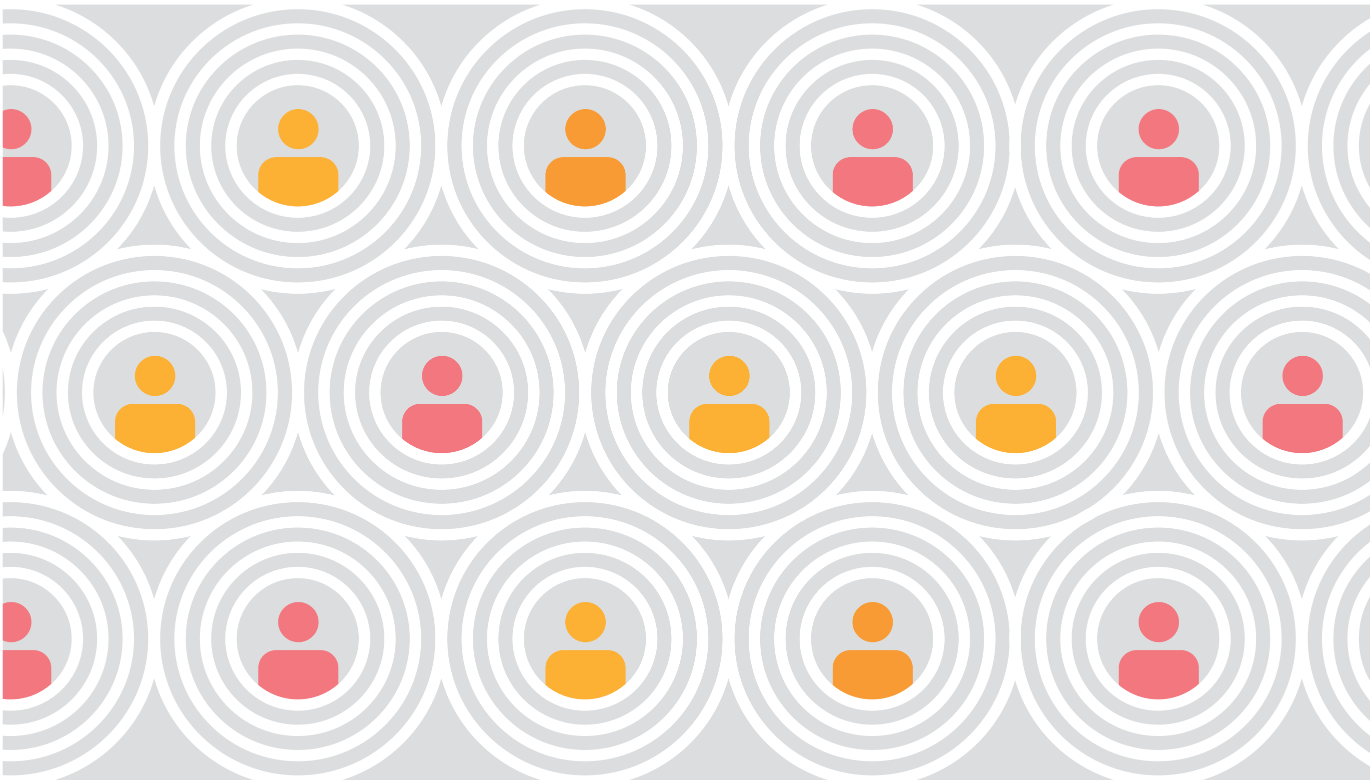
Covid 19 - A conversation with The Asset Service Provider Industry



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Imagine

you are the CEO of a large Asset Service Provider ("ASP"), addressing your leadership team on a Monday morning, and telling them we have a week to transform our operation from an almost total office based environment to one where all our people will need to be based at home. Prior to the Covid crisis you would have struggled to do so with a straight face or to retain respect, but in fact this is what the entire ecosystem of the Luxembourg financial sector achieved, with minimal service disruption, affecting around 50,000 people (including banks) servicing over €4trillion of assets, during a period of some of the highest market volatility, and a pandemic sweeping through the country… talk about a "perfect storm"!

This is the story of that remarkable achievement, told through the eyes of 20 CEOs and/or COOs of such firms in that very situation in mid March. Their stories reflect incredible professionalism, and admirable dedication of their people, newly discovered leadership talents, a realisation that decisions can be made in a bold, agile and effective manner, that cascading a sense of trust and empowerment through their teams is rewarded by enthusiasm, energy and a "can do" attitude. They also reflect investments by many who had begun the transformation towards more remote working but perhaps never expected to stress test it so soon and with such dependency! A clear consensus emerges around some of the longer term consequences for our industry, and on whether it leaves Luxembourg stronger or weaker.

PwC Luxembourg was honoured to host and facilitate this conversation with the industry and proud to record its highlights in this paper, which we hope will serve as a tribute and testament to all those whose efforts ensured Luxembourg can rightly remain proud of its position as the leading cross-border fund domicile in the world, evidencing its sustainability, resilience, reliability and trusted partner to the world's leading Asset Managers.

Our approach

We deliberately wanted to avoid yet another "survey", and instead hear the anecdotes, the "war stories", the experiences, the opinions, the challenges, and find out what we could learn from the past few weeks and months, from those whose leadership qualities were tested and proven as they steered their way through a crisis without any playbook available.

This paper is the result, which the whole community can take pride in reading, and in sharing in the lessons.

Interviews were held with over 20 CEOs and/or COOs across the spectrum of ASPs, including PwC Luxembourg, each scheduled for 30 minutes but each taking typically over an hour as the conversation was so rich and powerful. We asked questions covering five core aspects of managing the crisis; People, Clients, Technology, Operating Model, and Longer Term Consequences. We let the conversation flow and followed where the CEOs wanted to go with their comments.

This paper is therefore written in the same format, and each section sets out the background and approach taken, the key challenges, the anecdotes and lessons learned.

Contents

1. People

Some Metrics and background

- Before the crisis, most organisations had a consistent >90% office based working ("OBW") model. Some had rehearsed or tested scenarios where up to 50% could be home based working ("HBW") as a complement to a disaster recovery site, but none had ever tested >90% HBW;
- In response to the crisis, all the firms interviewed had moved to a >95% HBW within a week or two of the lockdown announcement in mid March. Those roles still remaining in the office tended to be in areas where hard copy documents still required "wet signatures", client call back functions, or general services;
- All the firms we interviewed had progressive Human Resources policies incorporating a degree of HBW as part of their flexible working/mobility arrangements, deployed as a means to offer a work/life balance but on a limited and controlled basis. So, the concept was well tried but nowhere near on the scale demanded by the situation;
- Most firms we interviewed had to manage employee numbers of anywhere from 50 to nearly 1,000, and exceptionally PwC with nearly 3,000. Clearly this crisis also affected firms on a global basis, for example PwC globally went from a pre-crisis average of around 15,000 HBW to a post crisis over 240,000, within a month;
- Firms which were part of a global group, particularly with China/Asia based operations (who had early exposure to the Covid consequences but also had upgraded BCPs around HBW after recent political unrest in Hong Kong and earlier SARS experiences), tended to be better prepared, able to learn from those Asia based colleagues in January/February and benefit from that early warning and used the time to test a mass HBW scenario;
- Some firms even during early March believed their BCP recovery sites may be part of the solution, but by mid March it was clear to most this could not work; the need for social distancing, the lockdown restrictions, and highlighting the multiple booking most disaster recovery sites operate under rendering them vastly oversubscribed when all users need access concurrently.

The Key Challenges

A situation like this presented numerous challenges from a people perspective, but all interviews confirmed the safety and health of employees was the number one priority; everything else flowed from there.

