Week in review

Retail is down as e-commerce expands, the evolving role of brands, and the importance of message and tone in a time of crisis. PLUS an in-depth look at the impact of COVID-19 on Financial Services.

Wavemaker

Contents

US April retail sales -21.2% and China -7.5%, but e-commerce continues to expand

Just in from our GroupM colleague Brian Weiser, Global President of Business Intelligence at GroupM, the report on US April retail sales covers the first full period of lockdown.

US retail sales data for the month of April 2020 was released last Wednesday by the US Census Bureau.

On a year-over-year basis, during April retail sales declined by -21.2%. Clothing and clothing accessory stores were hit particularly hard, falling by -89.3%. Other categories posting more than 40% declines included food service (i.e. restaurants) and drinking establishments (bars), department stores and furniture & home furnishings stores as well as electronics and appliances stores.

Interestingly, food and beverage stores increased sales significantly, but nowhere near as much as in March as "pantry loading" abated and more normal levels of purchasing began to occur: while March growth was +27.0%, it was only +13.3% during April.

Non-store retailers accelerated as the full month effect of increased purchases via e-commerce (which accounts for approximately 80% of this category of sales) saw +21.2% growth. Non-store sales as a percentage of retail sales excluding automotive categories and gasoline amounted to 27%, or 20% including those categories. These figures were 21% and 14%, respectively, in April 2019.

Meanwhile, in China where the economy ended its relatively-more comprehensive lockdown (when compared with the United States) at the end of February, new government data also released last week indicates that during April retail sales declined by -7.5%. This figure primarily reflected a decline in retail sales of goods down -4.6%. For reference, during the January-February period (including a "normal" January) we saw a -20.5% decline followed by a -15.8% decline in March.

Read Brian Weiser's full report here.

Role of brands and business evolves, driven by the effect of COVID-19

In previous weeks we covered how leadership approach will likely to be affected by the pandemic, this week we look at how the role of businesses is changing driven by consumers' expectations.

Brands can no longer shy away from their role in society. Consumers see them as fast acting innovators, unhindered by the governmental bureaucracy and now expect them to play a role in rebuilding society. Consequently, whether brands meet or miss expectations of their role in recovery will have significant impact on their legacy in a post COVID-19 world. So far, the global picture has been mixed. 72% of US consumers are not impressed with how brands have supported the communities, yet we have great examples of action-led leadership including in Australia where Woolworths (supermarket chain) offered jobs to 20,000 Qantas employees who were put on unpaid leave. Nowadays consumers expect brands to treat people with respect, listen and care about them, acknowledge when the brand is wrong and most importantly, be in tune with workers and community needs. This growing consumer demand for brands to show humanity and empathy have a potential to fundamentally and permanently alter the role of business in future society, undercutting Milton Friedman's doctrine that 'the social responsibility of business is to increase profits'. However, if we have a closer look, this quiet revolution has already manifested itself, when Millennial generation entered the workforce with very different priorities than their predecessors. COVID-19 has only accelerated it.

What good business looks like
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How can brands and organisations leave a legacy after COVID-19?
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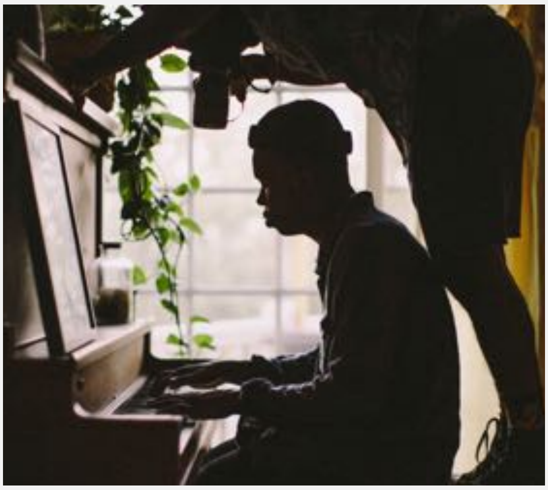
PepsiCo finds empathy is new imperative for marketers
Click to read

Tone, message, and media? What remains constant is consumer need for global brand activity

It is very rare that a consumer consensus exists across the globe, yet one outcome of this universal experience we call a pandemic is that consumers have become more alike in their needs. There have been multiple studies released this week indicating that consumers across both Europe and Asia want more from brands.

