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Financial Services COVID-19 Market Research Perspectives

Ongoing coverage of COVID-19's impacts

This is the biggest short-term hit the economy has ever seen; at this point, there is no question that it's unlike any other event in history. But, consumers spend best when they feel safe and secure. With that sense of security undermined, people are holding back. In some categories, they are unable to spend (e.g. cancelled cruises), and in other areas people are unwilling to spend (e.g. postponing new car purchases). If they don't spend, our economy suffers. We have to entice the consumer to spend.

In this volume, we bring you insights from each of Escalent's industry groups to help you stay on top of consumers' attitudes, opinions, and behaviors—especially when it comes to spending and economic recovery.

We're tracking the impact of COVID-19 on Financial Services.

Click here to revisit past issues.

We've got you covered.

What to do:

1. **Encourage Consumers to Spend for Now**
2. **Accommodate More Digital/ Online Spending**
3. **Step-Up to Convey Trust and Boost Spending**

Financial Services Industry Impacts

> *"Much recent news boils down to the comparison of what's good for the individual versus what is good for the group. When it comes to savings, individuals cannot lose sight of the value of emergency savings and of compounding over time. However, there has never been a better modern time to spend for the good of the group."*
>
> – Lindsey Dickman, SVP, Financial Services

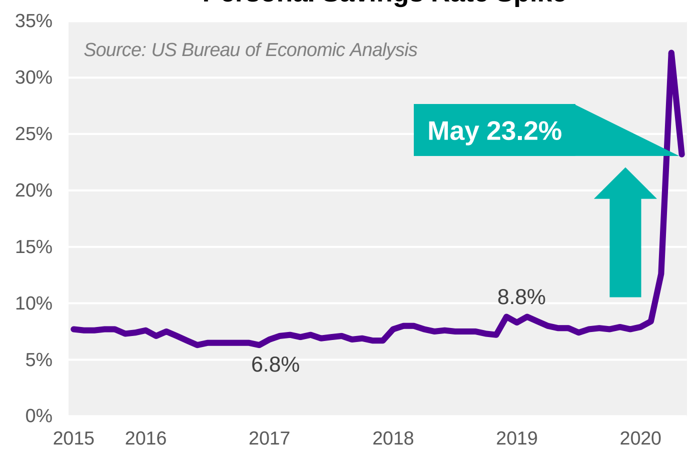
The Savings Conundrum

The US economy (still the world's largest) is consumer driven – if consumers don't spend, the economy doesn't work. That's one reason policy makers have injected so much liquidity into the financial system.

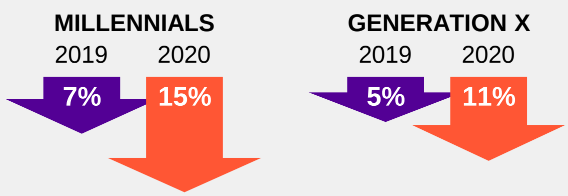
But financial services is often very focused on saving and investing, particularly for retirement as people aren't as prepared as they should be. But the spike in the savings rate now is just too much too soon.

It's a very challenging time for many of our clients. While long term US consumers need to increase savings for retirement and decrease debt, right now the economy needs consumers to spend, spend, spend.

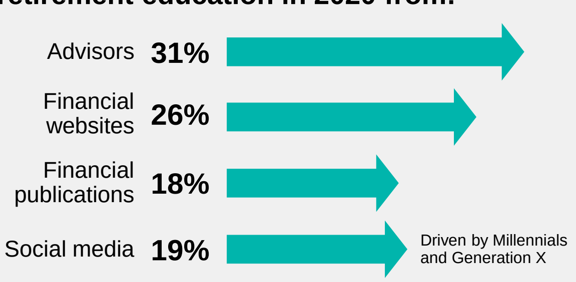
Personal Savings Rate Spike



More than double have decreased plan contributions:



Compared to last year, more are seeking retirement education in 2020 from:



Source: Cogent Syndicated. DC Participant Planscape™. June 2020.

Beyond Savings

Beyond savings alone, defined contribution retirement plan participants demonstrate a suite of behaviors that could lead to lower long-term financial outcomes. Even when pent-up demand for goods/services is released, lower-risk investing and decreased plan contribution levels may stay. However, there are strong signs that investors are particularly active and engaged with their finances now. This creates an unusual opportunity for retirement and investment providers to reach out to investors who are paying more attention.

