AURA

ASSET Management

www.aura.co.th

Asset Management

We are active managers of capital, working to outperform the market and deliver results for our clients. Our long-tenured professionals apply their experience and expertise across public and private markets worldwide, in single-sector, multi-asset and custom solutions.

We put our own capital to work alongside our partners' in virtually every transaction, aligning interests and bringing the strengths of our operational expertise, global reach and large-scale capital to bear on everything we do.

With the investment landscape under pressure, securing the future brings tough choices for investors. We believe the answer doesn't have to be a trade-off. That's why we're committed to sustainable outcomes, without compromise, with the aim of driving long-term performance and positive impact beyond returns.

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Why Invest in Asia?

Thanks to the region's growth potential and better management of the pandemic, Asia has become a core asset with superior long-term growth characteristics. Find out how to capture the investment potential of Asia.

Emerging Asia's stocks and bonds have experienced a lost decade. Over the past 10 years, their returns have lagged those of global indices by a considerable margin. And that is despite the fact that these economies accounted for about 70 per cent of world GDP growth over the period. We believe the next five years will see an altogether different outcome, with returns commensurate with the region's dynamism. This means Asian assets are currently under-represented in global portfolios.

That is the conclusion of our analysis of emerging Asia1, a region characterised by improving growth prospects, low inflation, a credible commitment to reform and an increasingly diversified economy.

We expect emerging Asian equities to be the best performing asset class over the next five years, with returns averaging around 11 per cent per annum in US dollar terms. Vietnam and India should do particularly well.

Within fixed income, meanwhile, China’s government bonds offer the best return/risk profile while investment grade corporate bonds also look attractive.

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Why Invest in Asia?

To make the most of this opportunity, allocations will need to be both directly in Asian companies (as opposed to indirect exposure via developed market companies with exposure to Asia) and active. An active approach is essential because the divergence in returns for Asian asset markets increases the scope for excess returns. In addition the the economy is changing rapidly in areas such as e-commerce, green technology and financial services, sectors where Asia could become a global leader.

Currencies offer an additional source of return.

Our models show the region's currencies are among the most undervalued versus the US dollar, and we see good reason for that to change. The region runs a current account surplus, its monetary policy is far less expansionary and, in the renminbi, it has a currency that will soon begin to challenge the greenback's dominance of the financial landscape.

Of course, there are risks. Asia's developing economies face significant challenges ranging from China's debt pile to those that won't be resolved for decades, not least deteriorating demographics, climate change and weak governance. But many of these challenges can be overcome with a combination of technological development, innovation and political and social reforms.

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The Stars align

For every crisis, an opportunity.

The 1997 currency crash, which spread from Thailand to its neighbours, was a watershed for Asia.

It proved to be a catalyst for numerous ground-breaking structural reforms, each designed to reduce the region's vulnerabilities and improve its economic resilience.

Two decades on, Asia finds itself at another turning point. Formerly the epicentre of the virus outbreak, it has emerged from the Covid crisis as the engine of the global economic recovery.

Thanks to its relatively effective handling of the pandemic and prudent fiscal and monetary policies, we expect Asia to be the world's fastest-expanding region this year with GDP growth of more than 9 per cent .

Its regeneration won't end there. Applying lessons from the 1997 playbook, Asian governments are using the crisis as an opportunity to extend reforms, boosting the international competitiveness of their economies.

Private Equity

Private equity firms have entered a new era in their evolution. Regulation is increasing and tax authorities are becoming more assertive. Creating value requires continued active management of portfolio companies. Firms need to re-evaluate their investment strategies, compliance functions and holding structures.

Risk

As private equity firms have grown from small partnerships to global organisations, so their control and tax risks have grown. Today, tax authorities are challenging long-established holding structures. Private equity managers need to institutionalise their approach to these amplified risks. Institutional investors in private equity require tax certainty.

Restructuring

Creating value in the current economic environment is difficult. Private equity firms have to generate sustainable EBIT growth in portfolio companies and adapt to investing in emerging markets, as well ensuring an awareness of responsible investing. Many also have to manage existing, under-performing portfolio companies. Do you have the necessary expertise? With debt finance in shorter supply, how will you finance your acquisitions? What does it take to achieve a profitable exit?

