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Financial Services COVID-19 Market Research Perspectives

Ongoing coverage of COVID-19's impacts

Pandemics and protests. Re-openings and re-closings. Turbulent times that we all wish were over. But they are not, and won't be for some time. Many of the issues and changes are going to be around for a very long time. Our team is now dozens of studies and over 100 presentations into the crisis. The most common question we hear is: *What trends will continue after this is over?*

In this volume, we look at lasting impacts on wealth management, retirement, social security, digital banking and health insurance.

IN CASE YOU MISSED IT

[America's Retirement Preparedness Is in Jeopardy: And everyone needs to fix it]

[Top Providers for DC Plan Participant COVID-19 Communication]

[New Report: Servicing Portfolio Defense]

We've got you covered.

What to do:

1. **Refresh Retirement Planning**
2. **Take a Stance on ESG Investing**
3. **Enhance Digital Channels**

Lasting Impacts on Retirement

"Americans' struggle with retirement existed well before COVID-19. But the crisis has wreaked both economic and social havoc that is fundamentally altering many aspects of life, including retirement. Moving forward, the onus is on the entire retirement ecosystem to recognize this new reality and facilitate planning to the best of their abilities."

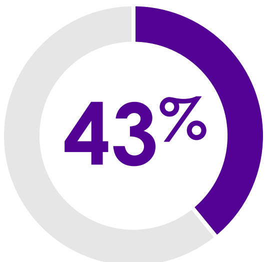
– Vivek Amin, Lead Analyst, Financial Services

More People With a Less 'Traditional' Retirement

COVID-19-induced economic turmoil has jeopardized retirement planning for millions. At least four in ten Americans are now planning to delay their retirement, a trend that will increase as the pandemic is prolonged. In contrast, those nearing retirement who would have otherwise returned from furlough or sought new employment after a layoff have instead opted for early retirement.

Changing retirement horizons require a more flexible system. After a wave of COVID-19 retirements, we expect more employees to ease into retirement gradually—by either reducing their workload or taking on more part-time, consultative or contract-based work—rather than ending their work completely. Redesigning retirement brings unique challenges that will require efforts from all levels to enable Americans to work longer and retire with dignity.

PERCENT OF AMERICANS DELAYING RETIREMENT



Source: Survey By Non-Profit Organization, Life Happens, 2020

Steps to Take at All Levels

Employees must take ownership of their future well-being. This involves not only improving their financial know-how, staying involved and seeking reliable sources to plan their retirement with confidence, but also investing in their health and skills to prolong their careers.

Employers must find more innovative employment and retirement models to enable employees across all groups to work, earn and save into later life.

Financial Service Providers must reform financial tools and products to make them more longevity-appropriate.

Government must ensure that Social Security remains sustainable for decades to come. Meanwhile, the employment and pension regulatory frameworks should also support flexible work and versatile retirement.

Lasting Impacts on Social Security

“Add it to the 2020 list. There are many concerns about the long-term impact of the COVID-19 pandemic – health effects for those who were infected, impacts of social isolation, job losses and furloughs, loss of in-person school time for children, and yes, Social Security.”

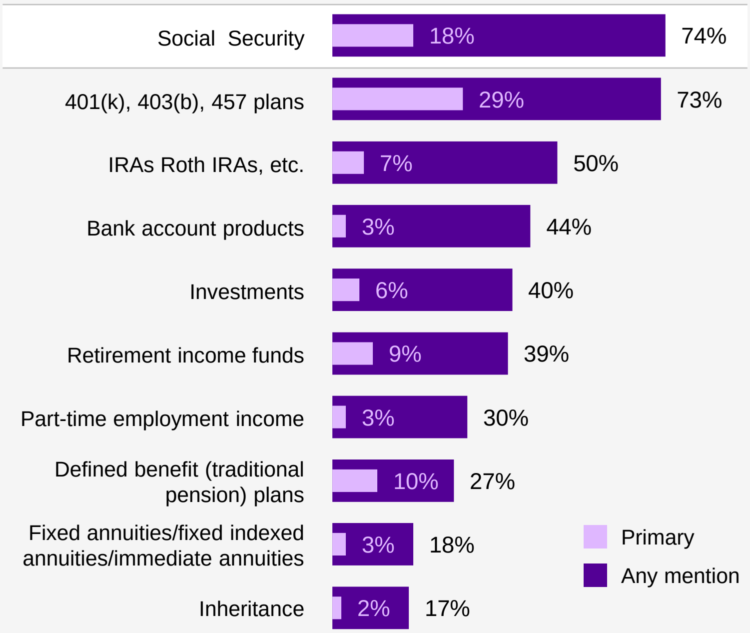
– Mike Berinato, Vice President, Financial Services

You May Not Want to Count on Social Security

It’s probably low on the list of worries, but those born in 1960/61 should move it up! And, in case Gen X thought they were safe, the 2019 Social Security Trustees report estimates the Social Security Trust fund reserves will be depleted by 2035. With increased early retirements from COVID-related unemployment, it’s likely to be earlier and benefits will be reduced accordingly. While it may not be a leading worry yet, keep Social Security on the list.

