The Diversified Services Group, Inc.
A Financial Services Consultancy

Past the Pandemic:
Opportunities and Responsibilities for Financial Services at the Wealth-Health Nexus

For over a decade we watched closely as both the financial services and medical industries struggled to provide holistic solutions for their customers – and were oblivious to the fact that it's not possible in either silo alone. Wealth and Health are simply too intertwined and interdependent for that to be a realistic.

Over multiple decades we've seen both industries undergo radical – yet parallel – disruptions. Using technology and merger playbooks to drive scale, they captured more revenue and optimized the way each did their jobs traditionally. They each doubled down again and again on revenue optimization and profit maximization, created uniformity, stripped away levels of service, and pushed the locus of decisions onto customers. But they created profound diseconomies of scale in the process. In financial services, where virtually everything was always digitized, the value of advice was stripped away by robo advice, passive investments and increased volatility. In medical services, where technology and scale were vested in research, but not the customer interface, the ultimate cost for the customer, patient, employer, and taxpayer escalated out of control.

Covid-19 has stripped the dressing off the wounds these diseconomies inflicted. It is crystal clear that neither financial nor medical health can exist in a vacuum. Covid-19 is painfully demonstrating that – at a global, national, regional, employer, community, family and individual level. The tipping point is now.

<u>Where do we go from here</u>?
Firms who choose to, can help formulate rational expectations about how the dislocation risks and opportunities of the Pandemic may play out over time. Advisors who can interpret and communicate what that means for a specific client and what actions they should consider will provide great value to clients.

<u>Financial firms have a once in a generation opportunity</u> to change the vector of their business models and recognize what clients know already. The "wealth and health" nexus is a tight one, and it is their primary financial and security concern. Firms can choose to recognize that – or not. Those who do will enable valuable, holistic, empathic and useful client conversations and interactions. Those who don't, wont.

175 Strafford Avenue, Suite One, PMB 107, Wayne, PA 19087-3396
610-989-1710 * www.DSG-Network.com

Without an understanding and appreciation of the consequences today and over time, it is not possible to analyze an income statement and balance sheet, let alone macroeconomic risks to portfolios, industries, countries, across the globe. A discussion that ignores the breadth and depth of the virus's impacts is not likely to be credible.

- First: It does not end with a vaccine. Without an understanding the life-cycles of viruses, it is difficult to discuss investment timeframes – for a specific investment, a portfolio or for an individual. A large swath of the 7.5 billion global population will not get the vaccine, including some in this country. That will ensure communities for it to thrive over multiple waves. To quote Klaus Stohr who was instrumental in recognizing the SAR event, "The virus will end this pandemic by burning every piece of dry wood it will find. The fire will not go out before the last susceptible person has been affected. Then the question is what role will any vaccine play afterward." Simply put, vaccines help keep the virus at bay after the waves are tamped down.

  Add to that the unknown durability of any vaccine(s), potential adverse reactions of "sped to market" mass vaccinations, the mutation frequency of the virus, and the unknown long-term consequences of exposure to the virus. Today we have only six months of data, and are just beginning to understand the vascular, neurological and reproductive consequences of exposure. We are at the beginning of this medical event. There is no market clearing transaction or policy. It is a large, multi-national, cross industry, complicated workout situation.

  It is worth a note that viruses don't arise from a vacuum. They jump to humans in tight unsanitary situations which strain the quality of the environment around them. They have altered history from the fall of Athens to Sparta and the end of the Pax Romana to now.

- Second: Medical unknowns will play out over time and will disrupt supply chains. We can see that with food on grocery shelves today and will see it more as we move into fall and winter given what is happening across South America right now. Similar scenarios are playing out across many other supply chains. Manning auto assembly lines inter and intra-nationally has proved problematic. The virus exposes the fragility of over optimizing a complex, highly integrated, global supply system without factoring resilience into the equation. Rebuilding and rebalancing that will be a multi-year process and will impact cost and quality of everything produced and consumed here.

- Third: We saw the consequences on the demand side immediately. In the airline and hospitality industries it is large and existential, and is already metastasizing to airplane manufacturing, maintenance, and leasing businesses. Even with rapid development of UV light and air filtration technology, sufficient traffic increases require confidence. Confidence that is brittle at best.