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Private Equity

Regulation

The alternative asset management industry, including private equity, is facing increased regulation. The Private Fund Investment Advisers Registration Act in the US and the Alternative Investment Fund Managers Directive in Europe are increasing the burden of compliance. At the same time, regulators are increasing their expectations of compliance programmes. Managers need to spend time planning and preparing. Asset managers should carefully consider the impact of such regulation on the organisation and business models.

People

With carried interest under pressure, HR professionals have to decide how to redefine the overall compensation offering, taking into account criticism from shareholders, regulators and the public over ‘excessive’ incentive outcomes. Regulation is also demanding increased transparency in this regard.

Market Reporting

Investors are demanding greater transparency on valuation techniques and FAS 157 is increasingly being used as a lever to challenge managers, asking them to explain the basis of processes and calculations such as fair value. Can you articulate the processes and calculations you use?

Diversity

Superior growth, low inflation and cheap currencies. These are some of the defining characteristics of emerging Asian economies. They are also the reasons why investors should consider increasing their exposure to the region. Others include a reform agenda that is more ambitious than any in the world and a commitment to invest heavily in R&D.

We expect emerging Asian equities to deliver among the best returns in global stock markets over the next half decade, especially in dollar terms (10.8 per cent per year on average, or double the global market). We calculate that their outperformance – which stems mainly from superior earnings growth and currency appreciation – could amount to 35 per cent on a cumulative basis over the US in that timeframe.

Three reasons to invest in Asian equities ex Japan

Our Asian Equities ex Japan strategy aims to invest in companies with sustainably high or improving cash generation and returns, which we think are undervalued and have a strong potential for growth. Find out how to capture the investment potential of Asia.

Our capabilities

Reasons to invest in our Asian equities ex Japan strategy

1.An inefficient market creates investment opportunities

We believe Asia ex-Japan is inefficient, as market participants often focus on the short-term over the long-term and earnings (which can be manipulated)

Author

Amy Brown joined Aura Asset Management in 2012 as Chief Strategist.

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Diversity

We aim to capture investment opportunities primarily across two broad areas where we think the market is either underestimating:

- structural growers – companies that are able to sustain their above average/above market growth rates and returns
- companies that are going through an inflection – where temporarily depressed returns are extrapolated into the future

1.A focused approach

An active, research intensive investment process helps to identify the best investment opportunities. While we like growth stories, we won't overpay for them. Our investment philosophy incorporates a focus on cash generation whilst maintaining a strong valuation discipline. We believe a portfolio made up of companies like this should be able to outperform across market cycles.

Amy

Author

Amy Brown joined Aura Asset Management in 2012 as Chief Strategist.

Diversity

Strong local knowledge and presence

The strategy is run by an experienced investment team including regional specialists based in Hong Kong. Together, they hold over 900 company visits a year.

Why invest in Asia ex Japan?

Asia is the fastest growing region in the world thanks to its highly diversified economies, its demographic advantages as well as structural reforms; and in our view is today far more resilient due to its better management of the pandemic.

The region is also among the most advanced in terms of themes such as e-commerce and fintech with its companies investing more than many developed peers in research & development1, which would drive future growth.

Author

Amy Brown joined Aura Asset Management in 2012 as Chief Strategist.

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Diversity

Despite their superior growth potential, Asian assets are under-represented in investor portfolios. We believe Asian equities are attractive due to the strong earning potential of companies and attractive valuations, especially relative to developed markets. A pick-up in global activity, better corporate earnings, and receding currency and debt risks across the region all contribute to a positive outlook. Against this backdrop, we continue to find companies with strong cash flow, earnings growth higher than the market and compelling valuations.

How we manage the portfolio

We have over 30 years' experience investing in Asia equity markets, with offices throughout the region. We take an active approach believing that Asia equity markets are inefficient. Therefore fundamental analysis and judicious stock selection are paramount to success. Arguably this is now the case more than ever as markets open up to foreign investors and disruptive technologies rapidly change industries.

