2020

Forgetting the Lessons of 2008:

Why This Crisis Is Different for Your High Net Worth Clients

Faculty of Change

Introduction

When thinking about how to respond to COVID-19, it is natural to draw comparisons to the 2008 financial crisis. Recognizing patterns and comparing current events to historical ones is a powerful way to plan for the future.

But while both crises involved rapid market collapses, and both had widespread implications amplified by existing fault lines in the economy, it is becoming clear that this crisis is different. How you should react should also be different, especially when it comes to serving high net worth (HNW) individuals. Based on the six months of data available, we have identified 3 key things you need to understand about how your most valuable customers are experiencing the COVID-19 crisis—and about how that experience impacts their needs, and your opportunities:

1/ **The Wealthy Are Still Spending**
2/ **This Is Not a Fire Sale**
3/ **Digital Has Caught Up**

1

The Wealthy Are Still Spending

In 2008, the markets seized up. High net worth individuals put all their activity on hold, and restraint and non-conspicuous consumption became the focus. Conversely, in 2020, spending has become a moral imperative. Everyone across the economy is being encouraged to put money to work to save businesses and jobs.

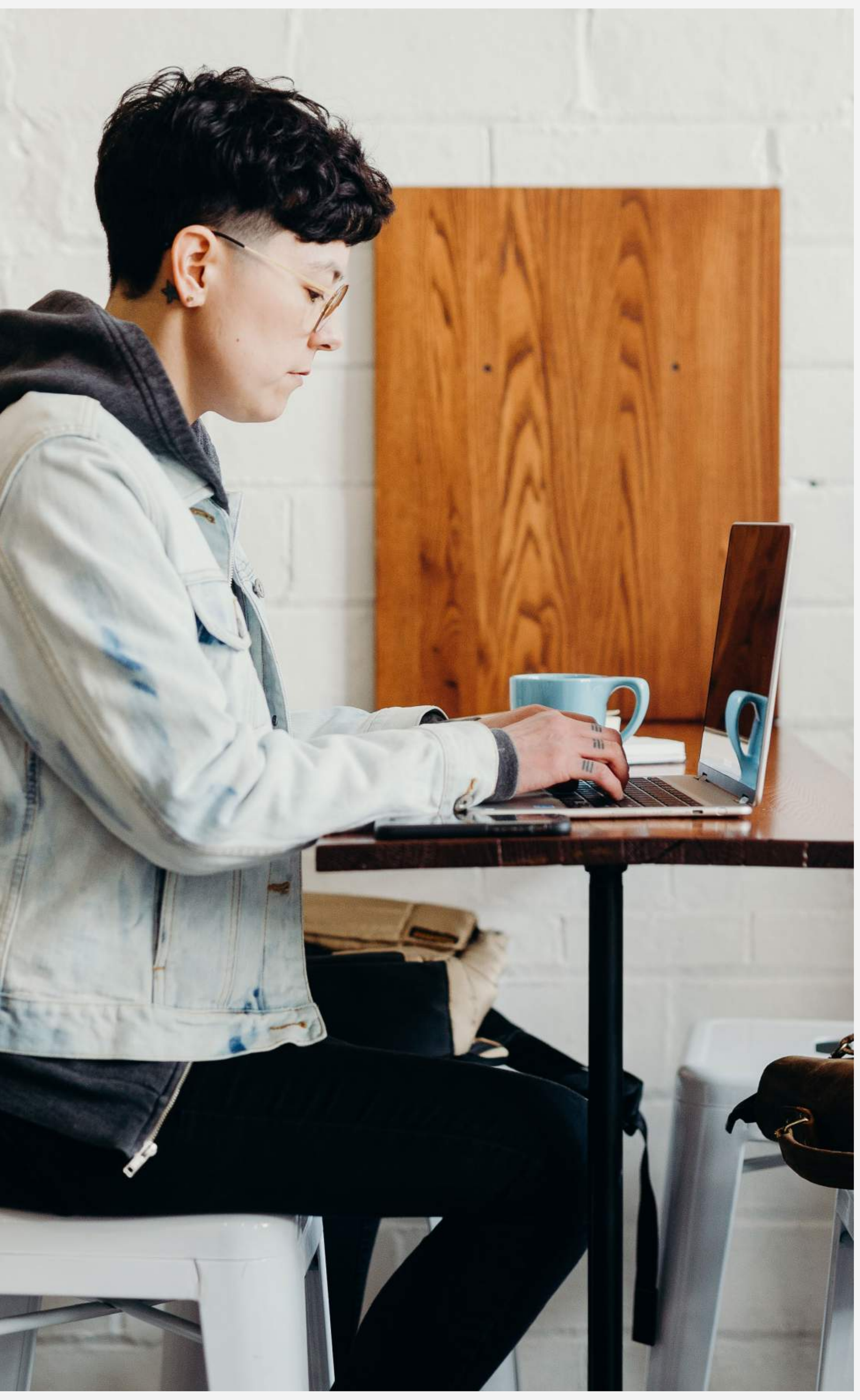
If you were to ask a HNW individual how the pandemic has affected their finances, the most likely response you would get is that it has improved them. Luxury retailers are reporting strong sales in reopened stores. Higher-end automotive brands are reporting supply shortages on luxury SUVs and sedans. In anecdotal conversations with retailers, foot traffic is down but conversion and basket size are way up. As would be expected, those that are willing to enter stores are high-intent, purpose-driven shoppers.