We have summarised the main "challenges" into three main themes:

Logistics and Planning

- The complete absence of a "playbook" for such a scenario. The BCP was quickly thrown into the "poubelle" and leadership teams had to figure it out "on the fly". Other early plans considered splitting staff groups across office, home and BCP site, based on various criteria, but all futile once the realisation set in that a near total HBW was the only viable solution, and those plans joined the old BCP in the same "poubelle";
- The primary issue of determining who was already set up for HBW, and who needed access facilities created. As this roll-out commenced, issues around hardware procurement (several CEOs describe "going on mass purchase expeditions to Auchan & HiFi International in a procurement race for laptops", and others disclosed their good fortune in having quite by coincidence ordered replacement laptops but then realising they were "en route" from China!) and home based internet speed became the concern.

People Policy Issues

- Concerns over the cross-border tax consequences of a sustained period of HBW. These were relieved early on by welcome coordinated political action with neighbouring countries;
- Human Resources professionals understandably concerned about policing statutory limits on working hours, requiring CEOs to make judgement calls to "relax" such rules under such extreme circumstances, and follow general regulatory guidance to "do what it takes" to maintain services whilst managing risks pragmatically;
- Many respondents fearing a build up of holiday entitlement to a hiatus in late Q3/Q4 as planned absences were cancelled by staff (no point in taking holiday during a lockdown period) despite an encouragement from most employers to maintain such time off. It points to a capacity challenge later this year, given legal limitations on an ability to carry holiday forward or to "buy" from employees;
- Helping managers through completely new situations. For example employees who feared *"they may have been in contact with someone who may have been in contact with a person with Covid, and what should they do?"*.

The Personal and Human Side

- Employees having to adapt to a paperless environment, and replace the informal osmosis benefits of sitting amongst team colleagues inherent in an OBW operating model, now deploying technology solutions allowing maker/checker controls to remain effective;
- Most CEOs reported people are missing the social interaction of their normal OBW and suffering from isolation, particularly singles living at home alone;
- The juggling act of parents trying to "work from home" whilst managing child care and home based education challenges, proved difficult for many;
- Long hours of dedicated service were reported by many, with a fear of eventual fatigue, only partially offset by the benefits of an absence of a commute;
- A fear for many staff of how they could do their jobs in a HBW environment reflecting a fear of change felt by many employees.

The Anecdotes and Lessons Learned

Whilst of course these challenges were real and had to be managed, the stories from the CEOs of how they addressed these issues were uplifting and heartwarming, and reflect for many of their people the very rapid journey from being a Manager to being a Leader. We cover these below:

Decision Making

- Such a significant change to operating models would normally take a year of committees, reviews, PowerPoint presentations, multiple layers of "decision makers", risk assessments, business plans and so on. In the circumstances there was no other option than empower and trust local CEOs and their leadership teams to make local decisions. It worked! Comments like *"80% is good enough"* and *"just do it"* became the new mantra, and a recognition that agility, trust, experience and being "bold" are necessary styles of leadership and decision making in such extreme circumstances;
- The key question though is can this new empowerment of local CEOs survive, or will firms return to the "command and control" corporate hierarchy of before? Indeed, will local CEOs allow the same cascade down of local decision making to supervisors, team leaders, to persist post crisis? The answer to the latter we heard quite consistently is "yes", because it works! Empower and trust, and allow smaller "pods" of management to figure things out;
- CEOs reported their people feeling empowered, trusted, that change was necessary and taking pride in finding solutions. A real energy resulted, which must leave behind important lessons in how to get the most out of our people in a way which enriches their role, motivates their performance, and collectively results in a massive positive cultural shift.

Management & Leadership (1/2)

- Many of our interviewees acknowledged these scenarios result in a rapid learning curve and a sobering reminder they are "Leaders" not "Managers". Like any crisis situation, staff need leadership which is authentic, clear, decisive, transparent, and honest;
- One anecdote describes how the CEO made it clear to all staff they have a direct line to him if required, and how one fairly junior employee at home simply could not get through to the IT help desk. The employee called the CEO, and was immediately surprised that he could indeed access him directly, and even more surprised when the advice from the CEO was to *"make a cup of tea, sit down and watch Netflix, until the queue for the IT help desk cleared!"*;
- Another anecdote described the traditional Easter Bunny gifts to staff were not possible this year due to the lockdown, but instead were donated to the local hospital to the delight of all staff and of course the hospital. Human nature stories like this abound, and are uplifting and heartwarming;
- Town Hall meetings of course had to adapt to a "virtual" setting, but CEOs report these to be far more effective and engagement levels much higher. A send of a sense of *"we're all in this together"* grew, and where staff reported greater belief in their leaders as a result of transparency, absence of what some acknowledged to be *"perceived corporate bulls**t"*, and clarity of message, CEOs prepared to answer staff questions with honesty and candour. Questions from staff have shifted noticeably from cynical and critical, to constructive and supportive; ▶

Management & Leadership (2/2)

- More senior leaders were able to make early and bold policy statements, for example about job protection and deliberate avoidance in leveraging government financial support out of corporate responsibility based on solid balance sheets. These were high impact statements, not just to staff but to the market;
- CEOs reported with pride the discovery of new talent within their firms at junior levels who otherwise may have been buried in management layers and remained invisible, but were given the opportunity to emerge and prove themselves. More important lessons are to be found here perhaps around rather outdated annual performance review processes and failure to allow people the chance to show what they can do when thrown into the deep end;
- Other CEOs commented on a recognition that staff were under the psychological distress of a pandemic coupled with the absence of social interaction, and as a result acknowledge they adapted a much more empathetic style, introducing the concept of “morning huddles”, “virtual” drinks sessions, and encouraging numerous use of video conferencing as a means of “team building”. This stretched the comfort zone of many, but has left them feeling far more effective as leaders.

Productivity

- Virtually all the interviewees reported productivity levels close to or at the pre-crisis levels within a week or two of moving to a HBW model. This despite a number of the respondents reporting a shrinkage in available workforce by as much as 10% due to the congé special parental. Whilst the early experience exposed inherent inefficiencies from an inability to “swivel your chair and ask a colleague”, these were quickly offset by adopting new technology (see later section), people willing to work longer hours (initially, now subsided as experience grows and market volatility reduces), the time (and energy) saved from avoiding a commute, and avoiding what many now see as the corporate conformity of unnecessary meetings, and the “water cooler” chats;
- In essence, a massively positive response across the board from dedicated employees determined to make the new situation work;
- Management has also realised that meetings can be far more efficient, where people turn up on time for Video Conference calls, and those meetings have focus, are decisive, are time bound, and decisions are executed;
- Many however reported a reduction/ suspension of activity on projects, either because of the difficulty in managing project teams “remotely” or redeploying project resources in support of core production priorities.

The Move Towards Deconfinement and the Longer Term Consequences, from a People Perspective.

Whilst all the respondents believe they could maintain the current HBW arrangement from a "service delivery" perspective for a prolonged period, none believe that a complete HBW model will become the new normal post-crisis. Equally however, none believe that a return to a near total OBW model similar to pre-crisis arrangements is either likely or preferable.

A balance of the two appears to be the consensus, with safety of employees and economic considerations (premises costs are typically the 3rd largest after staff and IT) going "hand-in-protective-glove". The HBW "genie" cannot be put back in the bottle, and the pure economics of a more flexible and agile approach to office space investment/fixed cost support a sustainable level of HBW, but the disadvantages noted earlier (lack of social interaction, exchange of ideas through face to face exchanges, cross border tax, regulatory approvals of profoundly changed models under HBW, and building an organisation culture) mean a compromise is inevitable.

Of paramount importance remains employee health and safety, and the "workplace" in an office may need to look quite different before staff are asked to return to the office. Workstations may need to be reconfigured (plexiglass dividers, sanitiser built into workstations, social distancing, the end of landline telephone hand-sets, maybe even a return to "cubicles"), outdoor gathering space considered, masks becoming mandatory are all under consideration as essential changes to allow deconfinement to proceed. Risk can never go to zero, but fewer people in the same space, reconfigured for safety considerations, is a prerequisite for most employers before they would allow staff to return – staff need to feel "safe". In addition, considerations of the relative safety of public transport, and policies around a return to business travel and face to face client meetings, are all important in achieving the balance and a degree of deconfinement.