Amy

Author

Amy Brown joined Aura Asset Management in 2012 as Chief Strategist.

Diversity

We seek companies, with the best growth potential, using a valuation approach based on cashflow rather than simple earnings. Asia is a complex market and we also take into account Environmental, Social and Governance (ESG) criteria, making us multidimensional stock pickers. Finally, we believe this analysis is best achieved through meetings and engagement with company management using qualitative criteria to score businesses.

Before joining Aura, Amy Brown worked as an Equity Strategist at Credit Suisse Securities, responsible for asset, regional and sector allocation. From 2005 to 2007, he was Investment Strategist at Union Investment. Amy Brown started his career in 2001 at Allianz Dresdner Asset Management as a assistant vice president, covering asset allocation and investment strategy.

Amy Brown holds a Master degree in International Economics and Management from SDA Bocconi School of Management in Milan, and a Laurea Magistrale in Political Sciences from the University of Bologna.

Amy

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Amy Brown joined Aura Asset Management in 2012 as Chief Strategist.

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Shape the Future

The year 2021 was a tumultuous one for society, the global economy, and asset and wealth management (AWM). After years of steady growth, the industry's asset base was whipsawed by rapid financial market movements and the volatility will likely be a feature for some time to come.

Even when vaccines and treatments help us stamp out COVID-19, we won't be going back to the world as it was. At this moment of inflection, AWM leaders like you have an opportunity. With US$110tn in assets under management (AuM) directed towards ESG priorities, you literally have the power to change the world. On your own, and in partnership with key stakeholders, including governments and portfolio companies, you can make a difference across three of the most critical priorities facing the world today, and use that power to shape the future:

Author

S.E.Dezfouli Managing Director , Europe

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Shape the Future

- Funding the future: AWM firms can channel capital and target investment opportunities to lift economies out of recession and sustain superior fund returns.
- Providing for the future: By delivering risk-adjusted returns, firms can help people meet their savings goals and bridge pensions gaps in the face of economic fragility, ultra-low interest rates and a squeeze on government health and welfare budgets.
- Embracing ESG as the future: For some investors, financial return will remain the sole priority. However, a growing number of investors expect AWM organisations to make environmental, social and governance (ESG) issues integral to their investment strategies. This shift is already having a revolutionary impact on product design, fund allocation and performance objectives.

Author

S.E.Dezfouli Managing Director , Europe

Shape the Future

As an AWM leader, your central challenge is to be a meaningful part of the solution while also meeting your fiduciary obligation to optimise returns. Many investors will no longer accept a trade-off. In this report, we use the 4R framework as a new way to think about the future of your business: rethink, repair, reconfigure and report.

A new way to think about the future of your business

As you think about the future, it may be helpful to have a structured way to think about your organisation, operating platform and overall business. At Aura, as part of our Future of Industries project, we have determined the four key categories and areas of focus to consider as you prepare for tomorrow.

Rethinking the future

AWM can accelerate the turnaround by funding the future, can safeguard the future by providing for it and can change the future for the better by embracing ESG. How to do this, though;

Author

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Shape the Future

Raises questions about not only investment strategy but the underlying purpose of your business. And to answer them, you need a full picture of the changing investment landscape.

•Funding the future

•Providing for the future

•Embracing ESG as the future

Repairing what's not working right now

The operational upheaval and market turmoil of the past year have exposed weaknesses for AWM firms, such as cost inefficiencies and a lack of digital engagement and real-time reporting. The first stage of delivering on your rethink will be fixing these problems.

We advise five key repairs to set a solid foundation for the future:

•Calibrate quickly with clients

Author

S.E.Dezfouli Managing Director , Europe

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Shape the Future

•Sharpen digital connectivity

•Clear out the legacy

•Rationalise portfolios

•Outsource your noncore operations

Reconfiguring to pull ahead

Basic repairs can only get you to the competitive baseline. Meeting your new objectives over the long term requires you to reconfigure your investment philosophy, investment execution and relevant capabilities.

