UNDERSTANDING THE IMPACT OF
COVID-19

INTRODUCTION

PURPOSE Understand how COVID-19 has impacted the Financial Services & Insurance sectors

ANALYSIS SCOPE
- Financial Services: Investment, loans, mortgage, stocks
- Insurance: Car, commercial, health, home & contents, life, travel
- Scope of the analysis covers EU5 countries: Italy, Germany, France, Spain, UK

THE FINANCE & INSURANCE INDUSTRIES HISTORICAL TURBULANCE HAS SHELTERED THEM FROM ANY IMMEDIATE COVID-19 EMERGENCIES

FINANCIAL SERVICES

With memories of 2008 still in mind, the financial services industry has been pushed into another big challenge.
While most institutions were quick to mobilize and had some form of crisis management protocols in place, the expected credit defaults and decrease in consumer purchasing power are a looming threat. In this probable recessionary environment, the only way forward is by cutting costs, reinventing consumer relationships and leveraging digitization on the cloud.

POST GFC PREPARENESS RESULTED IN FEW BANKING OR FINANCE DISASTERS

INSURANCE

Insurers learnt lessons from the SARS epidemic & incorporated pandemic exclusion clauses within policies. This limits the number of COVID related payouts & reduces liquidity issues.
Health insurance however is facing challenges. Increased demand for medical services as well as free treatment & testing for COVID is adding strain. Many consumers may see higher fees in the coming year to help make up the difference for these insurers.

SARS PREPAREDNESS SHELTERED INSURANCE FROM ANY IMMEDIATE SHOCKS

BUT IS THERE ANY IMPACT DRIVEN

BY CONSUMERS?

FINANCE FOCUS AREAS DEEP DIVES

THE FINANCE INDUSTRY

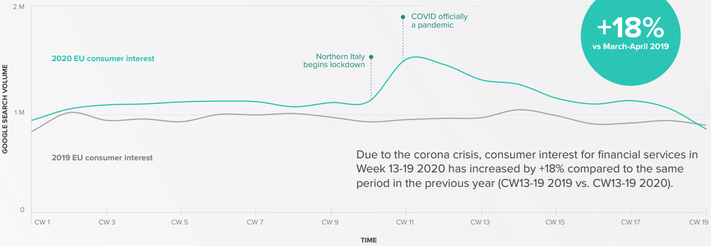
HAS CONSUMER INTEREST IN FINANCE BEEN AFFECTED BY COVID-19?

THE INSURANCE INDUSTRY

FINANCIAL SERVICES GAINED GROUND INITIALLY DRIVEN BY INTEREST IN STOCKS

INTEREST HAS NOW LEVELED OUT IN PROPORTION WITH 2019

EU-5 CONSUMER INTEREST IN FINANCIAL SERVICES



+18%
vs March-April 2019

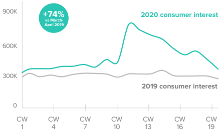
Due to the corona crisis, consumer interest for financial services in Week 13-19 2020 has increased by +18% compared to the same period in the previous year (CW13-19 2019 vs. CW13-19 2020).

Search data retrieved from Quentin across 5 markets (DE; ES; IT; FR; UK), growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

CONSUMERS LOOKED TO ADJUST SHORT-TERM INVESTMENTS OVER LONG-TERM PROSPECTS

SHORT TO MID-TERM INVESTMENTS

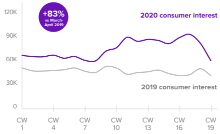
STOCKS



As the stock markets around the globe plunged in March, consumer were quick to react and contributed to a huge peak in interest which has faded away over time.

MID-TERM INVESTMENTS

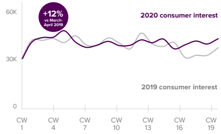
ETFS & BONDS



In times of crisis, a lot of investors tend to look away from the stock market and want to invest in more stable instruments for the mid-term like bonds.

LONG TERM INVESTMENTS

PENSIONS



Long-term investment instruments like pension funds did not see a significant increase as the optimism of things going back to normal in the longer term persists.