Freewheel undertook studies across major markets in Europe which covered not only consumer behaviours but also their expectations and perceptions. Consumer eyes have officially turned square with lockdown having a clear effect on TV viewership figures. Linear TV leads the pack in consumer consumption with on-demand TV coming a close second. Brands should welcome this consumer behaviour and meet their side of the bargain. Many would warn against humour during this time yet those brave enough to attempt it are embraced by the majority of consumers with 51% - 68% stating they prefer ads that make them laugh during this time. Brands that do speak up will represent a powerful message that supports both consumers and publishers.

This message is also called for across Asia, with Wunderman Thompson releasing 'The Big Bang of Do' across Asia. This study recognises that we have entered a new phase of existence but that is no reason for brands to retreat. As governments ask more of their citizens, consumers are asking more of their favourite brands. 80% of consumers across all ages believe that brands and big companies should do their part to improve the world, and that includes their messaging across channels. The key to navigating this time is not to retreat from public view in hope of a more promising future but to realise what truly matters and act on it.



Capturing the consumer mood across Europe: lockdown advertising
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Indian brands should act and not be spectators
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Category Deep Dive: Financial Services

This week, the latest data and intelligence on COVID-19 and its impact on Financial Services. We've split the latest (and best) research into three sections on the business, consumer and brand impact of the virus. We are defining Financial Services as commercial banking and insurance services.

In this week's Deep Dive into the Financial Services Category: Insurers at risk of being overwhelmed, millennials hit hardest, cashless adoption accelerates and financial services brands show their caring side as empathy rules.

01 Business

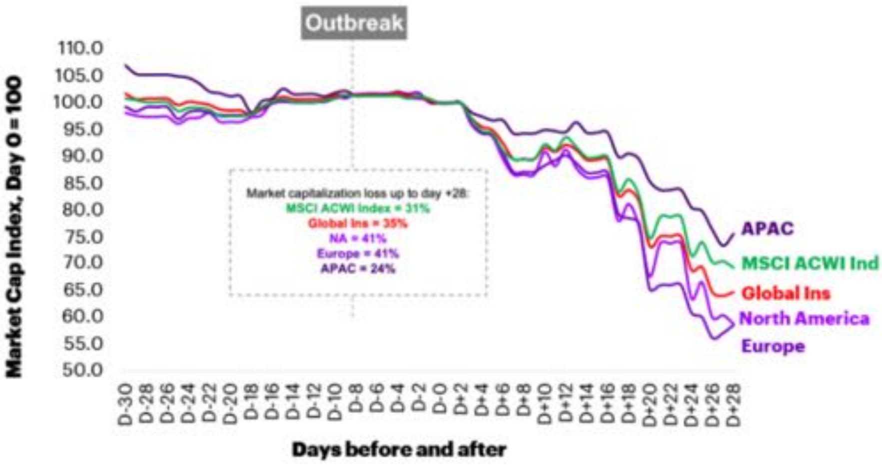
The crisis is impacting financial services companies in different ways; Insurance companies are at risk of being overwhelmed, while banks may struggle to grow at pre-Covid rates as the downturn bites.

1. Insurers dealing with many pressure points as they face significant COVID-19 fallout

Insurance companies are bracing themselves for significant pay-outs as the business impact from COVID-19 begins to crystallise. The value of global insurers has taken a hit even before the full extent of its impact is known.

Figure 1: Market capitalisation impact from COVID-19 on Global Insurers

Note: Chart shows MSCI, the market capitalisation weighted index (a broad measure of global equity market performance) versus the performance of global insurers (in red).