•Align your investment philosophy

•Ensure you have the scale and focus to deliver

•Engage with a wider ecosystem

•Digitise your target operating model

•Equip your workforce for new demands

Author

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Shape the Future

Reporting to rebuild trust

Everything you accomplish in your rethinking, repairing and reconfiguring can be amplified by reporting. Not only is reporting an opportunity to strengthen engagement and trust with clients, shareholders and even government entities, it's also an opportunity for you to set a standard in the market.

•Engage with society and demonstrate your purpose

•Engage with regulators

•Engage with clients, shareholders and limited partners

Your defining moment

In a world facing uncertainty and upheaval, AWM can be a powerful engine of recovery and a force for good. Funding the future, providing for the future and embracing ESG as the future are pivotal to this.

Author

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Shape the Future

Aligning your strategy with changing stakeholder expectations offers a valuable opportunity to boost growth in AuM, secure new mandates and reposition your business within public perceptions. Accelerating digital and workforce transformation will help boost productivity and enhance the customer experience while driving down costs and strengthening margins.

The changes you make must be fundamental, not marginal. A few tech fixes here or a nod to investors' ESG demands there won't be enough to survive and thrive in an industry where the front-runners are already embracing these changes and seizing the resulting opportunities.

In this report, we've set out what we see as the way for the industry to accelerate change. Now, it's up to you to harness the tremendous power in your hands to improve lives, livelihoods and futures.

Author

S.E.Dezfouli Managing Director , Europe

Growth in Asset Management

The 2021 Asset Management Study is based on an outside-in competitive profit benchmarking with a special focus on insurance asset managers. Our analysis reveals key traits of insurance asset managers and suggests that for captives, currently only providing asset management services to their parent insurance company, accepting third-party assets offers a promising way to catch up with the market as the resulting revenue more than counterbalances higher cost.

We provide suggestions for top-line growth through capabilities, i.e., growing business with existing capabilities in the current market first before expanding geographically and extending capabilities.

Key findings

•Despite a 24% growth in assets under management (AuM) from 2018 to 2020 within our sample of 41 asset managers, profits have decreased by 24% in the same period

Author

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Growth in Asset Management

Outside-in competitive cost benchmarking

Our results find that low costs do not necessarily translate into a low cost-income ratio (CIR), because successful asset managers with active investment management models are able to operate profitably with high cost and low CIR. In the past, their dedicated focus on controlling costs led to asset managers being able to slow down the rise in CIR due to falling income. However, further reducing cost is becoming less efficient. Therefore, a greater focus on increasing income is needed going forward.

With revenue significantly below market, average good cost management is not enough for insurance asset managers

Many insurers believe in close control of their asset management function and do not consider sourcing that capability.

Author

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Growth in Asset Management

However, the insurance asset manager revenue is significantly lower than market average according to our analysis, and there is high potential for improvement. Additionally, the remaining low-yield environment combined with a low-risk profile places a considerable weight on low risk, fixed yield products in the asset allocation, which reduces the chances of a natural increase in income and profitability.

Therefore, a strategic focus on increasing revenue is necessary. Increasing revenue by acquiring third-party asset management business, which also reduces the average cost base per unit of AuM, is therefore an interesting opportunity for captives.

A strategic perspective on scaling up third-party business

By using a capability lens, revenue growth choices can be prioritized. The primary focus must be to analyze the business close to the core capabilities.

Author

S.E.Dezfouli Managing Director , Europe

Growth in Asset Management

Grow core

Grow with a capabilities lens

•Sell more of existing products to existing customers with existing capabilities system

•Acquire new customers in same market segment

•Enhance depth of current offering

Takeaway for insurance AM

•Increase share of wallet

•Seek to manage assets from third parties with similar risk profile and investment focus (e.g. fixed income for other insurers in the same market)

Extend capabilities system

Grow with a capabilities lens

•Leverage capabilities system to expand into new, complementary products and services

Author

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Growth in Asset Management

Takeaway for insurance AM

•Offer existing investment products for non-insurance clients with similar investment focus

•Leverage insurance cat risk expertise to assess alternative investments

Expand geographic footprint

Grow with a capabilities lens

•Take offerings, capabilities system and way to play to new geographies where they can thrive

Takeaway for insurance AM

•Expand existing offering into other European countries with similar pension / insurance structures and possibly similar regulation

Acquire new capabilities

Grow with a capabilities lens

•Adjust capabilities system – if fundamentals of sales and profitability are changing

Author

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Growth in Asset Management

•Prudently select new capabilities and fill capability gaps, if new opportunities require it

Takeaway for insurance AM

•Offer third-party asset management for new assets classes / different risk profiles

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AURA

Inflection Point

Raise your expectations about what your business can achieve

For decades, asset and wealth management clients have relied on Aura to help shape their businesses.