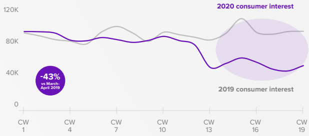
Search data retrieved from Quentin across 5 markets (DE; ES; IT; FR; UK), growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

CONSUMER UNCERTAINTY HAS LOWERED CONSUMER INTEREST IN SHORT TERM LOANS

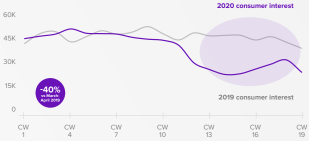
LONG TERM BORROWING HOWEVER FOLLOWS A SIMILAR PATTERN TO THAT OF STOCKS, AN INITIAL PEAK IN INTEREST AS THE PANDEMIC TOOK HOLD, FOLLOWED BY A RETURN TO LEVELS ALSO SEEN IN 2019

SHORT TO MID-TERM

SHORT-TERM LOAN



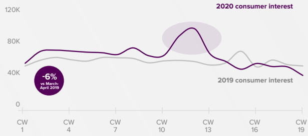
CAR LOAN



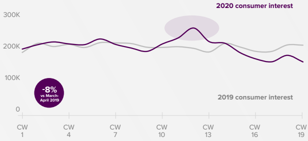
The drop in consumer confidence and shelter-in-place measures have cut the interest in short-term loans almost into half compared to 2019.

LONG TERM

MORTGAGE



PERSONAL LOAN



While long term borrowing has also been impacted, the intensity is much lower as consumers do expect the economy to bounce back in the longer term

Search data retrieved from Quentin across 5 markets (DE; ES; IT; FR; UK), growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

FINANCE FOCUS AREAS DEEP DIVES

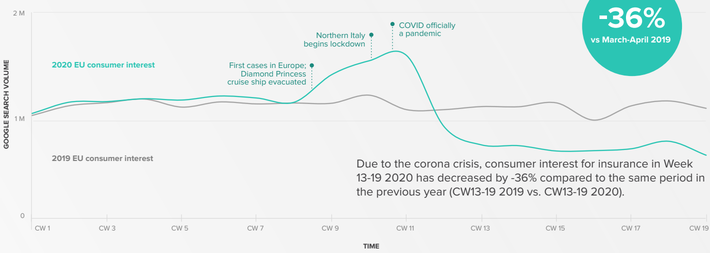
THE FINANCE INDUSTRY

THE INSURANCE INDUSTRY

HAS CONSUMER INTEREST IN INSURANCE BEEN AFFECTED BY COVID-19?

INTEREST IN INSURANCE HOWEVER DAMPENED IN 2020, AFTER AN INITIAL SPIKE AT THE BEGINNING OF THE CRISIS

EU-5 CONSUMER INTEREST IN INSURANCE



-36%
vs March-April 2019

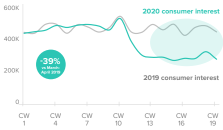
Due to the corona crisis, consumer interest for insurance in Week 13-19 2020 has decreased by -36% compared to the same period in the previous year (CW13-19 2019 vs. CW13-19 2020).

Search data retrieved from Quentin across 5 markets (DE; ES; IT; FR; UK), growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

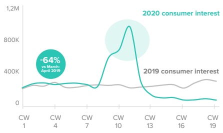
TRAVEL CAUSED THE INITIAL INCREASE AS CONSUMERS EXPLORED HOLIDAY REIMBURSEMENT

CYCLICAL/CASE BASIS

CAR INSURANCE



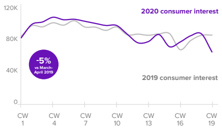
TRAVEL INSURANCE



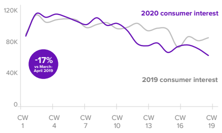
Insurance policies that are more case based or have to be renewed often were affected the most

MID TO LONG-TERM

LIFE



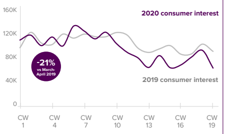
HEALTH INSURANCE



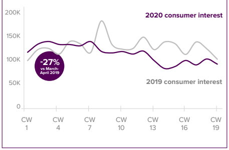
Long-term policies like life and health exhibited the least decrease in consumer interest