The more immediate threat? A key part of Social Security’s benefit calculation is the Average Wage Index for the year a recipient turns 60. That index will decline in 2020 and with a prolonged recession and high unemployment, the decline will continue into 2021. Unless Congress acts to fill the gap, pre-retirees born in 1960/61 face a cut in lifetime benefits of 13%.

TOP 10 SOURCES OF INCOME IN RETIREMENT



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

Adapting the Plan

Even when the immediate health and safety concerns are controlled, long-term impacts on Social Security will remain. And that will impact retirement income for millions. DC plan participants rank Social Security among their top sources for retirement income at the same rate as their DC plan.

Unfortunately, a vaccine won’t inoculate against these impacts. But the retirement industry can lead treatment that will. It will require advisors, plan sponsors and asset managers working together with investors. First, to raise awareness and educate investors on the situation and its effects on their retirement. Then, to help investors evaluate their retirement income goals and expectations to adjust their retirement planning strategy.

Lasting Impacts on Wealth Management

"We need to be cognizant of the shift in wealth to a heavily socially influenced generation, and should prepare for ongoing conversations with younger, more financially literate investors. There are long-term changes to both what is being sold, as well as ways of selling it. Advisors are adapting their practices and their relationships with wholesalers in response to the evolving industry."

– Erin McLaughlin, Syndicated Product Manager, Financial Services, Cogent Syndicated

ESG is Outperforming in the Bear Market

We are experiencing a new focus on ESG investing, given 2020's defining moments--a pandemic, economic instability, a movement for social justice, and a growing political divide. Adoption has soared and these strategies continue to tout strong performance.

Morningstar reported that by the end of Q2 sustainable inflows in the US reached $20.9B, approaching the record high of $21.4B for all of 2019. That is up from $2.83B in 2015. ETFs have the strongest ESG inflows in 2020, with equity fund inflows teetering toward passively managed funds over active.

CURRENT/ANTICIPATED PERCENT OF INVESTOR ESG AUM

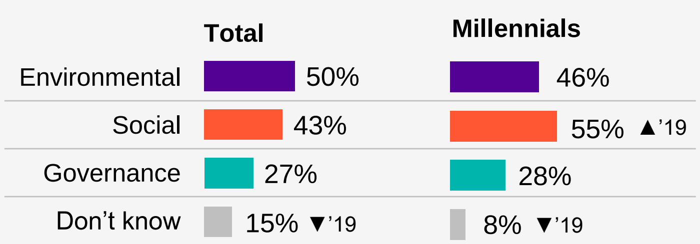
	2019	2021
ESG User	34%	42%
ESG Non-User	0%	20%

Source: Cogent Syndicated. ESG 360°: Affluent Investor. October 2019.

ESG in Employer-Sponsored Plans

Demand for ESG is increasing from younger investors in employer-sponsored retirement plans. Significantly more Millennials are interested in ESG investing inside retirement plans. Environmental concerns remain the primary impetus overall, but social reasons have grown in incentive among Millennials. However, a Department of Labor proposal stipulates that ERISA plan fiduciaries cannot invest in ESG if it sacrifices investment returns or takes additional risk. Rebuttals have been filed by asset owners, asset managers, record keepers and lawmakers stating the proposal would create barriers for considering ESG risks and add to fiduciary confusion regarding if and when ESG factors may be considered material.

REASONS FOR USING / INTEREST IN ESG INVESTING



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

More Hybrid Wholesalers

Wholesalers—internal, external, or hybrid—encourage advisors to invest in their products. The trend of hybridizing the internal (e.g. digital) and external (e.g in-person) wholesaler roles is accelerating due to COVID-19. With so many working from home there are fewer face-to-face meetings, and the lines are blurring. As a result of hybridization, internal wholesalers are staying longer and retaining knowledge and relationships, which is leading to more sales for them over time.

PERCENT OF ASSET MANAGERS WITH HYBRIDS

Source: Ignites Research, 2020.

Lasting Impacts on Digital Banking

"Many customers turn to digital banking for simple needs, such as checking balances or recent transactions. During the pandemic, millions more have been driven there in search of personalized answers to crisis-related questions. This "stress test" of digital banking revealed gaps in every category to be filled as banks struggle to deliver more personalized experiences in a mobile-first era."

– Emmett Higdon, Director Digital Banking, Javelin Strategy

Smart Updates and Glaring Gaps

Javelin's 14th annual Mobile Banking Scorecard evaluates 25 of the top US financial institutions to identify the leaders in mobile banking.