Source: Accenture[1]

Allianz, one of the world's biggest insurance groups, has warned that the pandemic could dent its operating profit by up to 10%, or about \$1.3bn[2]. John Neal, CEO of Lloyd's, expects the pandemic to be the most expensive event in history, dwarfing other major disasters like Hurricane Katrina in 2005.

> "[the pandemic is] no doubt the largest insurance challenge the industry has ever faced, I think by some way...the chances of the market making anything other than a notable loss in 2020 are zero"[3]
>
> **John Neal,** CEO, Lloyd's

Insurance companies will have to navigate many significant points of stress caused by the crisis, not least is the reputational risk as politicians and consumers look for a lifeline. The biggest issue is around business interruption insurance. Insurers have said that infectious diseases are excluded from most business interruption policies, causing fury amongst customers facing huge losses. With politicians exerting pressure on insurers to pay on claims, a legal battle looms over the extent of these pay outs.[4]

> The losses involved would swamp the ability to pay...it is an existential threat to the industry if it had to take responsibility for a risk it never underwrote and never charged for"
> **Joseph Wayland,** General Counsel, Chubb

Trade credit insurance – safeguarding companies against the risk that their customers go bust – is another point of stress for insurers. With Morgan Stanley estimating around $46bn of claims on trade credit insurance policies because of the virus[5], insurers are seeking support from government as there is a danger they could be forced to stop offering cover or sharply increase premiums.

The one upside of the crisis for insurers is that it has proved the necessity to businesses of protecting themselves from black swan events: "the proportion of customers adding pandemic extensions to business continuity policies has tripled".[6]

2. Banks will struggle to grow at pre-crisis levels as the downturn bites

The banking sector is likely to remain depressed during the Covid induced economic downturn as interest rates have been slashed by Central Banks in an effort to stimulate the global economy (see Figure 2). As interest rates fall, yields on assets tend to drop more quickly than funding rates (interest on deposits and bonds) damaging profitability[7].

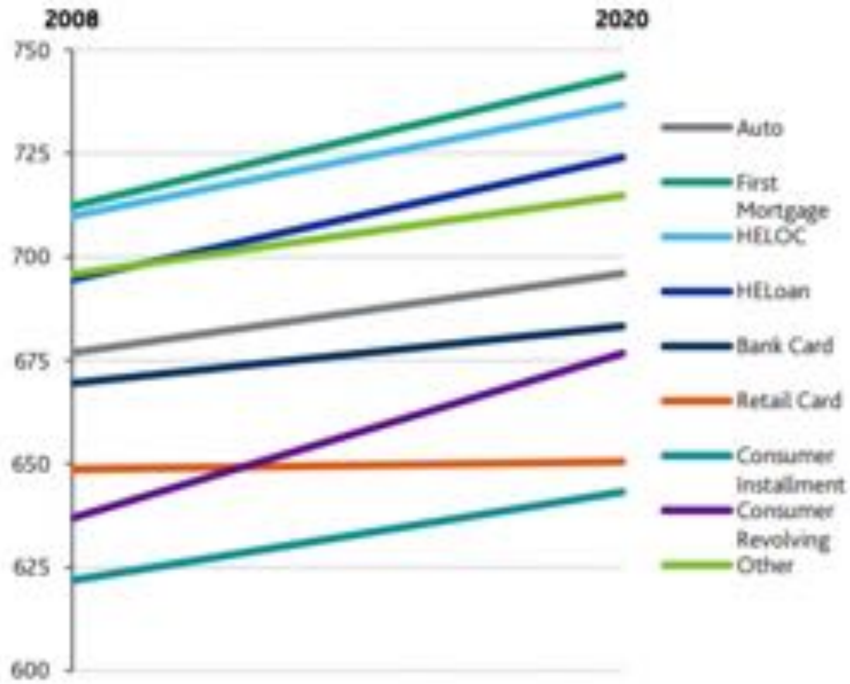
Figure 2: Central banks cut interest rates

