

GAPCO

POST COVID-19 SOCIETY

SOME THEMES AND SCENARIOS TO HELP BANKING, INVESTMENT,
ADVICE AND INSURANCE BUSINESSES THINK ABOUT ADAPTING THEIR
PRODUCTS AND SERVICES



MAY 2020

INTRODUCTION

Banking, investment, advice and insurance firms are hard at work analyzing the economic and investment consequences of the global health crisis. There appears to be enough information available to make good decisions about the short term impact on business models and operational stance.

The longer term picture is less clear. Product management teams in particular report that they would like more input about the possible effects of post-Covid society on customer behaviors and attitudes.

In this paper we take seventeen trends in society and consider the implications for those trends of lockdown, prolonged social distancing and recession. We have chosen themes that provide insight about how mass affluent and high net worth (HNW) individuals might change how they use banking, investment, financial advice and insurance services. In this edition we have limited scope to individuals living in the United Kingdom.

The themes are health and wellbeing, retail consumption, corporate life, holiday choices, car ownership, overseas property ownership, home ownership, retirement living, long-term care, private education, family composition, urban living, ESG priorities, philanthropic giving, investments of passion, lifestyle and income, investments & savings.

On its own, this analysis is helpful input to debate about product strategy. For those who need more in-depth product strategy and design insight we use these themes in conjunction with our Financial-Life Event, Financial Motivations & Needs, and Financial Product ontologies.

We will revise this content as events unfold and add further scenarios for each theme as the UK and the rest of the world battles and overcomes the COVID-19 pandemic.

METHODOLOGY

The themes we have chosen, and the pre-COVID baseline of each, are widely recognised and discussed. Some richness of insight will have been lost in the summaries we provide here.

The scenarios that we propose are the result of our analysis, which involved reviewing available literature, interviews, secondary analysis of primary data from other sources and our own surveys.

THEME

BASELINE (BEFORE COVID 19)

SCENARIO 1 (SOCIAL DISTANCING INTO 2021)

Health and wellbeing

Gradual acceptance and availability of telehealth options and wearable / smart-home health technologies. Increasing diversity of healthcare needs as demographic make-up of the UK evolves. ~30% of the UK has life insurance, 10-11% has health insurance.

People are reluctant to be in close proximity with others, particularly in enclosed spaces. There is a general feeling of vulnerability, concern about health and reflection about mortality and passing. Perception of health risk bifurcates as our understanding of the COVID-19 disease improves. For example, younger people perceive the risk to be much lower.

Retail consumption

Increasing demand for online retail consumption, and emerging interest in 'experiential' offerings at bricks-and-mortar sites. Increasingly sophisticated response to brands and discerning in terms of loyalty.

Digital engagement accelerates exponentially. During lockdown people used digital servicing to meet the basic needs of everyday living. There is some return to bricks-and-mortar but in many aspects of life digital servicing becomes normal. More people have also learned to educate and entertain themselves with digital content. Consumer confidence falls to 2008 levels then recovers.

Corporate life

Continued increase in occupier density of floorspace, particularly in large metropolitan locations, and continued move to open-plan layouts. Gradual increase in remote working in some sectors and job-role types. Business travel is common but gradually reducing.

Home working becomes widespread (because it works and because commutes are longer). Employers provide staff with better home-office equipment and people become adept at remote and digital interactions. There is a significant taper in business travel. Some large corporations distribute their workforces across the country.

Holiday choices

Three to five trips annually for mass affluent and HNW households. Increasing interest in holidays that provide experience and education. Increasing use of Jet Cards in HNW. Accommodation is 50% hotel and 38% house/apartment rental. Majority of trips are overseas.

Ongoing national restrictions, concern about health risk and potential increases in air-travel costs lead people to take fewer holidays. Some also travel less because they are concerned about health risk. Holidays in houses/apartments are favoured over hotels as social-distancing habits fade slowly. There is more interest in second homes in the UK. Use of Jet Cards continues to increase (HNW).

THEME

BASELINE (BEFORE COVID 19)

SCENARIO 1 (SOCIAL DISTANCING INTO 2021)

Car ownership

Ongoing decline in 17-27 year olds holding a driving licence or regularly driving a car. Drop in car journeys not accompanied by increase in public transport journeys. Some talk of UK nearing 'peak car'. Others talk about imminent advancements in battery technology triggering a second boom in car usage.

Car ownership and usage increases as people are reluctant to use public transport. Helped by lower oil prices which flow down to price at the pump. This coincides with wider availability and falling prices for electronic vehicles. There is less demand for ride-sharing. Taxi usage increases as an alternative to public transport.

Overseas property ownership

Ownership of property overseas that isn't used as a primary residence. Traditionally for holiday or retirement purposes, and increasingly for investment purposes. Buyers prioritising income return (from rentals) with technology enabling rapid expansion of the short-let sector.

Reduced interest in new overseas property ownership for recreation as wealth is re-built and air-travel becomes more expensive. Motivation for ownership becomes largely for investment purposes and search for yield. Death, debt and divorce dynamics increase the number of forced sellers.

Home ownership

Continued reduction in home-ownership for those in their mid-30s to mid 40s, and increasing concentration of home ownership in Gen-X and Boomers. Increasing number of people do not expect to own a home.

There is big drop in residential property transactions and prices drop by 5-10% before recovering to 2019 levels. House buyers who work from home or with children make space a much bigger priority. Demand continues to increase for rental accommodation across the age ranges as first-time buyers struggle to find deposits. Parents continue to help children with mortgages, including downsizing their own property to release funds.