Looking at Trees, Not Just Forest

Beneath the aggregate surface is a wide range of outcomes. Changes look different by age, gender, ethnicity, wealth level and sector. Engaged retirement plan participants have increased their plan balances on average in 2020. After having emergency savings plans tested, engaged participants actually increased feelings of wellness and optimism. And now markets are beginning to look similar to a year ago. Layoffs continue, but hiring has increased. There are bright spots within the broader trends.

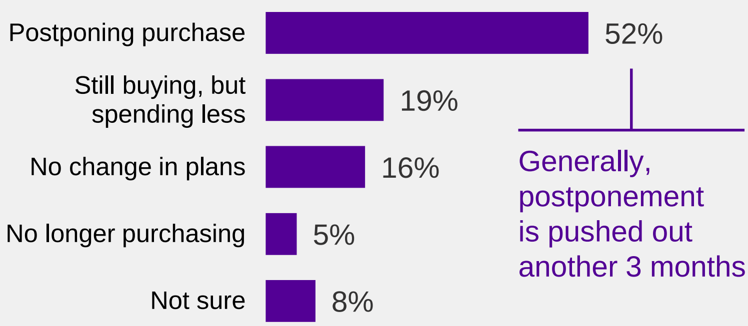
Automotive & Mobility Industry Impacts

"There are several signs suggesting we are on the road to recovery—sales are much stronger than anticipated, plants are ramping up to full production, franchise dealers are optimistic about the coming months. To build on this momentum, it is critical for dealers to create an environment where customers feel safe, and to prepare for a new way of conducting business in a post-COVID-19 world."

– Dania Rich-Spencer, VP, Automotive & Mobility

Pent-Up Demand to Spend Remains

Enabled by attractive financial incentives offered by auto manufacturers, historically low interest rates, unprecedented stimulus checks and timely tax refunds, acquiring a vehicle in the next few months is still a priority for most. Despite the economic uncertainty, the proportion of 12-month vehicle intenders is stable, which is a very promising sign for the industry.



Proportion of 12-month vehicle intenders have stayed stable:

29% March

28% April

26% May

Source: Escalent, March-May 2020.

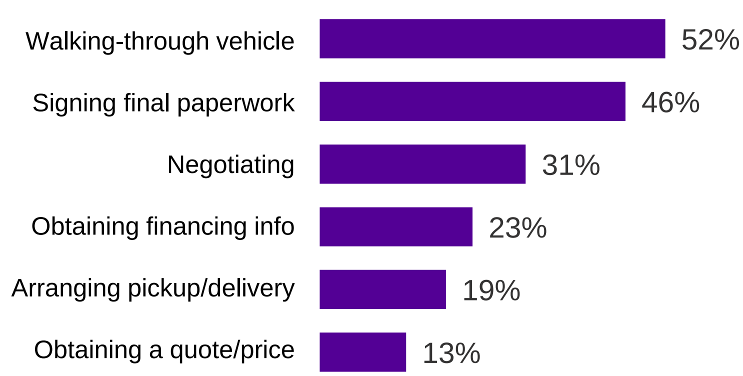
Drive to Digital…

There is no doubt that COVID-19 has accelerated digital retail. Consumer expectations, heavily influenced by an increase in online purchases during the pandemic, will only grow. However, it is important for dealers to strike the right balance as consumers are looking for almost 40% of the vehicle purchase process to be online.

39% of the purchase process should be online

…But In-Person Is Still Indispensable

There remain aspects of the auto purchase process that should not be online:



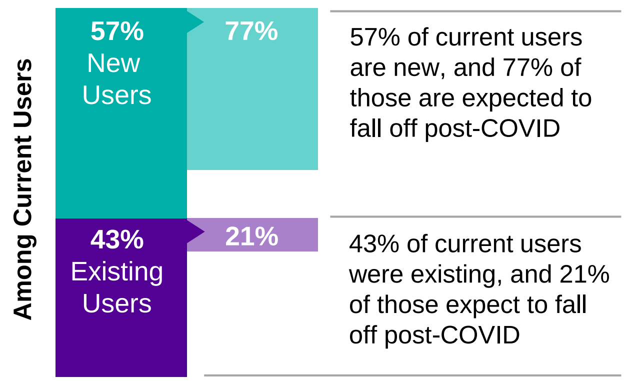
Consumer & Retail Industry Impacts

"New ways of delivering to consumers have surged during the pandemic. But, recent data show that many consumers are longing to direct their restaurant dollars back to traditional channels."
– Zack Sneider, Senior Director, Consumer & Retail

Longing for Restaurant Normalcy

We've observed a massive uptick in new users of restaurant delivery and meal kit delivery services, like DoorDash, Uber Eats, Blue Apron, HelloFresh and the like. That said, more than two-thirds of new users (77%) do not plan to continue using these services once COVID-19 is finally over. And a sizeable number of pre-existing users (21%) are frustrated enough to fall off also. Most people are longing to get dining back to the way it was pre-pandemic. Of course, nothing is set in stone, especially these days. These services may still be able to make changes to address the many pain points uncovered during their massive expansion, and find ways to better integrate in to consumers' "normal" lives. (Read More).