country/region	current rate	direction	previous rate	change
United States	0.250 %	↓	1.250 %	03-15-2020
Australia	0.250 %	↓	0.500 %	03-19-2020
Chile	0.500 %	↓	1.000 %	03-31-2020
South Korea	0.750 %	↓	1.250 %	03-16-2020
Brazil	3.000 %	↓	3.750 %	05-06-2020
Great Britain	0.100 %	↓	0.250 %	03-19-2020
Canada	0.250 %	↓	0.750 %	03-27-2020
China	3.850 %	↓	4.050 %	04-20-2020
Czech Republic	0.250 %	↓	1.000 %	05-07-2020
Denmark	0.050 %	↓	0.200 %	01-19-2015
Europe	0.000 %	↓	0.050 %	03-10-2016

Source: Global-rates.com

Other pressures could also come to bear as we enter what could potentially be a deep recession. The consumer credit market has historically been very sensitive to changes in the job market[8] and given the rapid and severe increase in unemployment in some of the lockdown markets, we can expect this to have an impact on consumer credit loss rates. With loan deferrals put in place during the crisis set to expire[9] and the prospect of a long-term depressed housing market, this is an area of concern for banks. However, it is hard to assess what impact these pressures will have as the crisis plays out. Moody's suggests the impact is likely to not be as severe and drastic as in 2008, with a "more drawn out" degradation on consumer credit expected. This is because banks have "kept lending standards tight on most products" and also because of the governmental fiscal policy response to the current crisis[10].

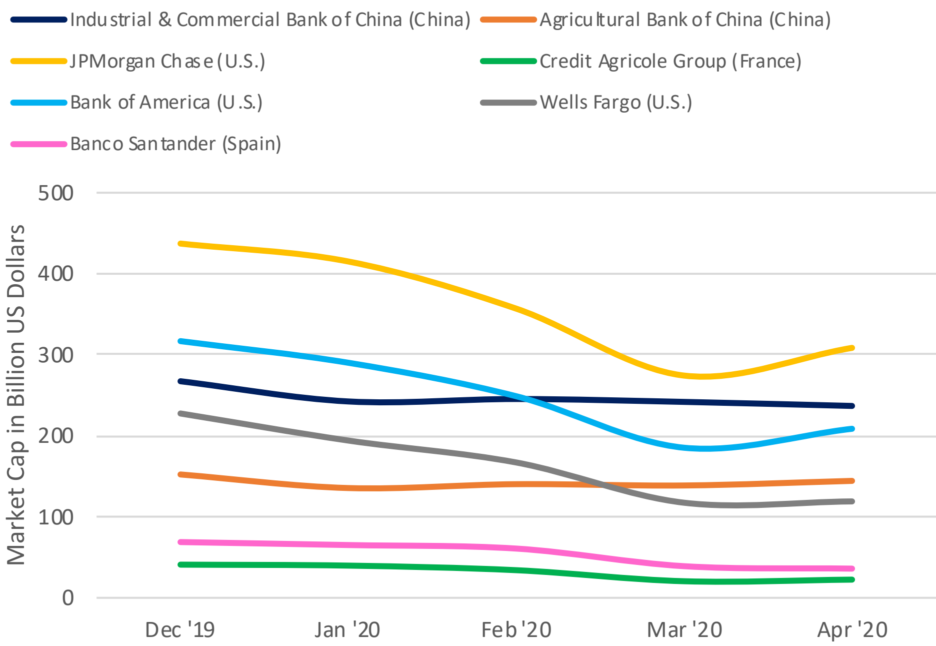
Figure 3: Credit Scores have improved significantly in comparison with 2008



Note: Averages are measured in September 2008 and January 2020; average is weighted by balance.