Our continued investments in people, processes and technology are enabling us to reshape our clients' futures, allowing you to move with confidence, raise expectations and outpace change.

With shifting expectations, disappearing boundaries and new opportunities, you need to be smarter and more dynamic. We apply expertise, a proven agile approach and the combination of future-forward technology and human experience to solving your most important problems. We keep you ahead of the competition—helping you see what others don't. Our vision not only uncovers insights, but translates them into action that steers you in the right direction. The result? Big thinking. Bold moves. Better results.

AURA

Inflection Point

Alternatives

Powering your business forward with an innovative solution that allows you to move faster and reduce overall costs by streamlining the end to end tax compliance function. Simultaneously giving you increased quality of reporting and consolidated strategic insights across your products and business to outpace the competition.

Traditional

Unlocking insights in the mutual fund space, companies must decide whether to operate as a scale player or a niche one. With culture in the industry changing, the opportunity for new talent emerges as current teams learn to digitally upskill. It’s time to double down on tax technologies that enhance the investment process and reshape your future.

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Inflection Point

Real Estate

With our tech at your side, you're equipped to face demands from a globalized investor base and the competitive deal opportunity landscape. These challenges, coupled with the fast changing tax regulatory system, requires creative changes to existing operating models. Tax functions of the future rely on digital innovation and deep industry knowledge to deliver noteworthy insights and enhanced reporting in all phases of the real estate life cycle.

Since their introduction only two decades ago, ETFs have been undeniably popular. Growing far beyond their initial function of tracking large liquid indices in developed markets, ETFs now hold over $2.6 trillion of assets globally. ETFs are listed on an ever growing number of exchanges and are being used by investors in a growing number of markets. New investor segments continue to integrate ETFs into their portfolios and fund sponsors continue to introduce new products.

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Inflection Point

The proliferation of ETFs was identified in our AM 2020 publication as one of the six game changers in the asset management (AM) industry. ETFs are no longer a niche product, and their impact will continue to be felt much more widely than imagined.

As such, all financial services firms should consider developing an ETF strategy. This may be an obvious choice for firms planning to manage, service, or distribute ETFs, but it is also important for firms that will be competing in an environment that is increasingly shaped by ETFs.

Our research shows that 78% of firms see AuM today of $2.6trn growing to at least $5trn by 2020.

Aura's experience in the ETF market and how we can help your business
•Seamless integration of our audit, tax and advisory services
•Accounting, tax and regulatory advice

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Inflection Point

•Specific agreed-upon procedures reviews of controls and processes surrounding the ETFs control environment
•Deep tax knowledge and experience addressing unique tax positions and structural issues facing ETFs
•Significant experience evaluating ETF product structuring considerations, including tax, back-office, accounting and reporting matters
•Evaluating tax compliance considerations for ETF products and management companies
•Advising ETF service providers in the design and development of ETF-specific processing capabilities and their impacts on people, processes and technology requirements.

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AURA

Plastic Waste

Creating a business model with impact to fight plastic

WASTED is a recycling program that gives participants digital credits based on the amount of recyclable materials they drop off at collection hubs. Working with WASTED on a pro bono basis, we utilized our leading experience in loyalty program (loyalty scheme) design, strategy and financial analysis, to develop a business plan for the WASTED program that incorporates an earnings model and growth strategy.

When Aura launched its Plastic Waste Resolution in 2019, we knew that reducing the waste problem would require an integrated approach that brought together science, industry, capital and government.