The substitution effects are powerful. The virus dictates physical distancing. That distancing degrades the quality, frequency and enjoyment of the social interactions that are intrinsic to our humanity. Disney's competitive advantage with "connected customers" is now its Achilles heel. Technology has provided alternatives like Zoom, which while imperfect, are likely to persist for many business and family engagements. Telemedicine use rapidly spiked on top of already persistent growth. Ride sharing declined, and food delivery grew. Hotel occupancy plummeted, while country rentals boomed. Large cities face a potential hollowing out that echoes experiences of 50 years ago. Proximity in cruise ships, nursing homes, classrooms and neighborhood bars carry risks that were not envisioned when they were built.

- Fourth: A massive reallocation of human resources is underway. With supply constrained and demand down and in turmoil, labor markets took a massive hit. At this writing it is unclear how the multiple "cliffs" of unemployment benefit supplement, employment protection, or rent, utility, mortgage, and student loan deferrals will play out. Until they do, it will remain unclear what the real unemployment rate was or will be. The number to watch in the short-term, permanent unemployment, is under-reported if reported at all.

  After years of an incrementally tighter paid caregiver labor pool, there has been a large labor pool expansion. The question is, will it be paid or unpaid. For many families, this question is critical. The virus has expanded caregiving demand rapidly and substantially. In the absence of a policy solution, the burden will likely fall to children in general, and women disproportionately. Depending on the severity and duration of the virus triggered condition(s) this can have a quadruple impact. The pay differential between genders persists, so income is lower to start. The impact on earnings is immediate assuming employer has no provision for caregiver leave. Reduced contributions to a 401(k) or HSA goes hand in glove with lost income. Finally, the caregiver is often called upon to fund out-of-pocket expenses. For minority women, the consequences are often compounded.

- Fifth: Caregiving dynamics ripple across a client's entire family regardless of income or asset levels. Likewise, caregiving decisions are critical quality of life decisions for a client and their family. Income and assets can buffer the burden of providing caregiving, but that alone doesn't assure the best advocacy for the care recipient. Medical and caregiving support are often thought to be one and the same. They are not. Medical care is often readily insurable or covered by Medicare and Medicaid. Caregiving support is custodial not medical, and not always readily insurable. In many situations the ultimate expense of caregiving is far greater to a family than the medical cost. Covid-19 is an unforeseen catalyst for policy dialogue about the role of "social determinants of health" in managing unpaid and paid care expenses within our communities and across our society.

Financial advisors also have a once in a career opportunity to expand and add value to their practice. While they may rely on their firms for a wide variety of analytic resources, ultimately their clients rely on them to interpret those resources and apply them to the situations they face.

Clients do not rely on them to understand the financial performance report, if that report is done adequately. Clients do not rely on them for knowing the numbers in their financial plan, after all they were the ones who provided them. Clients do not rely on them for market commentary that they see on TV, hear on the radio, and read in their daily paper.

Clients do rely on them for something else. They value most the insights buried within the fire-hosed torrent of information they have already face or can easily access. They appreciate the overlay of analytic resources in a manner that helps them navigate their own life situation. The virus is a catalyst for genuinely holistic discussion and action. It raised the game stakes for everyone, and it demands everyone's attention. It will force choices about wealth and health for the foreseeable future.

All advisors have a vested interest in helping clients solve their respective life equations. If they remove their blinders and step back from the screen, they will see Covid-19 triggered processes that will unfold over a decade or more. While we cannot know the duration or magnitude of the changes it will cause, we do know that it does and will change people's behavior:

- Where life happens
- Where work happens
- Where care happens
- Where medicine happens

The ways in which those behaviors change will redefine and reshuffle the levers available to fund and manage the cost of health and care, and more broadly, the aggregate resources available for health and care.

Advisory firms and individual advisors need, more than ever, to manage with both a **"telescope"** pointed into the future, and a **"microscope"** focused tightly on the client's situation. Product partners that understand this new paradigm will tailor solutions to help them meet that challenge. Participants across the financial service industry who choose to, can demonstrate their relevance, and differentiate their value. Those who do not will suffer.

Heywood Sloane
heywoods@dsg-network.com
610-989-1710, ext. 4