Working practices will change also, as lessons learned from adapting to the HBW arrangement become the new normal. For example, more online meetings (even if all "attendees" are in the office), "virtual" training, staff communications retaining the effective methods learned during the confinement phase (fewer "newsletters" and more "virtual" chats), meeting etiquette remaining businesslike with timeliness respected and effectiveness expected.

Dependencies on achieving this balance include a permanent solution to the taxation of cross-border employees when working from home, the agreed definition of "accident du travail" when working at home, and regulatory acceptance of a more liberal approach to cross-border HBW as part of the new operating model. A variation on this theme of a balance between HBW and OBW may well be increased focus on more smaller, agile, flexible satellite offices along the borders.

KEY TAKEAWAYS

- The organisational adrenaline generated during the crisis must be translated into a permanent state. "Creating great moments for everyone, everyday, is the embodiment of a social contract with our people".
- Talent will remain hidden unless you proactively find ways to uncover it through trust, empowerment, and energising your people, and giving them the opportunity to thrive. The heritage approach of annual performance reviews surely has to modernise into allowing your people the chance to achieve their "bigger game" at work.
- Decision making can be turbo-charged by removing the "hierarchy of bosses", and allowing a "rapid response unit" culture to prevail and be sustained.
- Do not rush the deconfinement phase; employees must feel safe and see a difference in the workplace and trust the "end game" the firm is targeting before they will return. If they perceive the firm as merely experimenting with their safety it will create fear and mistrust, destroying the goodwill and energy levels generated during the crisis itself.

2. Clients

Our CEO interviews moved next to discussing how their clients responded to the crisis, the impact to their business (and therefore to that of the ASPs), the "human" side of working with clients through the confinement phase, the particular challenges clients faced and how the ASPs found solutions, and enduring lessons from the experience to further improve the client relationship.

How Did Clients Respond and React?

One of the CEOs put it perfectly in perspective *"it was the best possible BCP scenario because everyone was in the same situation"*. What became clear very early on as ASPs moved to the HBW model, was how much respect and gratitude the clients expressed for the almost seamless way services were maintained, and surprise that it all seemed to work so well.

There was a diverse range of opinions when asked whether their clients were more tolerant and less demanding, but generally clients appear to have evidenced empathy, reinforced by the fact service levels very quickly were restored to pre-crisis levels. Where there were delays in daily processes, these tended to be caused by market volatility and the need for greater scrutiny on the significantly increased volumes of exceptions to check, and would have occurred anyway irrespective of a shift in the operating model to HBW.

Some interviewees reported an early "compliance" approach from several clients, seeking verification on BCP arrangements, but this soon died down as the realisation dawned that we're all in this together.

Others noted clients collaborating with anecdotes on how to keep staff safe and secure during the confinement phase, with ideas shared in a way never experienced before.

How Did ASPs Adapt Client Communications?

Again, one of the CEOs put it perfectly: *"A crisis is the best time to test and to cement relationships […] you don't test a client relationship unless there is a crisis, and going above and beyond in such circumstances can secure a relationship for life"*.

There was clearly a shift from a more passive, reactive communication style, to being much more active and frequent. This in turn quickly allowed a more "human" element into the dialogue, again on the foundation of *"we are all alone together in this crisis"*, and a "bunker" mentality, which has resulted in many of the ASPs feeling they have a much stronger relationship with their clients than before.

Different ways of communicating emerged, such as chat bot technology, video calls, and client "events" being replaced by "virtual" events. The latter was noted by several interviewees as an opportunity to create a competitive differentiator.

The effectiveness and efficiency of communications was also noted, similar to that noted in the People section above, with a sense of "meet, focus, debate, decide, action" to interactions yet retaining the human empathy elements and gradually developing much more client intimacy than before. This in turn developed trust, and many reported conversations moving beyond "day to day" crisis management towards a "build back better" agenda post-crisis.

Client acceptance of new technology, which pre-crisis may have taken much longer to "approve", was achieved much quicker, again partly the result of all being in the same situation and partly resulting from the more trusted partner nature of the dialogue. Technologies such as DocuSign and LuxTrust have become common place, replacing "wet signature" concepts forever hopefully, and perhaps finally we have seen the last of the fax machine!

Key Challenges for Clients and their ASPs

Some common themes emerged, not unexpected given the commonality of interviewees all focused on servicing investment funds. The most consistent were as follows:

Market volatility

The convergence of the confinement phase, HBW, and extreme market volatility created enormous early challenges, as trading volumes increased dramatically, market valuations plunged and soared wildly, and investors behaved irrationally. This led to a huge increase in exceptions in the daily process to be reviewed prior to release of daily production (NAVs, investor statements etc), often resulting in delayed production (which all the CEOs confirmed would have occurred without HBW). Several firms amended their controls tolerances in an effort to reduce such volumes.

Liquidity Measures

A variety of tools were deployed where funds came under liquidity pressure, although fund suspensions and liquidations were very few and extreme. Swing pricing was triggered frequently, and the industry generally welcomed the CSSF guidance introduced during March, although it added an obligation to ensure it was applied in the best interests of shareholders so further "checking" by ManCos and Depositary banks. Fair Value Pricing was more widely used, interfering with the more automated NAV processes and again a cause of delay in issuing a NAV. Finally "gating" was most widely referenced as a technique which works well in theory but as one CEO put it *"the time to rehearse it is not during a crisis"*! This was perhaps the area where ASPs helped their clients the most, either in activating "gating" (rare) or in advising on the merits of it in practice.

NAV errors

Very few reported an increase in NAV errors despite the "perfect storm". Those that did are still assessing whether the root cause was market volatility or changes in the controls environment resulting from HBW.

Underlying client liquidity

Several CEOs reported clients under stress due to the underlying liquidity challenges of their clients, impacting margin calls and capital calls.

FX Hedging

A significant increase in share class hedged trades was noted, due to volatile and large investor trades, which again added to risk and the need for greater scrutiny which often resulted in delays.

Business Impacts

Impacts to client business outlook (and therefore indirectly ASP business outlook) varied somewhat. Many reported an early stage “meltdown” scenario, which within a few weeks had been tempered to “difficult” but not dramatic.

One CEO reflected on their geographically diverse client base resulting in a “flattening of the curve” in terms of business volume impact in Luxembourg, as Asia initially reported asset outflows and market valuation falls, and when the same impacts travelled East to West the impact in Europe and US was tempered by a recovery in Asia.

Others reflected upon the underlying nature of the investor base, with typically long term “buy and hold” institutional money riding out the storm, whereas the more retail books saw large redemptions as well as market value falls.

Variations by type of fund also were reported, with equity funds clearly suffering but a boom in debt funds. AIFs, particularly Real Asset funds, saw an increase in demand from investors, although some with exposure to certain assets (retail, hotels) clearly suffered, and there was widespread acknowledgement that PE funds are not actively seeking to raise new capital in this very short term.

Projects (such as new sub fund launches, closures, mergers) were generally put on hold, but not cancelled, so a resurgence in such activity is predicted for later in the year. Similarly, new client onboarding largely continued for ASPs, who had to adapt to onboarding new clients under a HBW scenario.

Services which typically require more of a face to face interaction (typically Advisory in nature) suffered somewhat for obvious reasons, although these businesses are gearing up for the deconfinement phase when lessons learned can be translated into new operating model and digitalised processing and technology platforms.