In Europe, a report by Kearney suggests that revenue for retail banks is likely to fall by an average of 20% over the course of 2020, with one in eight facing losses.[11] Banks with smaller trading, investment banking and international operations are more exposed to tightening loan margins. For example, Wells Fargo has lost more than half its value, with its stock reaching an 11 year low[12]. As Figure 4 shows, all major global banks are suffering.

Figure 4: Drop in market capitalisation of the largest global banks during the coronavirus outbreak



Source: YCharts; Macro Trends; Statista[13]

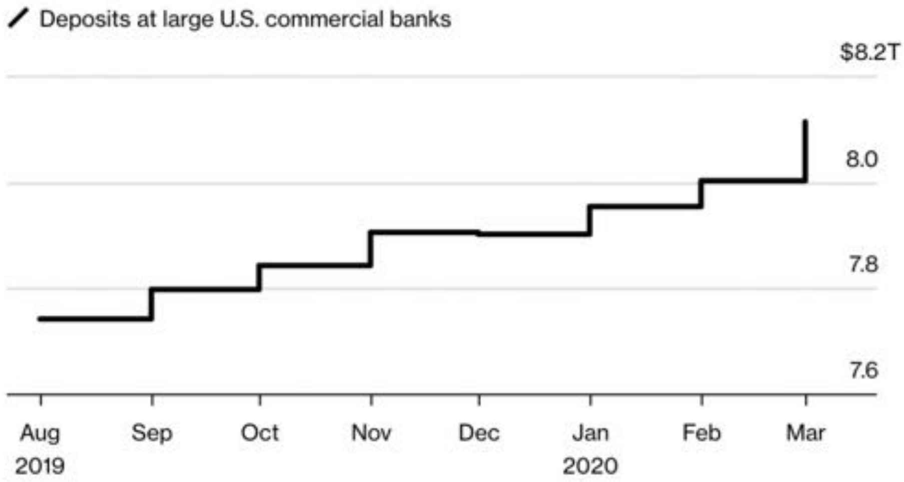
With consumer demand expected to be dampened, at least for the rest of 2020, the impact this will have on the demand for credit, added to the very low interest rate environment, suggests that retail banking will remain depressed in the short to medium term.

In a zero interest environment, it's very difficult to see how financials will do well...banks really aren't seeing as much demand"
Max Gokham, Head of Asset Allocation, Pacific Life Fund

3. Coronavirus puts the brakes on Neobanks as investors undertake a "flight to quality"

Neobanks, direct banks that operate exclusively online without physical branch networks, and are targeted at younger consumers, appear to have been hit harder than established banks. Investors are moving capital away from risk and toward safety with large incumbent banks benefiting.

Figure 5: Big banks are being flooded with deposits during coronavirus crisis



Source: US Federal Reserve

Xinja, an Australian neobank, had to stop people taking out a certain type of savings account because it was costing them too much money[14]. It is too early to tell whether this is a sustained trend or a short-term symptom of the crisis, with "business as usual" set to return.