What we are seeing is a real-time adjustment in budgets. Some aspects are more obvious than others. Money previously spent on travel and experiences is being reallocated. Current social unrest has increased contributions to charities. Spending on groceries is up compared to dining out. While savings rates exceeded 33% at the start of the pandemic, that number is starting to edge closer to historical norms of 7%.

ACTION ITEM:

Now is the time for targeting campaigns and communications to convert short-term holdings into long-term investments. The pools of money currently sitting on the sidelines may not be available in 3 months.

2



This Is Not a Fire Sale

Unlike 2008, this crisis presents no clear investment opportunities for HNW individuals.

In 2008, fundamental shocks to the credit market created a premium for liquidity that resulted in drops in asset prices across the board: stocks, real estate, even tech. People are looking for the same opportunities today, but when you perform a comparable analysis now, it is not as clear what is "on sale."

Industries affected by COVID have high levels of uncertainty about when they will return to normal (hospitality, travel, entertainment, etc). Individuals are looking for advice on what strategy can take careful advantage of the current situation. As a result, they are postponing investment decision-making. For those who did not pull out of the markets after the shock (which was most), they are seeing stock portfolios at all time highs with uncertainty about the narrative supporting those prices.

ACTION ITEM:

For some HNW individuals, the pandemic has provided a sneak preview of retirement, as a slower pace of business and the need to stay at home lead to more personal time, and new hobbies and pursuits. Expect this to accelerate deaccumulation timelines, especially for businesses with high costs of adapting to post-COVID realities—such as businesses that rely on in-person interactions with customers. With portfolios at all-time highs, this is also an affordable time for more individuals to exit without impacting their retirement resources.

3

Digital Has Caught Up

In 2008, digital was not the preferred interaction method of HNW individuals. They expected “high touch” service. In the decade since, they have grown accustomed to the “always on” interaction and convenience of digital commerce and wealth management experiences.

While phone interactions still reign supreme (74% of those surveyed in a recent study have had a phone call with their advisor since March 13, vs 12% who have video-conferenced, and 10% who have texted), new modalities are welcome by clients. The only barrier is adoption by advisors. 37% of HNW individuals feel that their bank has one of the best digital experiences of companies they work with, and only 15% dislike their bank’s digital experience. This is better than any other industry.

As we plan for a gradual reopening of spaces, behaviours learned in the pandemic will stick. In a survey conducted April 2020, 46% of respondents expected to resume their pre-COVID habits. By August, that number had shrunk to 34%. The longer “lock-down” persists, the more ingrained digital habits will become. In Canada, 47% had used virtual care during the pandemic: that is 12x pre-March numbers. There is no reason digital wealth management adoption would be any less.

In 2008, the banks were ahead of their clients’ needs. In 2020, clients’ expectations have evolved faster than banks’ ability to adapt and respond.

ACTION ITEM:

Understand that digital is preferred because it is always on, traceable and more responsive to the needs of the client. It is important to create digitally-native experiences around scenario planning and financial wellness. Replacing mailed statements with PDFs or advisor meetings with Zoom is only a tech enabled version of an analog experience. Clients expect frictionless and interactive digital solutions.

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As your business returns to normal and you resume focusing on growth, your most valuable customers are an excellent place to find it. In no other segment across your portfolio will current market dynamics be providing you such a tailwind.

Here at Faculty of Change, our seasoned experts are here to help.

Leading firms in retail, financial services and beyond leverage Faculty of Change's expertise in the high net worth segment to uncover new sources of growth. We have performed 100s of research activities with the four key high net worth segments (High Net Worth, Ultra High Net Worth, Small Business Owners and Health Care Professionals). We use these insights to drive both short-term initiatives and long-term outcomes that transform our clients' business.

We can quickly go deep with your customers to create fresh and actionable insights, and work with your teams and capabilities to convert them into in-market initiatives that will deliver results. All in less than 8 weeks. **Click here to learn more.**

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