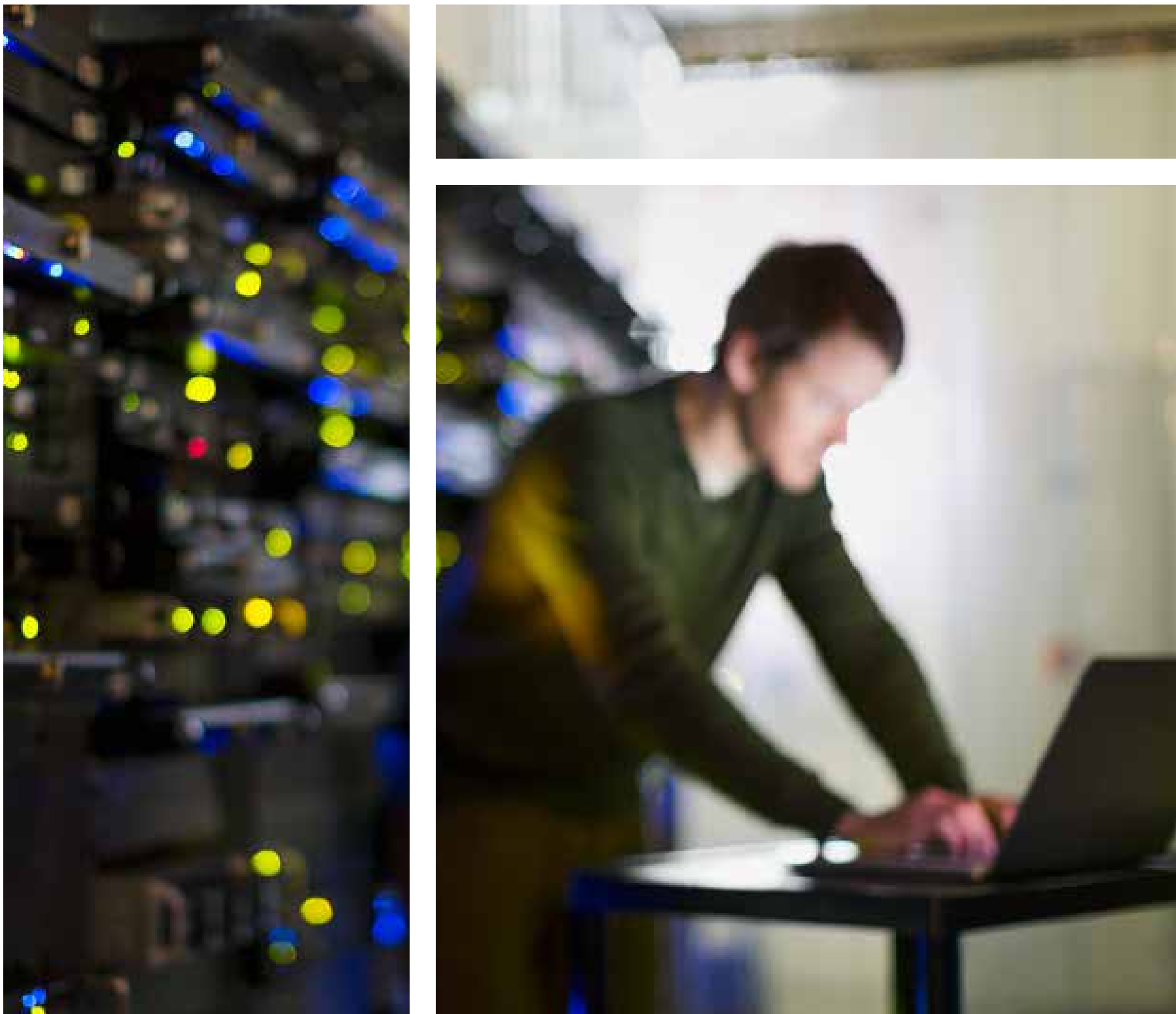
Finally, one CEO reported a vague “intent” by one of his clients to invite his ASP to “share the pain” of the economic damage of Covid, and consider a fee reduction. We did not detect this as a common theme however, and the consensus appears to be of a cautious recovery in market valuations and an exciting new range of “build back better” themed funds emerging from the crisis.

> **We were extremely encouraged by the professional approach of the firms we interviewed in maintaining services for their clients, and the wide range of lessons they have learnt will further improve the effectiveness, efficiency and compliance of the Luxembourg ecosystem.**

KEY TAKEAWAYS

- The crisis was and remains a time to cement trusted relationships with clients (***“we are all in this together”***) through seamlessly maintaining service levels, a proactive and innovative approach to transparent communications, a healthy introduction of new technology, and added value advice to help clients through their challenges.
- Whilst it is not a time to talk about competitive advantage, it is certainly worth remembering that what you do for your clients during the crisis can result in very long term trusted partner status, by pursuing client delight not just client satisfaction. Clients will increasingly explore options to outsource more post-crisis, having seen how well the ASP community coped and reflected upon the challenges they felt in maintaining non-core elements of their own operational model.
- Tempered by a high degree of caution, business activity levels and market valuations may recover reasonably quickly, and the impact on the sector for 2020 will be negative but not extreme.
- Lessons around liquidity techniques (especially “gating”) and volatile market scenarios need to be converted into industrial strength and well rehearsed automated solutions.
- Digitalisation opportunities must be explored and implemented (eSignature, digital client onboarding, digital settlement/confirmations, digital vault, cloud computing, automated and independent NAV validation, etc.).

3. Technology



The enablement of a >90% HBW scenario was hugely reliant upon adopting new or existing technology, and the heroic efforts of IT functions to oversee the roll-out of hardware, software and connectivity. The legacy reliance on and assumptions around disaster recovery sites appears now firmly redundant and no longer "fit for purpose".

Our conversations with the CEOs were fascinating, not least in the view that locally at least *"pre-crisis we took it [technology] for granted and didn't pay too much attention – now we have a religious respect for it and our IT teams, and how Technology can transform our lives in a positive way"*.

We discussed what worked well and not so well, what new technology was introduced, the investments made, reflected upon data security concerns following such a "just do it" approach to moving to HBW, and assessed how sustainable the existing arrangements are.

What Worked Well and Not So Well?

First and foremost, a universal acceptance that previous BCP plans predicated on large scale relocation to a disaster recovery site are no longer relevant, with some caveats. To be fair, such plans were never designed to accommodate entire industry relocations, and inevitably were found to be oversubscribed and unable to offer social distancing protocols. It offers an opportunity to rethink therefore and embrace the fact that a mass adaptation of HBW has worked extremely well as an alternative.

None of the firms had run scenario testing involving anything more than 50% HBW, so again, to an earlier comment, there was no "playbook" for this.

Global groups were able to learn in advance the lessons from their Asia colleagues who had to invoke HBW earlier than Europe, but still encountered local issues to resolve.

The key caveats around the demise of disaster recovery sites include (a) several CEOs commenting on how resistant the CSSF has been in the past to HBW forming such a significant element of a BCP, and (b) the road to deconfinement may require a degree of phasing of staff back to offices, with a BCP site (or in the case of one firm, newly rented office space precisely for this purpose) used as "swing" space to maintain social distancing.

In essence though, the rental of a rarely used recovery site is now redundant, and the conversation has shifted towards data security aspects of relying on HBW as the recovery option.