LONG TERM

HOME & PROPERTY



COMMERCIAL



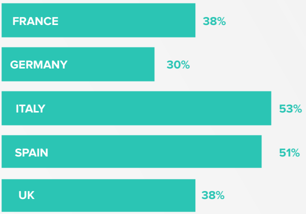
Mid to long-term insurance types that are closely linked to the purchasing power of the consumer were also significantly impacted

Search data retrieved from Quentin across 5 markets (DE; ES; IT; FR; UK), growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

ULTIMATELY AS THE CRISIS CONTINUES, CONSUMERS BECOME CAUTIOUS WITH THEIR EXPENSES

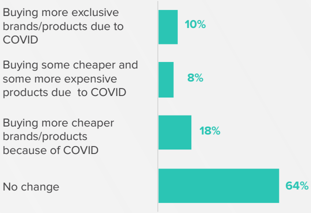
WITH CONSUMERS PESSIMISTIC OVER THEIR INCOME, INSURANCE COSTS WILL BE SCRUTINIZED. CONSUMERS MORE LIKELY TO MOVE TO CHEAPER INSURANCE PROVIDERS

Respondents who have experienced a decrease in income in the last two weeks



Source:
McKinsey & Company COVID 19 consumer pulse report April 2020

How much do you agree with the following statements. Us respondents



Source:
BCG Consumer Sentiment Snapshot April 24-27 2020

DECEASED INCOME CREATES DEMAND FOR FLEXIBLE & CHEAPER FINANCIAL AND INSURANCE PRODUCTS

…BUT IS THIS THE ONLY IMPACT COVID-19 IS HAVING ON FINANCE AND INSURANCE?

FINANCE FOCUS AREAS DEEP DIVES

THE FINANCE INDUSTRY
HAS DEALT WITH MULTIPLE PRIOR CHALLENGES, WHICH HAVE DISRUPTED THEIR BUSINESS MODEL

THE INSURANCE INDUSTRY

RECENT CRISES HAVE ACCELERATED THE DIGITALIZATION OF FINANCIAL SERVICES

BY STREAMLINING SERVICES & BACKEND PROCESSES, DIGITAL SAVVY FINANCIAL SERVICES OFFERED TRANSPARENCY, LOWER COSTS & BETTER USABILITY

2008 FINANCIAL CRISIS

The global financial crisis reduced consumers faith in traditional financial services, prompting **digitally driven financial start ups.**

These start ups are **consumer driven, low cost & value transparency.**

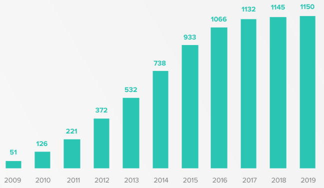
EU FINANCIAL REGULATION 2018

The 2018 regulation modernized European financial markets; allowing innovative companies i.e. start ups **easier access to EU funding.**

Regulation created open banking rules, allowing easier access to banking & financial data; driving **personalized services at much lower costs – further driving fintech start ups.**

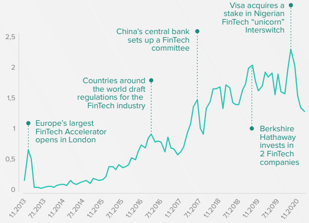
THESE CRISES HAVE FUELED THE DEVELOPMENT OF FINTECH IN EUROPE

FINTECH COMPANIES FOUNDED SINCE GFC (CUMULATIVE)



Data retrieved from Delotte Fintech by numbers analysis
https://www2.deloitte.com/us/en/pages/financial-services/articles/the-next-phase-of-fintech-evolution.html

FINTECH TREND DEVELOPMENT



Data retrieved from Sonar Trend detector 2013 - 2020

FINTECH LOOKS TO REDUCE BARRIERS TO ENTRY & INCREASE TRANSPARENCY IN FINANCE

TRADE REPUBLIC GERMANY

Similar to Robinhood in the US, Trade Republic brings commission-free stock trading to everyone's cellphone. Providing the possibility of investing minimal amounts, it has seen a surge in usage since its inception. As COVID-19 tightens consumers' budgets, this small-scale investing app could be the go-to investment option for many.