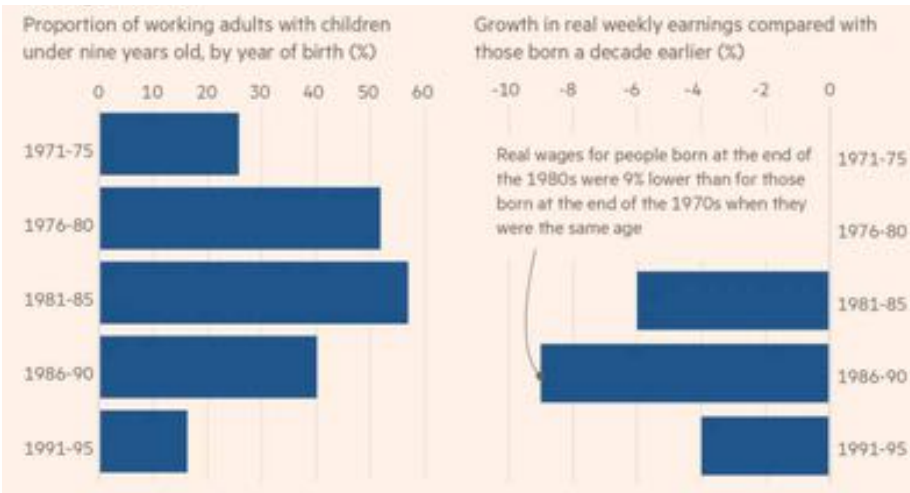
02
Consumer

1. Recessionary worries outweigh health concerns, with millennials the hardest hit

As the economic impact of the pandemic grows, the focus is shifting away from crisis management, towards the reality of a looming global recession. Whilst concerns about health are largely decreasing, in all countries, except for Brazil[15], they are being overtaken by financial worries[16]. Globally, 92% of people expect the pandemic will have a 'big' or 'dramatic' impact on the global economy, and 46% expect it to have a 'big' or 'dramatic' effect on their household finances, ranging from 86% in the Philippines to 51% in Japan, 31% in the UK and US, and 25% in Germany.[17] With 21% reporting a reduction in working hours, 15% reporting being furloughed and 14% reporting a pay cut, many people will be worse off than before.[18]

Whilst the economic crisis is going to affect almost everyone, the impact is likely to play out very differently across generations, millennials are likely to be facing the biggest challenges. Those born in the late 1980s were the hardest hit by the aftermath of the last financial crisis, younger millennials (born in the late 1990s) are likely to find themselves hardest hit by the current crisis. Those born in the early 1980s are most likely to have children under 9 years old, so are facing the struggle of balancing the pressure of working from home, while home schooling.[19]

Figure 6: UK Millennials hit hard by the financial crisis of 2008 are now likely to have young children



Source: Resolution Foundation: ONS: ISER[20]

2. Financial products become more important than ever

In light of the dramatic economic changes, people are looking to financial institutions to help them navigate uncertainty. Globally, 54% approve of the way banks and financial institutions have handled the COVID-19 outbreak so far, ranging from 82% in India, to 58% in Singapore, 50% in the UK, 48% in the USA and 35% in France.[21] Financial products account for 3 of the 4 most likely unplanned purchases due to the pandemic. Globally, 33% of people are planning to buy insurance products, 28% banking products and 27% stock market investments. In comparison 30% are planning to purchase VOD subscriptions, 23% consumer electronics and 22% a smartphone.

Figure 7: Financial products account for 3 of the top 4 unplanned purchases due to COVID-19

Insurance products 33%	On demand video/tv subscription 30%	Banking products 28%	Investment on stock market 27%	Property 25%
TV 25%	Computer & other electronics 23%	Home appliances 23%	Smartphone 22%	Car maintenance 22%

Source: Kantar COVID-19 Barometer, wave 4 (13th to 29th April 2020)[22]

3. COVID-19 accelerates transition to a cashless society

The transition to a Cashless Society was well underway long before COVID-19 hit. Already in 2019, 57% of global consumers used contactless cards, and 40% used mobile payments.[23]
The pandemic is accelerating the move towards cashless. Fears that physical currency can transmit the virus are widespread, despite the Bank of England claiming that "the risk posed by handling a polymer note is no greater than touching any other common surface, such as handrails, door knobs or credit cards".[24] Such fears have prompted many governments and retailers to dissuade cash payments. In China, thousands of banknotes were either destroyed or disinfected at the start of the pandemic. And in Singapore, DBS Bank reports that the volume of cashless transactions nearly doubled between January and March this year, as compared with the same period last year.[25]

It is not just cashless payments that are energised – contactless transactions are on the rise too. Consumers are hesitant to touch hard surfaces like PIN pads, leading many to go contact-free instead. In the UK, the contactless payment limit has been raised from £30 to £45. And according to a recent survey by Mastercard, 91% of respondents in APAC said that as a result of the coronavirus, they are using tap-and-go payments due to concerns about safety and hygiene.[26]

03
Brand

1. Empathy key to communications as consumers face financial struggles

The financial effects of COVID-19 are felt almost universally; 86% expect it to impact their personal finances and 95% except it to impact their country's economy. For financial brands, it is therefore more important than ever to demonstrate empathy with consumers throughout marketing and communications efforts.