Other anecdotes

Of what worked well and not so well include:

- Some clients remained insistent on hard copy documentation and "wet signatures" which allowed only partial eSignature roll-out, and necessitated small numbers of staff to remain on-site. Those firms are keen to follow up and persuade all clients proactively to accept eSignature ahead of any future scenario;
- Client consent required to allow limited printing at home; ditto;
- Simple things like the absence of the familiar "two screens" on a desk proved to be a challenge reported by many, with employees having to adapt operational routines accordingly;
- Home bandwidth capacity was generally good, especially for Luxembourg residents reflecting the huge investment in infrastructure throughout the country. Issues typically arose when multiple users (typically teenagers on Netflix!) were competing for the same home bandwidth with working parents trying hard to operate Zoom for the first time!
- A realisation that much of the technology which really helped during the crisis and shift to HBW already existed within the firm, but rarely used. An important lesson here that when technology is rolled-out, it needs to be accompanied by mandatory adoption by all staff. CEOs acknowledged this has not been well disciplined in the past; technology only brings benefits if people use it! As one put it *"the go-live in production of a digital project is not when you turn it on, it is when people embrace and adopt it"*;
- Similarly, certain technology was implemented somewhat in a "do what it takes" mode, and users found it was poorly integrated with existing firmware such as email and messaging. A retrospective review will occur to realise full and sustainable benefits of such technology;
- A realisation of how much paper remains in core process flows, or everyday usage by people. Most CEOs confirmed a real intention now to sustain the necessary "paperless" aspects of a HBW model and insist on a zero paper environment as they move to deconfinement. Oh, and similarly, several mentioned their desire to throw any remaining fax machines out of the window if found in the office upon deconfinement!
- An acknowledgement by many that heritage procurement processes had to be over-written in the crisis situation, but that consensus decisions made in a professional manner with all functions represented on the "crisis leadership team", where all had the common goal to ensure business continuity, resulted in rapid decision making. The previous "function by function" review, and decision by layers of insular committees was recognised as inefficient and did not produce better decision making;
- Video Conferencing technology really does work well, and many commented on the result that they actually see more of their colleagues from outside Luxembourg than ever before, and paradoxically found themselves "socialising" with such colleagues in ways previously the preserve of expensive "off sites". Innovative ways (clever and humorous use of background wallpaper, virtual drinks) of using VC to stay in touch with local staff and overseas colleagues was crucial to maintaining an overall sense of morale and access to leadership during a stressful time for all.

New Technology and Other Investments Made

With respect to investments, the most obvious and common were in procuring large numbers of laptops (or allowing employees to "bring your own") from wherever and whatever sources were available (we referred earlier to the rather comical image of a CEO on a "trolley dash" through Auchan). Some firms also allowed staff to take home screens and office furniture, in keeping with the "we trust you" mantra which has underpinned the success of the response to the crisis.

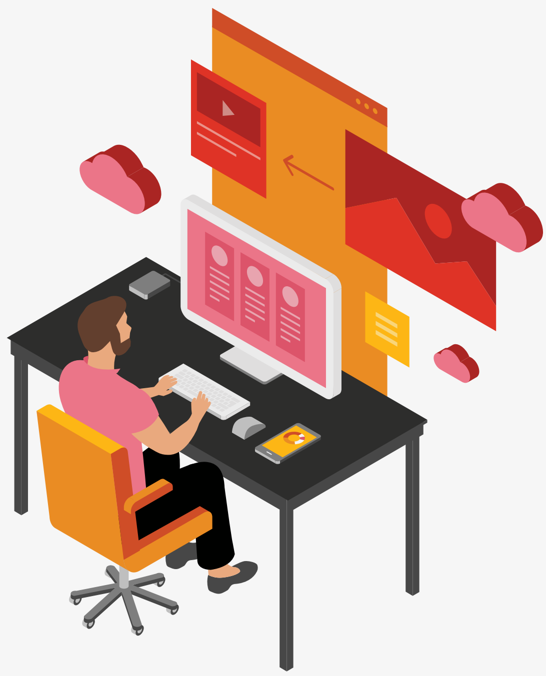
Other investments locally reflected server capacity (with longer term focus on Cloud becoming the preferred route), software licence extensions and security tokens.

One CEO revealed an investment in additional premises some kilometres from their existing premises, to be utilised partially for phasing in staff back to a OBW arrangement during deconfinement, and to maintain social distancing in the office thereafter. This was an interesting angle, in contrast to many who believe a significant reduction in their office space can result from the recent HBW experience.

One final comment on "investments" from a CEO determined to now calculate how much the firm has "wasted" on years of BCP site rental fees (insurance policy effectively) "*[...] when a relatively low cost HBW solution was always there right under our eyes [...]*" as he put it.

As far as new technologies adopted during the crisis, the most popular appear to be:

- eSignature (DocuSign in particular), with profound efficiency and timeliness benefits derived which all are determined to sustain going forward;
- Collaboration platforms such as MicroSoft Teams, Google Drive, One Drive;
- Digital Vault concepts which allow the ambition of zero paper to be pursued;
- Video Conferencing popularity prize goes to Zoom (despite the security alerts emerging during the height of the crisis), with GoToMeeting and WebEx reported as offering disappointing performance and reliability by many;
- Chat bot and messenger/live chat applications such as Jabber were also crucial to maintaining a degree of fluidity in the four eyes maker/checker processes and general dynamic problem resolution intra-day.
- To repeat the key message though, none of the above was new, and much was already installed and available within firms, but without encouragement (or instruction) to adapt it tended to be gathering dust on virtual desktops.



Data Security

There is no doubt that Data Protection Officers were busy during the sprint to move to HBW. Stories emerge of the temptation by well-meaning team leaders/supervisors in good faith to adopt technology that was not protected by firewalls (eg Monday.com) but caught by eagle-eyed DPOs. All CEOs spoke about the risk-assessment process put in place when considering new technology, where local decisions were allowed and made in an agile and "at pace" way, and avoiding a myriad of incompatible solutions being deployed by well meaning staff.

Many now speak of the need for a retrospective ("cold light of day") review of what they implemented and to search for cyber risks which may have been inadvertently created. However, at the peak of the crisis, most CEOs were more concerned about the wave of phishing attacks that emerged, preying on the vulnerabilities of the global pandemic in the most obscene way. Many reported refresher reminders to staff on a regular basis to be especially alert, and such judgement and firewall protections appear to have prevented any serious breaches.

Sustainability and Longer Term Views

CEOs spoke proudly of how seamless the technology aspects of the confinement plans have been, and most report they could sustain the current environment (operational, people, technology) for a sustained period if they had to.

Few reported any significant further investments they would need to make to sustain services, other than a theme around cash payment systems which proved most troublesome to adapt to a HBW model.

Many will introduce mandatory and more frequent "phishing" tests across the firm. Others talked about new ideas for new situations, such as automatic mirroring of employee desktops to offer a more rapid redeployment to HBW, and ways to monitor the time management (productivity) of people (although an equal number also talked about how basic "trust" is a far more powerful tool than "big brother"). Finally, others recognised the importance of the help desk (how many of us have been left dangling listening to "your call is important to us" in everyday life) and how much more user friendly it can be with complementary technology (live chat, call back when free, estimated time to wait, limited use of "press 1 for, etc.").

For the future, many are now realising the benefits of a cloud based infrastructure, where the giants of the industry can assume responsibility for massive resiliency, significant computing power, and a variable cost arrangement collectively appearing very attractive against the old world of in-house server capacity and resilience and a significant fixed cost. However, local CEOs largely rely upon Group Head Offices to make such decisions on a regional/Global basis.

Finally, an indirect consequence of technology, particularly video conferencing, is an inevitable reduction in corporate travel, replaced by the more frequent, often more convenient, and definitely less stressful video calls.

KEY TAKEAWAYS

- Technology benefits are only as compelling as the employee adoption rate, and unless such technology comes with an organisational drum-beat to energise and excite your people around the cultural, behavioural, business model and client interaction benefits it can deliver, it will remain an expensive but under utilised tool.
- A retrospective risk assessment of potential cyber risks created inadvertently, is prudent and necessary
- The concept of a BCP "site" is now redundant, and new playbooks built substantially around HBW as the business continuity solution are inevitable.

4. Operating Model

We asked the CEOs next about the Operating Model, and how the general service delivery processes adapted to the crisis. What emerged was the universal view that getting the People aspects of the response right resulted in the Operating Model challenges also being managed and contained.

The focus of this section therefore is somewhat limited to assessing how a Distributed Operating Model (relying on offshore centres and an outsourced procurement chain) stood up to the challenge when those same offshore centres were also under confinement and HBW arrangements.