Use of restaurant food delivery services is expected to plummet by at least half post-COVID. That includes:

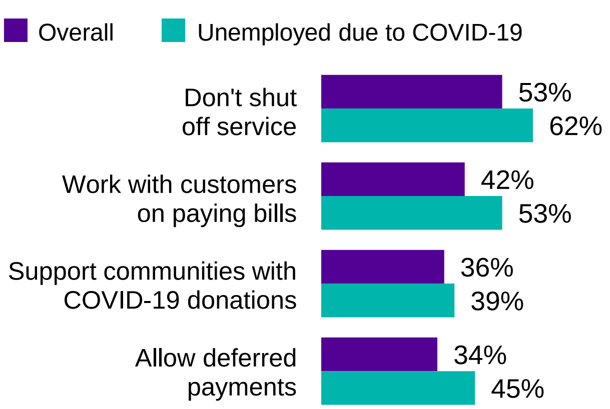


Source: Escalent Omnibus. May 2020, n=1,432.

Energy Industry Impacts

"Our research clearly shows that immediately understanding COVID-19 impacts has allowed utilities to respond in customer-centric ways. Exceeding customer expectations built stronger, trusted relationships with their residential and business markets."
– Chris Oberle, Senior Vice President Energy, Cogent Syndicated

COVID-19 Responses Expected by Utility Customers



Source: Cogent Syndicated. Utility Response to the COVID-19 Pandemic. June 2020.

Utilities Stepped Up, Increased Trust

A new syndicated report shows that as COVID-19 stressed the finances of consumers, they expected their utility help them economically. In fact, 70% said they expected their utility to work with them on paying bills, defer payments and not shutting off service for non-payments. Overall, 84% of customers were aware that utilities instituted those support efforts. Further, almost 80% of customers that needed economic help the most (those laid-off or furloughed due to the pandemic), expected their utility to offer a financial arrangement, while 85% said they were aware their utility already offers those arrangements. These and other swift actions from utilities earned them high marks as they exceeded those customer expectations.

Health Industry Impacts

"We know consumers are delaying preventative care, sometimes driven by their own comfort levels and sometimes by their providers. Additionally, we're finding that some consumers are actively trying to reduce their health spending during the pandemic."

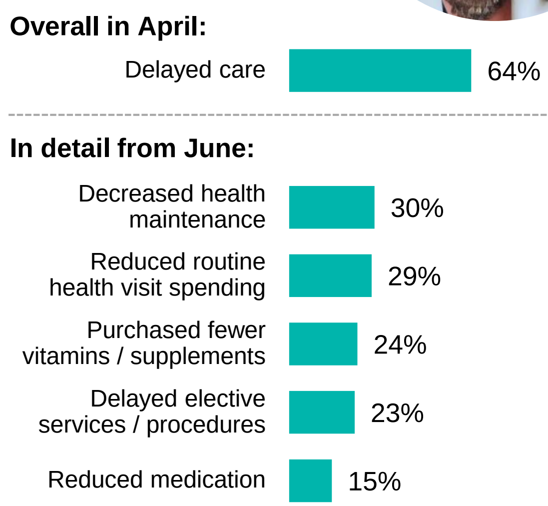
– Stacy Sims, Director, Health

Impact on Healthcare Spending

Nearly two-thirds of US consumers (64%) have delayed healthcare because of COVID-19. Two-thirds; let that sink in.

Hospital execs tell us that higher value services (e.g. elective or necessary-but-choice surgery) were all but shut down. Whereas, low-pay services (e.g. COVID-19 treatment) are at all-time highs. Yet, volume of these patients does not make up for loss of high value services. Thus, medical professionals (e.g. community health staff, mental health professionals) are being laid off.

