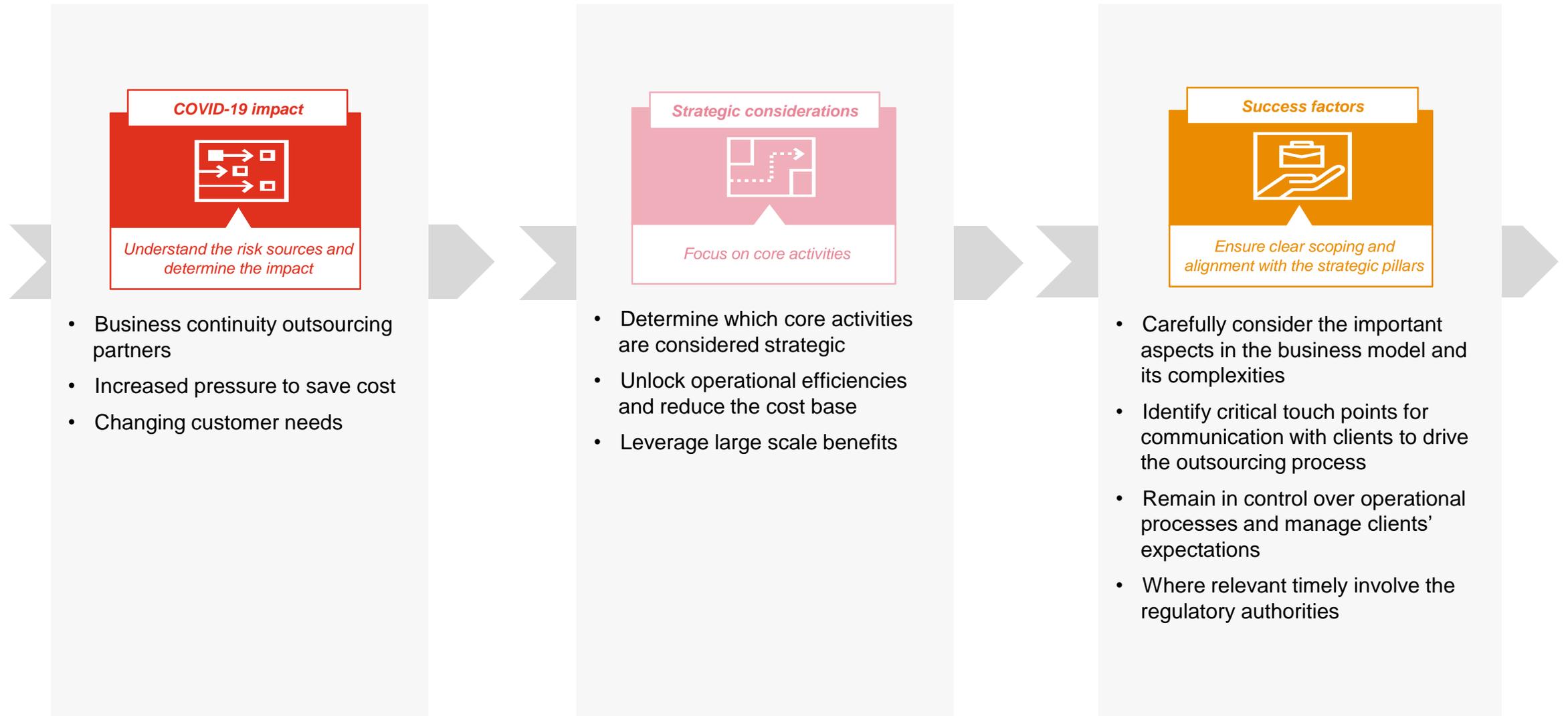
Deep dive 'Impact on sourcing strategy'

Manoël de Goeij



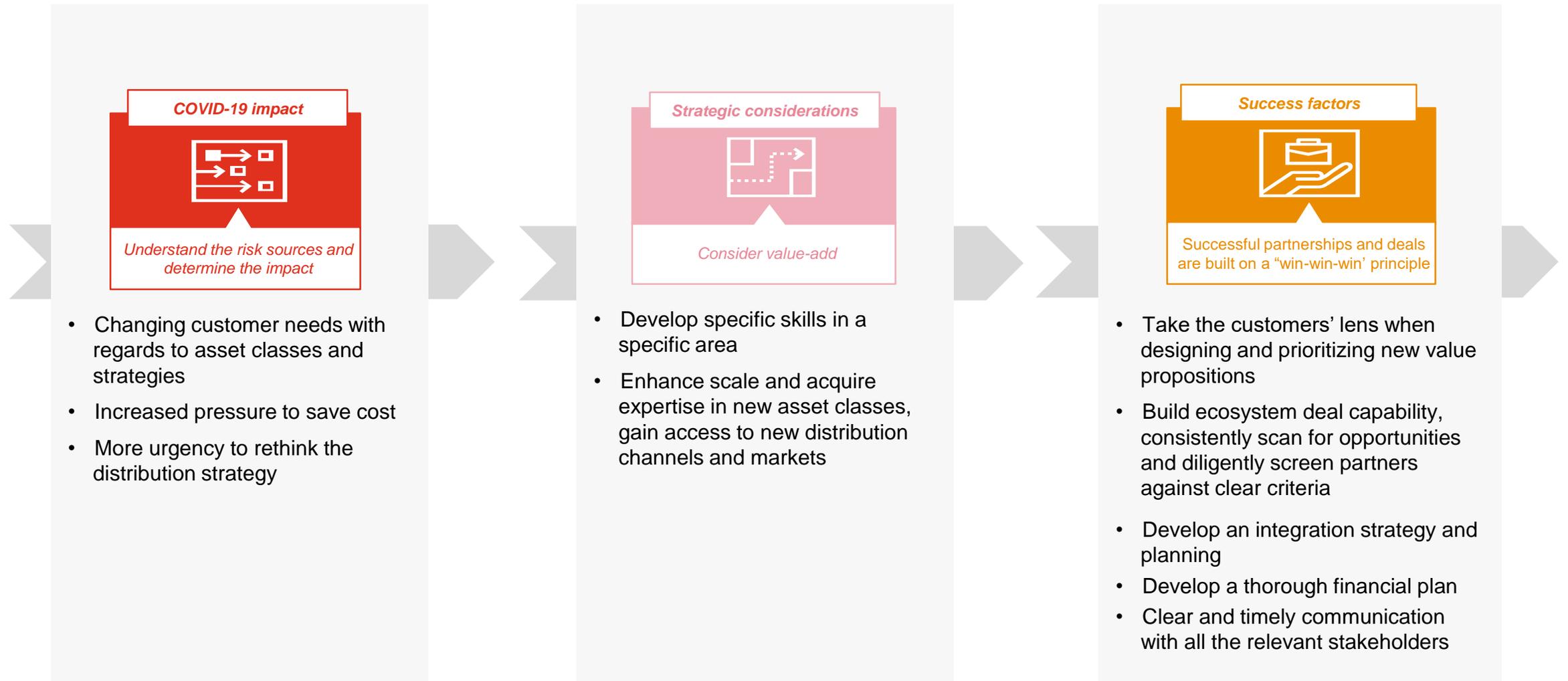
Make/buy/ally?

Outsourcing – Securing the future through ‘right-sourcing’ strategies



Make/buy/ally?

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



Question

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

- A. Outsourcing*
- B. Partnerships*
- C. M&A*
- D. None – business as usual*

Thank You

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The DUFAS logo, consisting of the word "DUFAS" in a teal, serif font. To the right of the text is a square icon composed of a 4x4 grid of small teal dots.