We start with a general assessment of the transition to a remote working Operating Model, the role of the CSSF in reassuring on the regulatory aspects of that transition, the key challenges, and then move on to the relative merits of the Distributed Model, the sustainability of the situation, and key lessons learned.

General Assessment and Key Challenges

Virtually all the firms had assumed they would need to, and had already begun to, transition to a HBW model under a confinement/lockdown protocol before Government action became mandatory. What certainly helped the industry was early clarification from the CSSF with clear guidelines with a crucial message perceived by all as “do what it takes but manage your risk”. The early agreement from neighbouring countries around tax implications for cross border staff was also crucial to remove doubt and risk.

Some stories emerge of very pragmatic guidance from the CSSF issued to firms seeking to “tweak” their offshore models beyond that officially approved, but it is important to note those firms which spoke about this also stressed that the CSSF acknowledged their track record, global strength, and generally “trusted” relationship, with an obligation to follow through after the crisis to “tidy up and update” their offshore model submission and formalise the changes informally nodded through.

One further suggestion for the CSSF is that they could choose to “approve” certain principles on behalf of the industry, rather than continue on a firm by firm approval basis for largely the same proposal. As an example, eSignature as a principle the industry can operate under.

None of the CEOs indicated their contracts or SLAs needed material change as a result of their experiences during the crisis, which is a surprise, but perhaps that is low down the “to do” list at this stage.

As far as key challenges are concerned, the following emerged:

- A realisation that an inflexible, single task, production line approach to managing people and talent is sub optimal, and a degree of multi-tasking, cross training, and ability to use all staff in a variety of ways where capacity is lacking or demand is strong, can offer agility and load sharing benefits. A feature of the Luxembourg model over the years is that people have tended to become "specialists" without necessarily understanding the full life cycle of fund servicing. A training, education, and proactive shadowing of other roles agenda will emerge post crisis.
- Whilst HBW is fine for general service delivery, it has proved difficult for the more project oriented roles, where ideas exchange and face to face dialogue appears to be necessary for such roles;
- Team leader roles, typically the first rung of the managerial ladder for many, struggled in parts to manage their teams remotely, relying as they do on a more checklist approach to managing processes. Again, this is a training and coaching issue, encouraging a degree of "figure it out" intuition in such roles no matter how junior;
- Massive volume of exceptions in the process, caused by market volatility, resulted in high volumes of false alerts, and in some cases decisions to amend thresholds temporarily. It was also apparent that in volatile periods, reliance on system-driven exception reports may not be sufficient, and a more independent range of tools to help verify outputs (for example, benchmark reference checks, AI/data analytics) are being considered;
- Risk-acceptance changes to operating protocols became necessary and were adopted; for example the acceptance of client instructions via email for the first time.

In general however, there is a consensus around how well the operating models survived this ultimate stress test, and further acknowledgement that this is largely a reflection of people rising to the challenge. In many cases CEOs reported renewed confidence that their people grew a greater empathy with and affiliation to their organisations, driven by a "*we did this together*" sense of achievement which in turn has translated in a feeling of "*this is a great firm to work for*".

Distributed Operating Model

One of the intuitive expectations going into the interviews was around how resilient (or not) the distributed operating model proved to be, especially when those same offshore centres the Luxembourg service delivery relied upon were also in confinement, HBW, and the fear that the local infrastructure in some of those locations may struggle to support a HBW offshore model.

On the contrary. The CEOs of those firms which do rely upon such models were fairly unanimous in their admiration of their offshore colleagues. A few report the likelihood to repatriate certain controls to Luxembourg, the majority view is to further leverage the offshore model, with some lessons learned:

- Some regret not submitting an offshore model/ plan for CSSF approval which was more "future proofed" and simply sought approval for certain offshore centres. We sense a need to revisit those plans, expand the range of locations which could be deployed in future, to aid in the overall resilience, load sharing, capacity management challenge. Multi-site plans with greater flexibility and agility will emerge;
- Several shared stories of significant volumes of tasks previously off-shored being temporarily repatriated, and then off-shored again within a few days once the service delivery centre has proven its ability to also switch to a HBW model. This again shows the resilience, agility, and flexibility of the offshore models in place;
- One of the challenges raised by several CEOs is the unpredictability of government action in certain of those offshore centres. Examples of one location where police raids on offices to verify confinement protocols were being observed caused more of a disruption that the general principle of HBW;
- Rather than consider repatriation of functions, most respond by emphasising the solution is not repatriation but further mass-scale stress testing of the resilience of offshore centres and their ability to support >90% HBW in future scenarios, and testing the ability to load share production across new multiple site models;
- Others, who have a much reduced or non reliance on offshore centres, commented on how the experience has proved that a remote (from the OBW model) operating model can work, and that this is encouraging a more rapid adoption of such models across offshore sites. Whilst this remains a perceived "risk" to those in this category (typically those leading Real Asset type fund servicing operations where somewhat less automation is normal) they share a view that offshoring some of their processes may involve leveraging larger operating centres in the Group in more developed locations (for example the US) where they can avoid a functional approach to offshoring and rather outsource everything to one site.

In terms of sustainability, all reported they could sustain the current arrangements from a pure service delivery perspective indefinitely, but that people aspects (social interaction, ideas exchange, body language) and as mentioned earlier more of the project related work, were the biggest concern.

KEY TAKEAWAYS

A very compelling "speech" from one very expressive CEO displayed a passion for "*using the experience to reimagine how a gradual return to OBW should look, and not to just go back to where we were*" He referred to the importance of taking the best of the old and new world, being open minded about the art of the possible, and building upon the new found trust in our people. Such a culture change can make the ASP sector once again an attractive and exciting place to work, particularly against the competition from the more agile, exciting, "get things done" culture of the FinTechs. People respond positively to being trusted and allowed to "figure things out", and "*we must not return to the Victorian management style of before*".

Others talked about a transformed approach to HBW, with an expected significant reduction in people "going to work" at an office, and how the operating models need to embrace this in future. This will have a significant impact on premises planning, and a more general focus on shifting operating cost bases from "fixed" to "variable"

A greater and more tactical use of offshore centres will emerge, but subject to much greater stress tests of their ability to quickly move to a HBW model.

A recognition that the siloed production lines of pre-crisis have to adapt to an agile, multi-task, multi-disciplined approach which offers agility, capacity and load-sharing benefits, as well as enhances controls and enriches roles for employees.

5. Longer Term Consequences

We conducted our conversation with the industry during April and early May, when our CEO participants were still largely in "even tomorrow seems a long way away" mode. However, the real value of our conversation was hearing the "off the cuff" thoughts of those CEOs when asked about the longer term consequences – often far more insightful than those where they may have a chance to overthink a response.

We cover their thoughts in two parts:

- Consequences for their particular firms;
- Consequences for the industry they service and the society they operate in.