> As marketers, our most powerful tool is empathy. The ability to see the world through another's eyes; to appreciate their daily struggles, torments and concerns; to appreciate that many people will be thinking: "I need to unlock capital urgently, I can't get hold of my relationship manager and I have a six-year-old screaming in my ear."
> **David Atkins,** Head of Strategy,
> Wunderman Thompson, Hong Kong

Fintech start-up Current, who offer app-controlled teen debit cards, are attempting to show empathy at scale by tapping micro-influencers and user-generated content; "(Influencers) share genuine stories, showing—not telling—how we are helping our customers, a subset of Americans who are really struggling at this time," says Adam Hadi, VP of Marketing at Current. This approach stays true to their long-term strategy, demonstrating their understanding of how value propositions allow people to improve their quality of life and – ultimately – their financial wellness.

2. Brand focus pivots from acquisition to retention

When it comes to financial services, there is perhaps no better way to show empathy than to solve customer problems. Writing for The Financial Brand, Joe Sullivan, CEO of Market Insights argues that the words of the moment for marketers are 'How can we help?' It is with this logic that brands such as Credit Sesame, American Express and several auto insurance companies have pivoted their strategies to focus on the existing customer.

For consumer financial health management platform, Credit Sesame, the priority is to build a "comprehensive strategy to address consumers' immediate day-to-day financial concerns". Through marketing efforts, they are focusing on personal stories and prescriptive content and are using customer successes and feedback to guide them. It is this pragmatic approach, argues Forbes Senior Contributor Peggy Anne Salz, which will build brand affinity now and strengthen trust in the future.

"Right now, it's about protection and helping our customers withstand the shock at a time when their finances are distressed, and their incomes are impacted."
Adrian Nazari, CEO, Credit Sesame

American Express is taking a similar approach and focussing on protecting its existing clientele in the face of COVID-19. The corporation has reprioritised marketing investments to focus on initiatives which they believe are critical to retaining their customer base and strengthening their merchant network. Amex's amended strategy is comprised of 4 pillars: supporting vulnerable customers, updating product propositions, assisting small businesses and preparing for recovery.

"As the crisis unfolded, we knew that we had to reprioritize our investments in each of these areas to focus on those initiatives that are critical to retaining our premium customer base and strengthening our merchant network, while at the same time, continuing to invest in those areas that are key to our long-term growth strategy."
Stephen Squeri, Chairman and CEO, American Express

Several auto insurance companies are offering discounts to customers to reflect reduced car usage during the coronavirus lockdown. Car insurers worldwide are expecting restrictions on movement in response to the pandemic to drastically reduce claims costs as accidents dwindle. Therefore, brands including Geico, Allstate and Admiral, are repurposing advertising space to communicate this to customers.