Urban living

Sustained rise in the number of people living in towns and cities versus rural areas (85% live in urban areas, expected to continue growing). Pressure on space and infrastructure has led to shrinking house size and shortage of affordable housing. Urbanisation is accompanied by dropping average age in urban areas, and increasing average age in rural areas ('demographic divergence').

Urbanisation continues as rising unemployment causes people to move to cities to find work. Counter-urbanisation flows also increase as remoteworking and desire for space triggers many to move to suburban and rural areas. There is additional pressure on green belt land.

THEME

BASELINE (BEFORE COVID 19)

SCENARIO 1 (SOCIAL DISTANCING INTO 2021)

Retirement living (‘assisted living’ or ‘senior living’)

Self-contained flats in villages or apartment complexes with shared space and on-site support services (increasingly including care services). Generally purchased lease-hold but with new purchase/payment and rental models emerging. A fast growing privatesector market in the UK and becoming a material real estate asset class.

COVID-19 deaths in retirement living communities are lower than residential care. There is a rapid expansion of capacity from home-builders and variants emerge with nursing care. People opt for later-life mortgage or rent-out homes to cover rental fees. Children supporting parents consider it to be an investment.

Long-term care

Residential care, nursing homes and long-term hospitalisation provided privately or by local authorities. Commonly funded by equity release, retirement income, wealth draw-down or contributions from children. Increase demand for LTC as the population ages.

High COVID-19 death-toll leads people to find other forms of care. Children and those in care reevaluate the suitability of their LTC arrangements and some select higher cost options. Children give parents a mobile device to make it easier to keep in touch.

Family composition

28m households in the UK. 13m are married or civil-partner couples (same or opposite sex). 8.2m are people living alone, largely men aged 45-64. 0.2m same sex married couples - increased 40% during ‘15-’19. Overall decline in marriage vs cohabitation. Fastest growing type is multi-family households (multigenerational and multi-family) - 0.2m in ‘99 to 0.3 in ‘19.

Divorce increases through second half of 2020 and into 2021. Number of men living alone continues to increase.

Private education

Schools with charitable status funded by ‘parent-pays’ tuition fees and endowments rather than local government. Selective intake and small class-sizes. Tuition fees are increasing and number of places is constant. Private education is a divisive political topic.

Private schools return early because smaller class sizes make social distancing easier. Society becomes more divided. Primary income-earners of private school households are made redundant. They use up savings and investments to fund school fees, mortgage fees and living costs. When they return to work they borrow or use more of income for fees.

THEME

BASELINE (BEFORE COVID 19)

SCENARIO 1 (SOCIAL DISTANCING INTO 2021)

ESG priorities

Growing concern about the environment, particularly climate change, destruction of wildlife and habitats, and the sustainable use of natural resources, particularly water and timber.

After a dip during lockdown, people focus again on ESG in their lives and investments. De-globalisation and possibly anti-China rhetoric accelerates. People engage with brands and marketing that reflect these views. Absence during lock-down of noise and air pollution reinforces ESG focus.

Philanthropic giving

Downward trend in number of people giving to charities in parallel with increase in the average amount given. Decrease in number of people who believe charities to be trustworthy. HNW philanthropists looking for more active roles in charities, evidence of the impact of their work, wanting strategic impact, and seeking philanthropic advice.

Trends of fewer givers continue, accelerated by economy-wide pressure on disposable incomes. In total that amount given to charities decreases. There is widespread increase in poverty, wealth inequality and health problems. These causes resonate with a new set of HNW philanthropists who engage with charities when they can make a difference.

Investments of passion

Top ten investments of passion in Q4 2019 are cars, jewellery, stamps, art, whisky, wine, coins, watches, furniture, coloured diamonds, handbags.

Not clear at this point. Purchases often involve face-to-face interaction which in some cases are curtailed by social distancing. High specialist transactions continue.

Lifestyle

Events (like London fashion week, Chelsea flower show, Goodwood, etc.), sports (Royal Ascot, Wimbledon, Henley, Six Nations, ATP Tour, etc.), music (festivals, gigs, Glyndeborne, Proms, etc.), theatre, awards (Brits, Sports Personality, etc.), exhibitions, shopping and restaurants (new openings, chefs table, hot spots, etc.)

A prolonged lockdown creates huge appetite for people to socialise and enjoy 'normal' life. Sponsors, organisers and patrons respond where possible by re-formatting their events to accommodate social distancing rules. People respond to options that are perceived to have a safe format. Many events are not viable at lower participant numbers and cease trading. There is a marked difference between <45 year-olds and >45 year olds in willingness to participate.

Income, investments & savings

Business confidence recovered following end of Brexit uncertainty. Widespread business ownership, growing levels of start-up activity, sustained levels of executive pay, growing sports wealth. In the wider economy, unemployment of 3.8% is a historic low. Household savings stable at ~6% after 10yr down trend from 10-12%. Consumer credit in sideways trend at ~£1trn.

Business confidence falls to an all-time low in 2020. Large jump in SME defaults and closures, downward pressure on executive pay and creation of new sports wealth. Unemployment increases by 2-4% over the next 12 months (1-2m jobs lost). Increase in household savings and dramatic fall the increase in consumer credit.

AUTHOR

Richard Lewis,

Head of Wealth & Asset Management in the UK & Ireland

richard.lewis@capco.com

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

WORLDWIDE OFFICES

APAC

Bangalore
Bangkok
Hong Kong
Kuala Lumpur
Pune
Singapore

EUROPE

Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
London
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA

Charlotte
Chicago
Dallas
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA

São Paulo

WWW.CAPCO.COM



© 2020 The Capital Markets Company. All rights reserved.

CAPCO