Encouraging consumer spending on those higher value services, and urging a return to preventative care are key. Otherwise the medical community will end up recouping its losses in unpalatable ways—from the many people who will have progressed negatively to needing more expensive treatments that could have been avoided. (Read more)



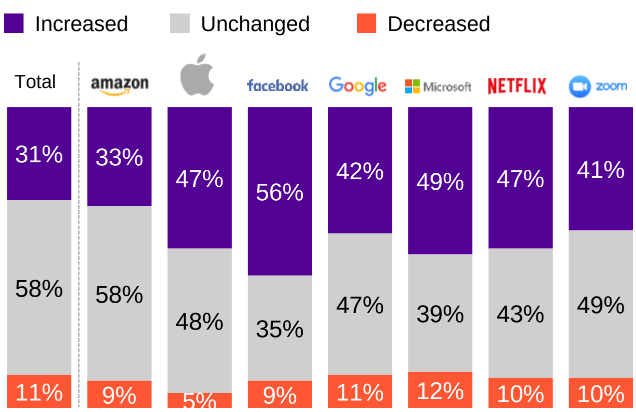
Source: Escalent 2020

Tech & Telecom Industry Impacts

"When brands do good, consumers notice and it positively impacts consumer spending."

– Nancy Arter, Senior Vice President, Tech & Telecom

Willingness to Purchase from Companies with Tech/Apps That Help Prevent COVID Spread



Source: Escalent Omnibus. May 2020, n=1,432.

Consumers Spend When You Step Up

Our research shows that consumers are more willing to buy products/services from brands that have stepped up during COVID-19, taking a leadership role in preventing the spread of the virus. Consumers are willing to reward brands for using their tech and platforms to assist in curtailing virus spread and safeguarding their employees.

- Consumers are noticing the efforts that tech brands are taking to keep communities and workers safe.
- Brands willing to earn consumer trust by protecting their privacy have the opportunity to help stop the spread of the virus, while improving brand perception. The key factor is convincing consumers their personal data will remain safe and secure.

Additional Industry Impact Notes

Property & Casualty Insurance

According to the Federal Highway Administration, Americans drove 25% fewer miles in May than a year ago despite relaxed shelter in place rules. High unemployment, remote working and shuttered schools all contributed to this reduction which is expected to continue for the foreseeable future. Fewer cars on the roads means fewer accidents.

As a result, auto insurers are increasingly under regulatory pressure to cut insurance rates. States, like Michigan, implemented new regulatory rules on July 1 to reduce personal injury protection costs. This prompted unprecedented levels of customer shopping. Dominant local carriers experienced a tidal wave of calls in the days leading up to and immediately after July 1 to make alterations to policies and explore alternatives.

Banking & Payments

While most Americans are spending less on nonessentials during the pandemic, the central theme centers on practicality. Smaller, more nimble, providers have been better positioned to react: SoFi moved quickly to offer cashback on DoorDash orders and streaming services. But otherwise, few banks or card issuers have meaningfully transitioned offerings or card benefit structures to accommodate customers' current spending behaviors. Their actions to date have done little to promote new card spending.

Instead, initial actions taken by card issuers focused on support and retention. This has included leniency measures for customers unable to make payments and assuring customers that unused benefits, or inability to maintain status, will be mitigated. For instance, airline credit card issuers announced elite statuses will be extended through 2021 regardless of ability to travel enough.

So, with competitors pulling back on marketing, any issuer demonstrating agility in card benefits for relevance and value has greater potential to attract new customers, and to promote new spend, as consumers are looking for ways to spend smart.

Legal

There are many law firms raising capital now to support the COVID-19 lawsuits of employers and insurers. They are expecting COVID-19 cases to become an industry for the next 5-7 years. That being said, speculative damages (those claimed by a plaintiff for losses that may occur in the future) are extremely difficult to pursue. And COVID-19 is a 'force majeure' (unforeseeable circumstance), which makes it difficult to sue for, even where clauses are not carefully worded. So, while there will be many cases, they may be quite difficult to win.

Real Estate

Commercial real estate owners (those who are not going out of business) are shifting strategies in one of two ways:

1. The trend of scaling back store footprints has been shelved, and instead they are aggressively repurposing the space for a more sterile customer experience to encourage consumer spending.
2. At the same time, other businesses are seeking less office space as more people work from home more often. If a worker is only present 2-3 days a week, you can have twice as many people operating in the same space, and/or multiple related businesses can share the same space.

We've got you covered!

Our financial service research experts are committed to bringing you the data and insights you need to more effectively run your business. Let's continue our strategic partnership to keep research moving forward in a time when the financial services sector needs it more than ever.

Meet just a few of our financial service research experts:

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About Escalent

Escalent is a top human behavior and analytics firm specializing in industries facing disruption and business transformation. As catalysts of progress for more than 40 years, we tell stories that transform data and insight into a profound understanding of what drives human beings. And we help businesses turn those drivers into actions that build brands, enhance customer experiences and inspire product innovation.

Visit escalent.co to see how we are helping shape the brands that are reshaping the world.