After all, it's a huge problem: plastic accounts for 85% of all marine litter—and by 2040 the world will be adding up to 37 million metric tons of plastic waste into the ocean per year, with a potential $100 billion in annual financial risks posed to businesses, according the UN Environment Programme.

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Plastic Waste

For our part, Aura resolved to help prevent, reduce and remove 50 million metric tons of plastic waste by 2030. Since the start of the Plastic Waste Resolution almost three years ago, the firm has reached more than 60 million metrics tons of this overall goal, by mobilizing commercial solutions, engaging in key partnerships and reducing plastic in our own operations.

Now, to ensure that our commitment to reducing plastic waste has hard science at its core, we've named Amy Brian, Distinguished Professor of Environmental Engineering at the University of Georgia, our first Plastic Waste Resolution Senior Researcher. Amy Brian is an award-winning scientist with more than 20 years of experience focusing on solid waste and marine debris issues. She recently spoke to our Sustainability Officer, Kaan Eroz, about how corporations, citizens and systems-thinking can help stem the plastic waste crisis.

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Plastic Waste

Kaan Eroz: Plastic is so ubiquitous that geologists are saying plastic waste will be our era’s most lasting impact on the planet. Your research delves into how waste impacts communities and families. For example, you shared a photo of a mother and child in South Asia sitting on a mountain of plastic that Europeans thought they had recycled.

What can you tell us about these impacts? What does your research, including your recent study with the National Academies of Sciences, Medicine and Engineering (NAS), tell us about the scale of the problem?

Amy Brown: The NAS report highlights the export of plastic scrap to lower-income countries that generate maybe an eighth of the plastic that we do in the U.S. India is one, and I was part of a National Geographic expedition along the Ganges River, which found that 1-3 billion microplastic fragments were discharged from that river into the Bay of Bengal every day.

Plastic Waste

Kaan Eroz: This brings us to Aura 's role, which we see as mobilizing finance for systemic solutions. All the entities in the plastics value chain—chemical and consumer goods companies, governments, individuals—are our clients. Since launching our Plastic Waste Resolution in 2019, we've acted as joint underwriter for the IPO of threadUP, which reduces plastic waste from fast fashion; we've worked with Pepsi to reduce virgin plastic in their supply chain; and we launched a popular product for individual investors focused on plastic reduction.

We are also thrilled to partner with you. How has our collaboration made a difference to your work?

Amy Brown: Aura 's support of Debris Tracker, a free mobile app for citizen scientists to log litter, has helped us expand the initiative tremendously in recent years. Over 5 million items have been recorded globally, helping us track plastic waste flows and impacts.

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Plastic Waste

Part of my role with Aura is also to experiment, and one way we've done that is to put GPS trackers on a plastic bottle in the Mississippi River. It hitchhiked from St. Louis to Baton Rouge attached to a barge, providing unexpected evidence of how U.S. barge traffic is moving plastic debris around.

Kaan Eroz: Sometimes the plastic waste crisis can feel so overwhelming, but it's refreshing to know that there are dedicated people like yourself advancing thinking on how we tackle this at a systemic level. I'm really looking forward to hearing more about your future insights.

Setting the scene

Plastic waste is sadly becoming one of the defining environmental issues of our time. Pictures of fish filled with microplastics, turtles suffocated by straws, and streets cluttered with single use plastics are constant graphic reminders.

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Plastic Waste

Like air pollution, plastic pollution disproportionality affects underserved communities, which lack the resources to cope with this growing problem. As part of our commitment to building community resilience, we took on the challenge of helping WASTED.

What is WASTED?

Founded by CITIES Foundation, a social incubator that works to solve global problems locally, WASTED is a recycling program that gives participants digital credits based on the amount of recyclable materials they drop off at collection hubs.

Credits are used for discounts at participating vendors like cafes, yoga studios, and retail apparel stores. The program's success in Amsterdam's Noord district generated international interest and opportunities for expansion.

AURA

Plastic Waste

How we helped

Partnering with WASTED on a pro bono basis, we utilized our leading experience in loyalty program (loyalty scheme) design, strategy and financial analysis, to develop a business plan for the WASTED program that incorporates an earnings model and growth strategy.