The report follows 17 trends that measure institutions' march toward mobile maturity, shaped by Javelin's Digital Maturity Path model. Scores are a composite of six categories weighted by what consumers say is most important to their satisfaction with online banking: Ease of Use, Security Empowerment, Money Movement, Financial Fitness, Customer Service and Account Opening.

Examples of Top Performers:

Bank of America ranks "Best in Class" overall for the 4th year on strength of continued investment and relentless pursuit of enhanced customer experiences.

USAA and **BB&T** are repeat runners-up, nearing or exceeding BofA in several categories.

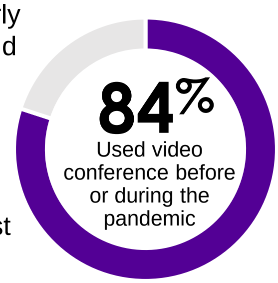
Digital Engagement Lessons Learned from COVID-19

Response to COVID-19 created a customer service crisis in banking: branches closed, call centers were jammed and websites were unprepared to deliver 1:1 assistance. Financial institutions could not easily meet the enormous volume of customer service requests.

This failure of the service status quo with specific demands created by the crisis led some financial institutions to quickly innovate through their digital channels. These innovations offer lessons for swiftly engaging customers, retaining those recently introduced to digital and instilling digital-first habits likely to last beyond the pandemic. Some of these lessons learned can be found in the Javelin report.

COVID-19 Opens the Door to Video Banking

COVID-19 lockdowns have led consumers to search for alternatives to face-to-face interactions. Many have turned to video meetings for a range of tasks, including work meetings, calls with friends/family and telehealth. Has daily use of video in these ways opened consumers' eyes to video banking? Recent Javelin data suggest that nearly half of Gen Y consumers would be interested in using to meet a range of banking needs.



For video to succeed as a preferred means of face-to-face interaction, it must do more than replace an in-person visit. Learn what those things are and why video banking is up-and-coming.

Lasting Impacts on Health Insurance

“We’ve talked a lot about telehealth as an obvious immediate change that will be long-lasting. Now, we’d like to draw your attention to impacts that have been taking up less of the short-term center-stage but are going to be massive in the long run: HSAs and SDoHs.”

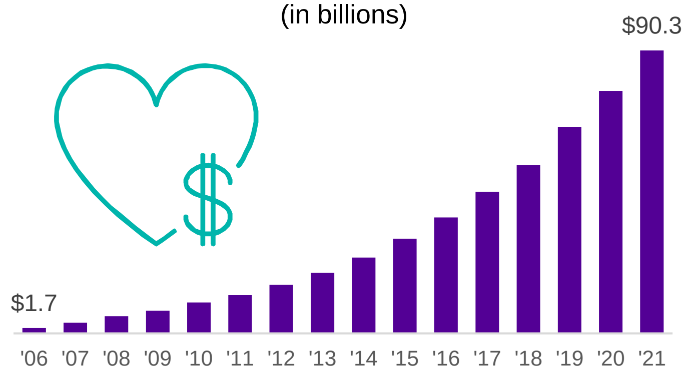
– Nicole Martin, Lead Analyst, Health Insurance & Systems

Health Savings Accounts (HSAs)

COVID-19 uncertainties are driving the personal savings rate to historic highs, and that includes a major increase in use of HSAs. HSAs were already on the rise but COVID-19 will only accelerate their growth.

- **Shorter term**: Changes in legislation enable HSAs to cover more immediate concerns, such as telehealth and COVID-19 testing.
- **Longer term**: Deductibles continue to increase, making more plans eligible for HSA accounts. And HSAs are being treated increasingly like a 401(k) opportunity to put money away pre-tax to invest and save for the future.

COMBINED HSA INVESTMENTS AND DEPOSITS
(in billions)



Source: Denevir

Social Determinants of Health (SDoH)

Insurers are focusing more than ever on SDoH to boost healthcare outcomes and reduce cost. The pandemic and coinciding protests will only accelerate this.

60%

“Conservative estimates show 60% of health outcomes are driven by SDoH, including lifestyle behaviors and environmental factors.”

– BCBS Institute

SDoH includes aspects such as gender and racial equity, early childhood education, employment status, and more. And they are largely responsible for health inequities.

For example, there has been growing recognition that a patient’s zip code is a better indicator of his or her health outcomes than a genetic code!

Examples of health insurers focusing on SDoH:

BlueCross BlueShield

- Operating the BlueCross BlueShield Institute—a first of its kind organization that helps identify and address SDoH.
- Advocating for systematic SDoH screening to enable providers to build plans to address them.

CVS Health | aetna

- Investing in start-ups, like Unite Us and WellFrame, that connect individuals to resources.
- Supporting the National Quality Forum to lobby for SDoH measures.

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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