Consequences for Asset Service Provider Firms

1

Reimagining the way we work (1/2)

- The CEOs recognise the period since mid March as a historic deployment of remote work and digital access to services, a vault-forward which may have taken years of committees and procrastination through a *"hierarchy of bosses […] where chains of command could not cope with events occurring around them at warp-speed"*;
- Many lessons were learned about how to engage employees and encourage them to be at their best; despite the stresses of a pandemic, juggling child care and HBW, and being asked to operate in a completely alien way, most report a surge in energy, motivation, and sense of pride in achieving a "bigger game" as a team. People feel more empowered, trusted and engaged, and CEOs comment on how to turn that into a permanent state, not just one felt in a crisis;
- Decision making has come through a revolution in comparison to practices pre-crisis. Decisions are made with a sense of urgency, "turbo-charged" with a "what will it take to make this happen" rather than a "here are many reasons we cannot do this" mentality. A sense of "80% is good enough" for agile decisions, but where such decisions are made with all relevant voices at the table contributing. The difference appears to be driven by a collective desire to achieve (organisational adrenaline), rather than a functional desire to protect, and a shift towards "war rooms, nerve centres, rapid response units mixing disciplines and seniority, empowered to make decisions and implement them". Our CEOs reported a desire to retain these concepts, and *"to act flatter, not just redraw the organisation chart"*;
- Trust has been cascaded down (remember the anecdote about a junior member of staff being encouraged to make a cup of tea and watch Netflix) and employees have responded positively but responsibly;
- There is much less *"procrastination by PowerPoint"* and far more *"let's try it"* but again very much in a risk based approach. Inertia is perhaps far more risky than action right now. *"How can we ever tell ourselves again that we can't move fast? We have proved we can. We're not going back"* as one CEO put it;
- A new attitude towards transformation has emerged, and as one CEO put it *"to think the unthinkable […] we have been shaken out of a stagnant stupor"*, reflecting upon the new momentum rather than slow evolution – a "transform or die" realisation is now evident;
- A recognition that so much time has been wasted in the past on meetings, both the need for such meetings and the conduct during such meetings. Moving them to a "virtual" setting has improved purpose (many are now questioning the value of "weekly meetings" with no particular agenda), timeliness, engagement, effectiveness, and action. Such lessons must not be lost; ▶

1 Reimagining the way we work (2/2)

- Adapting management and leadership style to recognise HBW is here to stay to a very large extent; a shift towards coaching, mentoring, developing, trusting, as much as pure training;
- One CEO commented on how he intends to revisit a strategy document recently complete pre-crisis and work through with his team how that should now incorporate how we work, where we work, risk assessments, and industry consequences, as a result of the crisis experience. It has been that profound to him as a leader;
- *"Clients are human, and we sometimes forget"* commented one CEO, reflecting on how he intends to institutionalise an effort to build upon client relationships cemented during the crisis;
- *"Even personal services, such as Advisory, do not have to be delivered in person"* commented another, having earlier reflected on the initial challenges such services were under in the first stages of the confinement, and now realising a significant change in the way such services can be delivered in future, offering convenience and efficiency without losing client intimacy.

- In summary, **three quotes** perhaps eloquently cover the above:
- *"pre crisis, transformation was aspirational but culturally considered almost out of reach […] this experience proves it can be done if we don't over complicate it with legacy thinking"*;
- *"the worst of times brings out the best in people – we have to tap that energy and make it permanent post-crisis"*;
- *"Luxembourg [ASP/AM] pre-crisis was old fashioned, conservative, protectionist, slow to embrace change and technology, and had poor client service […] this crisis has shaken it into life"* Perhaps a little harsh, but the sentiment is clear to see.

2 Reimagining where we work

- *"The notion of "going to work" has changed forever"* commented one CEO, recognising that HBW has become almost by default a crucial component of "where we work". As mentioned before, none expect a sustained >90% HBW (although beyond Luxembourg firms like Twitter and Facebook have already jumped the gun and told staff they can remain in HBW indefinitely), but neither do any expect a return to a full OBW with occasional HBW for flexible working purposes. The answer lies in the middle somewhere, balancing the economics of lower premises costs and greater resilience, with employee welfare, retention, and work/life balance;
- Premises planning is transformed, with pre-crisis strategies being ripped up. From comments made we anticipate a greater demand for border satellite premises, less expensive and more nimble and accessible to staff, avoiding often energy-sapping commutes and the now perceived dangers of crowded public transport;
- Premises planning reflects a greater focus on the fixed cost elements of the P&L, with an urgency around converting fixed to variable. Not only does this apply to premises, but also some CEOs referred to an assessment of workforce profiles, with certain roles or skills better suited to a "franchise" or "panel" approach, called in when there is demand, but otherwise free to pursue other "demand" in the market. It also points to a new religion around outsourcing, where converting fixed to variable is a prime driver;
- Workstations will need a complete rethink before many staff will be prepared to return; staff need to be confident their employer has invested in their welfare, with newly designed and distanced workstations. Safety at work becomes a new element to becoming "employer of choice";
- Other views we heard, such as *"if you are coming to work and stay at your desk, you could certainly do that from home"*, and *"if everyone is isolated in a plexiglass cubicle, what's the point of going to an office at all?"* suggest a prolonged period of consideration before a "new normal" emerges, but considerable scepticism around whether a largely OBW environment will ever return;
- Indirectly, the concept of business travel is questioned, with many CEOs commenting on how much they or their staff were on trips in the past but that other ways, apparently equally effective, have been found. We anticipate a dramatic reduction therefore, as well as a rethink around industry or corporate events.

3 Regulatory or Political Change

CEOs generally commented the focus needs to be on four areas, if we are to remove key impediments to sustained change and retention of benefits derived:

- Child care: are there better ways, given the challenges experienced by staff trying hard to work from home but having to share child care duty at the same time;
- Tax implications for cross-border staff working from home more regularly; can the politicians embrace the pursuit of a balance between fair and equitable taxation of cross-border employees with the environmental and health benefits which may be derived from a mass reduction in the daily commute;
- Employer liability issues such as "accident du travail" when working at home;
- Regulatory change based on "principles" rather than "client by client" (mentioned earlier, using eSignature as an example).

4 Risk Management

- A recognition that the typical approach pre-crisis was too traditional and formulaic in nature. Whilst it would be harsh to blame your Head of Risk, or even the Leadership Teams, for failing to anticipate a lockdown caused by a pandemic, the general practice and discipline of a more Enterprise Risk Assessment approach has been recognised as a new and important element to predicting, anticipating and managing such risk. The monthly KRIs report is fine, but in isolation often misses the "black swan" type risk. Many CEOs commented on the intention to introduce "war game scenarios" into the leadership team discipline, not just for crisis resilience, but also strategic resilience (who could have predicted the demise of Virgin Airlines or Hertz pre-crisis for example);
- Deconfinement needs very careful planning; staff input is crucial, and of paramount importance is that staff feel the firm has made every effort to keep them safe. Take your time; HBW can be sustained for many months, so no need to rush back to the OBW;
- Asking staff to gradually return to work before firms are able to articulate this as part of a well thought out "end game" appears a dangerous approach, risking the appearance of an experiment, and losing the kudos gained from evidencing clarity of leadership during the crisis peak in March. Questions around how staff will travel to work safely, what differences they will see or perceive at their workstation, what is the eventual plan, will we facilitate testing at the workplace, and many more are all troubling CEOs and Human Capital Executives across Luxembourg right now.

In summary, as one CEO put it :

"we will never go back to where we were, but it will be end of 2020 before the "fear" element of the pandemic is over."

Consequences for the Industry and Society

A common chord as we conversed with the CEOs was their desire to focus more on the broader societal response resulting from the crisis, rather than a narrow focus on their own businesses. A sense that much good can come from their experiences, and a sincere hope and aspiration that many other sectors of society can benefit by way of a community and political response.

This time around, the banking and finance sector is part of the solution, not the problem, and can participate in a redistribution of aid to the Small, Medium Enterprises ("SMEs"), to influence investment along genuine societal aspects of ESG (income inequality, employment opportunity, front line workers, corporate behavior, etc.). The latter sentiment was echoed loud and clear by the CEOs, along with a new hope that the Luxembourg Financial Sector community can be galvanised into effecting positive change in a collegiate way. "Economic policy should be directed towards Main Street not Wall Street", commented one of the CEOs, and SMEs should be particularly supported and nursed back to health.

Many of the CEOs paid tribute to the relatively underpaid healthcare workers and others outside the financial sector who continued to work throughout the confinement phase, and there was a real consensus around redistributing aid to those who were unable to work (and therefore suffered financially) during that confinement phase. Their comments reflect a desire for a more respectful society, a more empathetic world, which understands the importance of climate, environmental and societal issues.