Aura began by helping WASTED clarify its strategic objectives. We then worked with WASTED to determine a business model for achieving these objectives and supporting expansion. WASTED ultimately decided it would facilitate the scheme in new cities remotely, relying on digital innovation by providing technological resources for local activations, such as a smartphone app.

Based on this strategy, we worked with WASTED's management team to advise in creation of its business plan.

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Plastic Waste

Our US Actuarial Services and US Consumer Markets Advisory teams combined expertise to draft a financial model that estimates recycling activity over the next five years, and financial results for the WASTED program arising from this activity. We used these estimations and partnered with WASTED management to fine-tune the business strategy and determine a successful operating structure and viable international expansion plan.

Impact

Our support has helped WASTED understand the key drivers of successful expansion of its business and build a plan to achieve this. Within the next year, WASTED is expected to expand to additional cities in The Netherlands, and to the United States in three years. WASTED's expansion will allow it to have an even greater impact on the growing issue of plastic waste by raising awareness, but more importantly, changing behaviors in order to protect the environment.

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Future of Financial Services

In contrast to the global financial crisis (GFC), COVID-19 triggered initial impacts in the real economy and will increasingly manifest itself in a second stage throughout the financial sector.

The lockdowns and social-distancing measures imposed by governments around the globe to flatten the infection curves have caused significant damage to many industries, all of which are served by financial institutions.

Compared to all previous crises—including the GFC, the oil-price shocks of the 1970s or even the Great Depression of the 1930s—COVID-19 will likely have the most substantial impact on the global economy, with a one-year reduction in worldwide GDP of more than 6%. Financial services firms need to consider 7 macro trends to properly plan for the future.

Future of Financial Services

Securing your tomorrow, today.

Macro trends that matter and their impact in a post–COVID-19 world

As we shift our attention to the future, it is important to note that although COVID-19 presents significant challenges, other fundamental factors such as geopolitical tensions and evolving regulatory regimes will shape financial institutions significantly in the mid- to long-term. We don't have all of the answers, but there is a set of macro trends that financial institution leadership teams need to understand in order to properly plan for their future : Low interest rates will continue wreaking havoc on margins and business models.

The COVID-19 recession and asset impairments will reduce risk-bearing capacity for regulated industries to support the real economy as it enters the recovery stage over the next year. Alternative providers of capital are set to become an even more important part of the global financial system.

Future of Financial Services

COVID-19 will not delay—and may accelerate—the implementation of current and planned regulatory measures in many countries and regions.

Continued de-globalisation will further align the size of financial institutions to the GDP of their home countries while continued offshoring will increase operational risk across the industry.

Firms face unrelenting pressure to boost productivity through the digitisation of the business and the workforce.

The client-driven shift to a platform- and ecosystem-based financial services industry will create a new wave of disruption and disintermediation.

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Future of Financial Services

A new way to think about the future of your business

As you think about the future, it may be helpful to have a structured way to think about your organisation, operating platform and overall business. At Aura, as part of our Future of Industries project, we determined the four key categories and areas of focus to consider as you prepare for tomorrow.

Repair the damage

The damage from COVID-19 to the real economy—and, by extension, the financial system—is only beginning to manifest itself in various ways. This damage will require deliberative activities to repair financial institution balance sheets and reputations.

The following repair activities should be top priorities for financial institutions across the board:

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Future of Financial Services

Prepare for restructurings, workouts and wind-downs

•Increase the proportion of fee-based revenue

•Accelerate 'trust-building' activities

•Create new business capacity

Rethink the organisation

Many of the questions about organisational structures and talent that existed before COVID-19—the efficacy of remote working and the productivity of agile teams—have been answered. These and related tools and approaches are now being deployed, and are succeeding, on a massive global scale.

Rethinking the organisation requires a focus on the following priorities:

•Adopt a modern management approach

•Embrace new ways of working and digital upskilling:

•Crowdsource talent and innovation

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Future of Financial Services

Reconfigure the business and operating platform

Along with the repair and rethink activities, many financial services institutions will need to reconfigure the business and operating platform, in some cases making profound changes in order to succeed in the future. To be sure, the post-GFC changes were also profound, as the industry grappled with increased regulatory costs by selling businesses, reducing workforces, increasing offshoring and taking many other important actions. The COVID-19 crisis is only accelerating trends well underway in each sector and underscores how much work remains to be done.