BACKTOWORK24 ITALY

While the world economies are aiming to reopen soon, some small businesses and startups will not be able to recover from the financial losses. Equity based crowdfunding companies like BacktoWork24 connect lenders and borrowers in a platform that offers a win-win situation for both – loans for the businesses and equity shares for the lenders.

SPENDESK FRANCE

Spendesk is a fintech startup that helps business manage, track and take control of their spending. As businesses try to bring their costs down while also investing in technology to optimize digital payments, fintech startups like Spendesk can prove to be useful.

STRANDS SPAIN

Strands, the fintech software company founded in 2004, develops solutions for banks and merchants to help increase customer engagement and generate new revenue through digital channels. Services like this are expected to be important as banks try to go digital and reduce the number of physical stores.

WHILE PREVIOUS CRISES PUSHED DIGITALISATION FORWARD FOR THE CONSUMER

COVID-19 IS ACCELERATING THE DIGITALISATION OF END-TO-END PROCESSES

WITH REMOTE WORKING NOW A VIABLE OPTION, END-TO-END DIGITALISATION IS A NECESSITY

TODAY

- 60% financial firms looking to make **remote working a permanent option source**
- Current dense **office layouts not suitable** for post lockdown regulations source
- Financial services typically are reliant on **paperwork**, this is suitable for remote working source

Sources:
https://www.pwc.com/us/en/industries/financial-services/research-institute/blog/embracing-the-new-abnormal-beyond-pandemic.html

TOMORROW

- Permanent move to **cloud servers & computing**, allowing faster, cheaper & more flexible remote work
- **Smaller, cross functional teams**, flexible to quickly deal with changing regulatory & consumer requirements
- **Streamlined workflows & automation** removing the need for paper & pen for many roles within the financial industry

Sources:
https://www.knowis.com/blog/coronavirus-how-it-impacts-the-financial-services-sector

FINANCE FOCUS AREAS DEEP DIVES

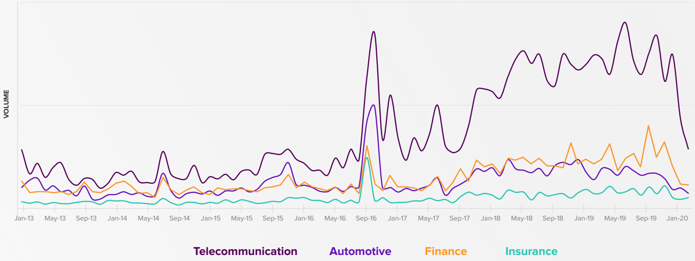
THE FINANCE INDUSTRY

THE INSURANCE INDUSTRY
HAS BEEN SLOWER TO DIGITALISE ACROSS THEIR OPERATING MODEL

COMPARED TO OTHER INDUSTRIES,

INSURANCE DIGITALIZATION IS LAGGING BEHIND

DIGITALISATION TREND BY INDUSTRY



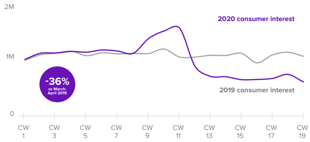
Source: Sonar Trend Radar January 2013 – March 2020
Year on year growth – March 2019 to February 2020 versus March 2018 to February 2019

SONAR

UNLIKE TRADITIONAL INSURANCE, INSURTECH RETAINED INTEREST DURING COVID

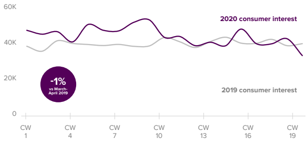
AS THE THREAT OF A RECESSION LOOMS AHEAD, CONSUMERS LOOK FOR CHEAPER AND MORE DIGITAL OPTIONS, GIVING INSURTECH STARTUPS A BOOST AGAINST TRADITIONAL INSURANCE COMPANIES

EU-5 CONSUMER INTEREST IN INSURANCE



In times of crisis, a lot of investors tend to look away from the stock market and want to invest in more stable instruments for the mid-term like bonds.