In terms of impact on the Asset Management sector which the CEOs service, we heard several themes emerge, which align well with the sentiments above about creating a more emphatic world:

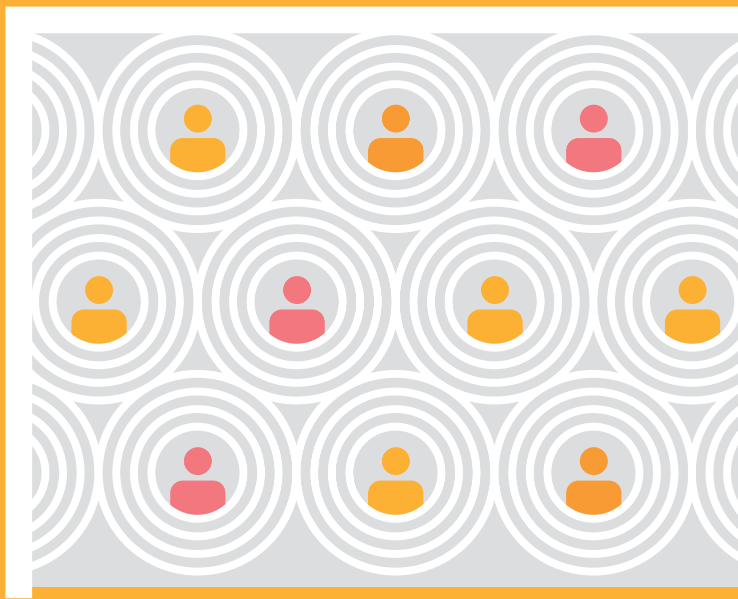
- Active Managers have a tremendous opportunity to prove their value, finding new growth sectors and stocks, particularly in ESG, and related sectors such as Medicare, resilience, digitalisation, workforce & workplace of the future, and replacing business models which have failed to survive the recent global lockdown;
- Both retail and institutional investors can gain from the upside in sustainable investing;
- Companies who have good ESG characteristics (treatment of employees, customers, communities, supply chain, emissions, governance) will be targeted by Asset Managers, increasingly under political direction and regulatory encouragement, and those Asset Managers with ESG capabilities will take market share;
- Large Institutional investors (particularly pension funds, SWFs) may expand their fiduciary duty to embrace further social and environmental stewardship;
- Real Asset and PE funds are likely to grow as the "Build Back Better" philosophy is adopted globally, requiring significant infrastructure investment (in particular fuelled by government economic stimulus policies) and smart new technology start-ups;
- Structured Products with a mix of security (guarantee) with reasonable return, may resurge, in response to (retail) investor demand.

6. As a conclusion

All of the above plays to the strengths of the Luxembourg Asset Management sector and its Asset Service Provider community. Notwithstanding the short term impact on Asset Manager AUM fees driven revenues, and the liquidity/valuation challenges faced by some Real Estate funds, this fusion of a positive business outlook combined with a societal fairness philosophy reflects the hopes and beliefs of the CEOs we interviewed.

It is a fitting epitaph to their incredible efforts in maintaining services through the ultimate resilience test, that they emerge not just as great leaders, but that they reflect an intent to be part of a shift towards a fairer society.

We are proud to have them all as trusted clients.



7. Thank you

We thank the following organisations for their participation in our conversation with the industry.

Mizuho Trust & Banking (Luxembourg) S.A.

HSBC Securities Services - HSBC France, Luxembourg Branch

Alter Domus Luxembourg S.à r.l.

State Street Bank International GmbH, Luxembourg Branch

BNP Paribas Securities Services

CACEIS Bank, Luxembourg Branch

European Fund Administration S.A.

RBC Investor Services Bank S.A.

IQ-EQ (Luxembourg) S.A.

Nomura Bank (Luxembourg) S.A.

Intertrust (Luxembourg) S.à r.l.

Vistra (Luxembourg) S.à r.l.

SGSS Luxembourg

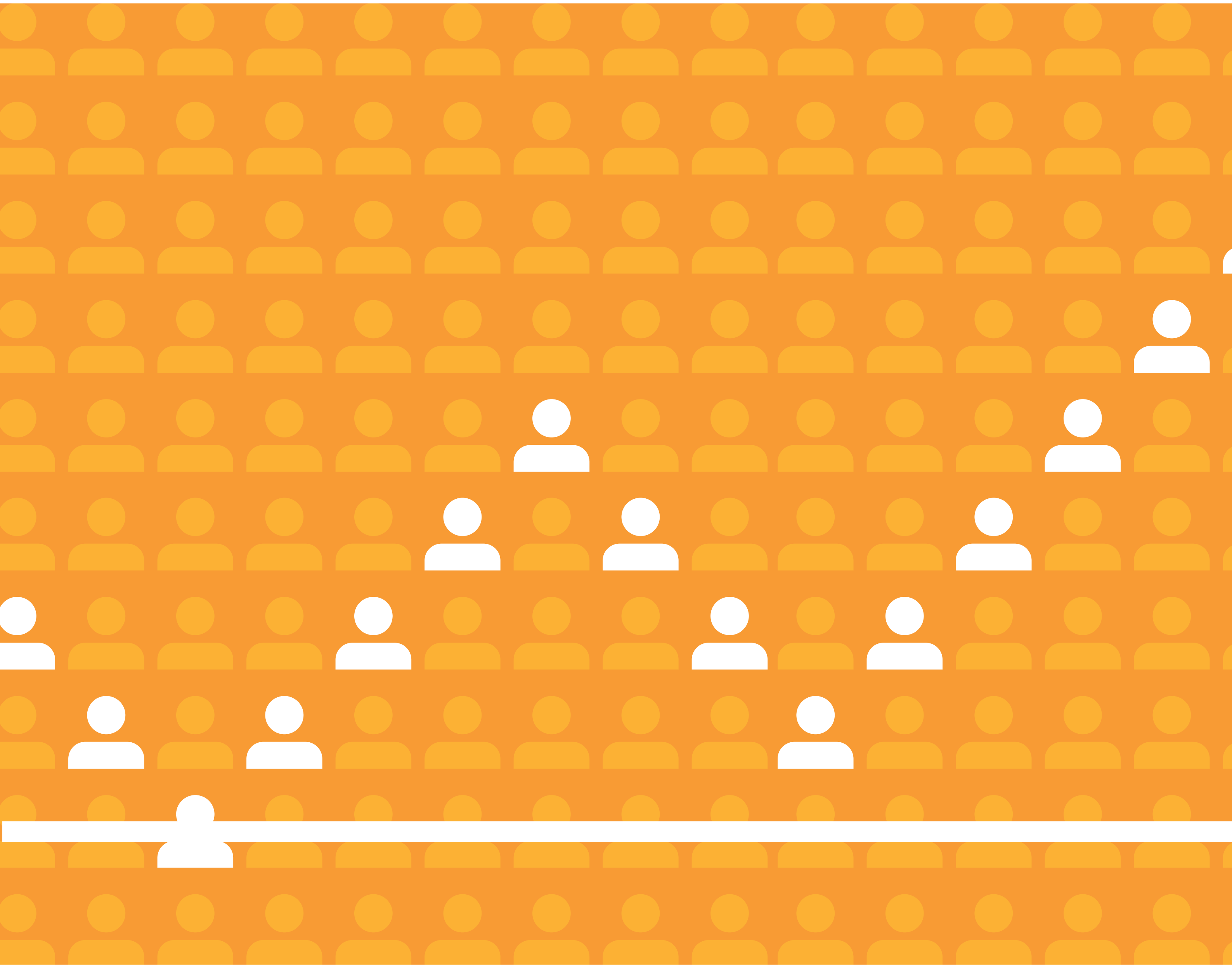
Gen II Luxembourg Services S.à r.l.

PricewaterhouseCoopers, Société coopérative

In addition to the above, several other firms participated but have expressed a preference to remain anonymous

Collectively they represent a significant proportion of the Luxembourg asset service provider community, across a diverse range of activities supporting the Asset Manager community. Their contributions to this publication are very much appreciated.

8. Contacts



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