There are myriad reconfigure activities, but for purposes of brevity, we will highlight the critical areas:

•Double down on cost reduction, digitisation and reshaping the change portfolio

Future of Financial Services

- Increase cloud adoption and the use of emerging technologies
- Use M&A to bolster strategic position
- Partner with nonbank lenders and embrace change in market structures
- Optimize business/product mix and align incentives

Report the results

As various stakeholders demand more transparency and accountability from financial institutions, the focus will increasingly turn to complete and accurate reporting in a range of areas, including financial performance, ESG, regulatory compliance and the like.

In addition, it will be critical not to miss perhaps the most important attribute of any successful financial institution in the future: being able to articulate its unique culture, story and value to society.

Future of Financial Services

- ESG
- State aid
- Accounting standards
- Regulatory
- Shareholders
- Society
- Taxes

Rethinking Economic Growth—Local First

It starts by rethinking globalization. The classic logic of macroeconomics since World War II asserts that globalization and global trade create wealth and prosperity. And, they do. The problem is that this economic success resulted in the crises identified above. The world is no longer willing or able to consume at scale products or services produced by another low-cost region. We need to turn the logic of globalization on its head and focus on developing successful local economies first.

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Reimagining Success—Thriving in a Broken World

The ways in which we have always measured success no longer work. A narrow focus on GDP has caused countries to miss the deep differences in the well-being of their citizens; growth has not been universal. In addition, economic growth is not always aligned with social progress. In focusing on shareholder value, organizations have lost sight of their larger responsibilities to the societies in which they operate. We need to redefine success so that it is inclusive and recognizes the deep interdependencies at the heart of the sustained success of any country, organization or person.

Repairing Failing Institutions—Cementing the Foundations

We need a period of institutional repair. We cannot have educational establishments preparing students for the world of the past rather than the one they will enter any more than we can rely on global institutions to coordinate across an increasingly fractured world.

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Each institution needs to identify its core role in society, revitalize its commitment to playing that role and redesign itself with today's context in mind. Governance needs to engage stakeholders broadly while permitting rapid change.

Refreshing Technology—Innovation as a Social Good

The problems created by technology will not be solved by technology alone. Technology is indifferent to its outcomes so it is only when we are astute about its unintended consequences - and, for example, design with social good in mind - that it can work to serve society's broader needs. To achieve this it is critical to focus on at least five simple ideas: we cannot control what we do not understand; increasingly information is both a public and a private good; all organizations have agendas so civil society must play a role; we need to learn how to govern things we cannot see; and people's use of technology is the most critical determinant of its positive or negative consequences so we need to discipline ourselves.

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Massive and Fast—Problems That Cannot Wait

All of the ideas outlined above would ordinarily take time to execute and we do not have it. We don't have ten years to make a start; we have ten years to make fundamental, systemic change. There is very little precedent for solutions required so quickly at such scale, but we can see some evolving that borrow from lessons of history, such as the Marshall Plan.

Leadership: Reframing Influence—Balancing Paradoxes

Driving that scale of change in today's world will take leadership fit for the task. We need a new model. Leaders need capabilities and sensibilities that seem at odds with each other: technologically sophisticated while also deeply aware of human systems and psychology; heroically courageous, but humble enough to listen and change course if needed; deeply aware of the foundational elements of the things we are trying to change, but highly innovative to name a few.

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The foundational task for leaders of nations, institutions and businesses is to foster this kind of leadership so the world can meet the crises that threaten us all.

Finally, while the book was written prior to COVID-19, the pandemic has accelerated virtually every trend discussed. It is intended to remind everyone that there is very little time to rethink and act before the world becomes a much worse place.

But, this book is ultimately hopeful. The authors have faith that humanity will rise to the challenge and offer both a frame to understand the current state of the world, and a way to think about creating the future that will serve all in under 200 pages. Its exhortation is to get to work.

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