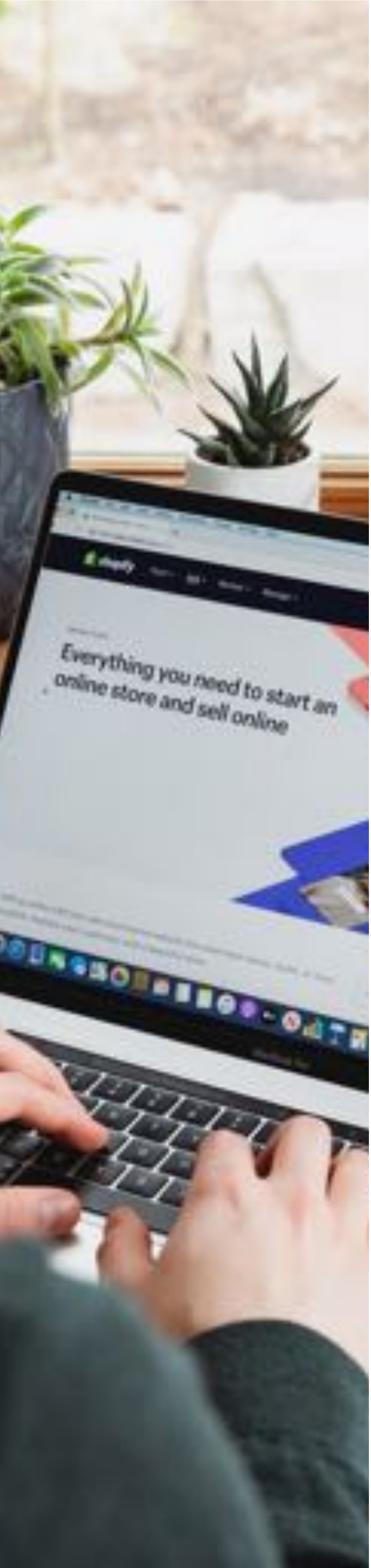
3. Brands adapt existing messaging to the current situation

Brands including Lloyds bank and Klarna have built on existing campaigns by launching new iterations through the lens of the coronavirus pandemic.

On 14th May, Lloyds bank launched an isolation campaign alongside charity partner Mental Health UK. The bank has a history of championing better mental health, having launched their 'Get the Inside Out' campaign in 2018. The new campaign "By Your Side" shows different families playing a game of 20 questions, each describing symptoms of stress, anxiety isolation and guilt. It aims to showcase common mental-health issues experienced during lockdown.

> In these unprecedented times, lots of our customers will be experiencing stress and anxiety, with many people finding that their everyday life and financial situation has changed overnight. "Our partnership with Mental Health UK continues to offer help and support to the people of Britain during these difficult times."
> **Richard Warren,** Director of Marketing Communications, Lloyds Bank

Swedish payment solution provider Klarna has hosted a series of virtual drag brunches on Facebook Live. For each person who attends, Klarna have pledged to donate $1 to drag entertainers who have been impacted by COVID-19. The brunches build on Klarna's existing partnership with drag entertainers which kicked off in 2019 with their 'Shop Like a Queen' campaign.



4. Financial services brands team up to support small businesses

As the COVID-19 pandemic has thrown the future of many small businesses into jeopardy, financial services brands have been quick to offer up support schemes.

American Express is one of numerous large corporations – a list that includes e-commerce giant Amazon, ride-sharing app Uber, and tech experts Dell and Cisco – that launched “Stand for Small” in April. The organisations in the coalition are providing advice, offers, complimentary services, and corporate assistance to small businesses that are struggling to handle various aspects of their operations.

> The companies joining Stand for Small all have legacies of supporting the more than 30 million small businesses in the U.S., and collectively, our goal is to provide them with valuable resources so that we can come out stronger together once this crisis ends.”
> **Stephen Squeri,** Chairman and CEO, American Express

Barclays has partnered with Nextdoor, neighbourhood social networking hub, to help UK businesses communicate directly with local customers. The partnership will allow companies to publish two posts for free each month to share information such as new opening hours, delivery options and special offers. There will also be a dedicated "Coronavirus open for business directory”.

Online payment platform Alipay has partnered with MYbank to launch a ‘Small Stores 2020’ initiative. It offers low-interest loans and digital technologies to small-business owners in China during the coronavirus outbreak. The aim is to support lending for 20% more store owners and, through Alipay’s digital tools, help them boost revenues by 20% this year.

> In every hardship, there lies an opportunity to envision and create a brighter future. We firmly believe that, after the COVID-19 outbreak, service providers who are able to tap into the power of digital technologies will come out the strongest”
> **Simon Hu,** Chief Executive Officer, Ant Financial

In Hong Kong, insurance brand Axa is offering free COVID-19 coverage for SMEs. This provides sanitary services for SME customers for whom new health requirements are a major challenge.

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Thank you