EU-5 CONSUMER INTEREST IN INSURTECH FIRMS



In times of crisis, a lot of investors tend to look away from the stock market and want to invest in more stable instruments for the mid-term like bonds.

Data retrieved from TD Quentin across 5 markets (DE; ES; IT; FR; UK) growth rate compares March-April 2020 with March-April 2019 (CW13-16 2019 vs. CW13-16 2020)

CONSUMERS ARE INTERESTED IN FAIR POLICIES & CHEAPER PRICING FOR THEIR DIFFERING NEEDS DURING COVID

DINGHY
UK

DINGHY

Dinghy offers a pay-by-the-second insurance, specially curated for freelancers and small businesses. Users have the option of switching their policies on an off digitally while also allowing terms changes to be made. Job losses and household cost-cutting has made this platform very relevant in the post COVID-19 world.

SHIFT TECHNOLOGIES
FRANCE

Shift

Paris-based AI expert helps insurance companies automate the claim assessment process and helps them stay away from fraud. Just like every other industry, workers in the insurance industry have been pushed to work from home, increasing the demand for solutions like this.

AXIEME
ITALY

axieme
ASSICURIAMOCI INSIEME

Axieme is one of many peer-to-peer insurtech startups. It allows clusters of people to insure together, save on the policy and even get a giveback based on the actual occurrence of claims. Examples of similar companies include famous names like Lemonade & Friendsurance

FRIDAY
GERMANY

FRI:DAY

Friday is a digital car insurance provider that not only offers the classic car insurance but also provides consumers the option to pay-per-kilometer. As social distancing is expected to stay in place for the near future, this insurance model will be attractive to many working from home.

FINANCIAL SERVICES & INSURANCE CAN LEARN FROM THE NEW BUSINESS MODELS DRIVEN BY START UPS IN THESE INDUSTRIES

FINTECH & INSURTECH START UPS ARE LEVERAGING THEIR UNIQUE POSITION TO RETAIN INTEREST AMONGST CONSUMERS

THROUGH SIMPLE USABILITY AND DIGITALIZATION, STARTUPS HAVE UNLOCKED MANY SERVICES FOR PEOPLE BY LOWERING THE BARRIER TO ENTRY & GIVING CONSUMERS FLEXIBILITY TO FULFILL THEIR NEEDS

START UPS OFFER CONSUMERS

- CUSTOMISABLE PRODUCTS
- TRANSPARENCY
- LOW BARRIERS TO ENTRY
- INCREASED USABILITY
- LOWER PRICING

START UPS WAYS OF WORKING

- FOCUS ON DIGITALIZATION
- PUSH AUTOMATION
- AGILE BUSINESS APPROACH
- CROSS FUNCTIONAL TEAMS
- USER CENTRIC

LOOKING TO THE FUTURE

WHAT DOES COVID DISRUPTION MEAN FOR THE FUTURE OF FINANCIAL SERVICES & INSURANCE

MORE GRANULAR INSURANCE PRODUCTS

More people are now working from home or furloughed, opening the way for new insurance products; covering home office, freelancers and gig economy workers. Travel insurances will need a wider range of options; while the fear of virus affecting consumer's pets could boost the pet insurance market.

COMMUNITY FINANCE & INSURANCE PRODUCTS

Peer to Peer insurance was already gaining ground prior to COVID. This continues to grow as consumers look for cheaper policies. Companies can utilise the stronger sense of community created by the crisis to further grow community insurance & finance options as a substantial part of their policy offerings.

STARTUPDAY
YOU
STARTUP

CROSS-FUNCTIONAL WORKFORCE

Learning from start ups, smaller agile teams are much more flexible than larger single functionally based teams. As finance & insurance sectors are expected to move quicker & be more flexible with their consumer facing products, cross-functional teams will be required to meet these demands.

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