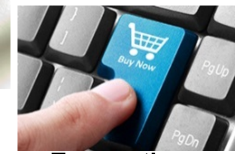
STRATEGIC BUSINESS INSIGHTS

Credit


Protection


Assets


Transactions


Information and Advice

Twelve Financial Industry Trends

2017

CFD

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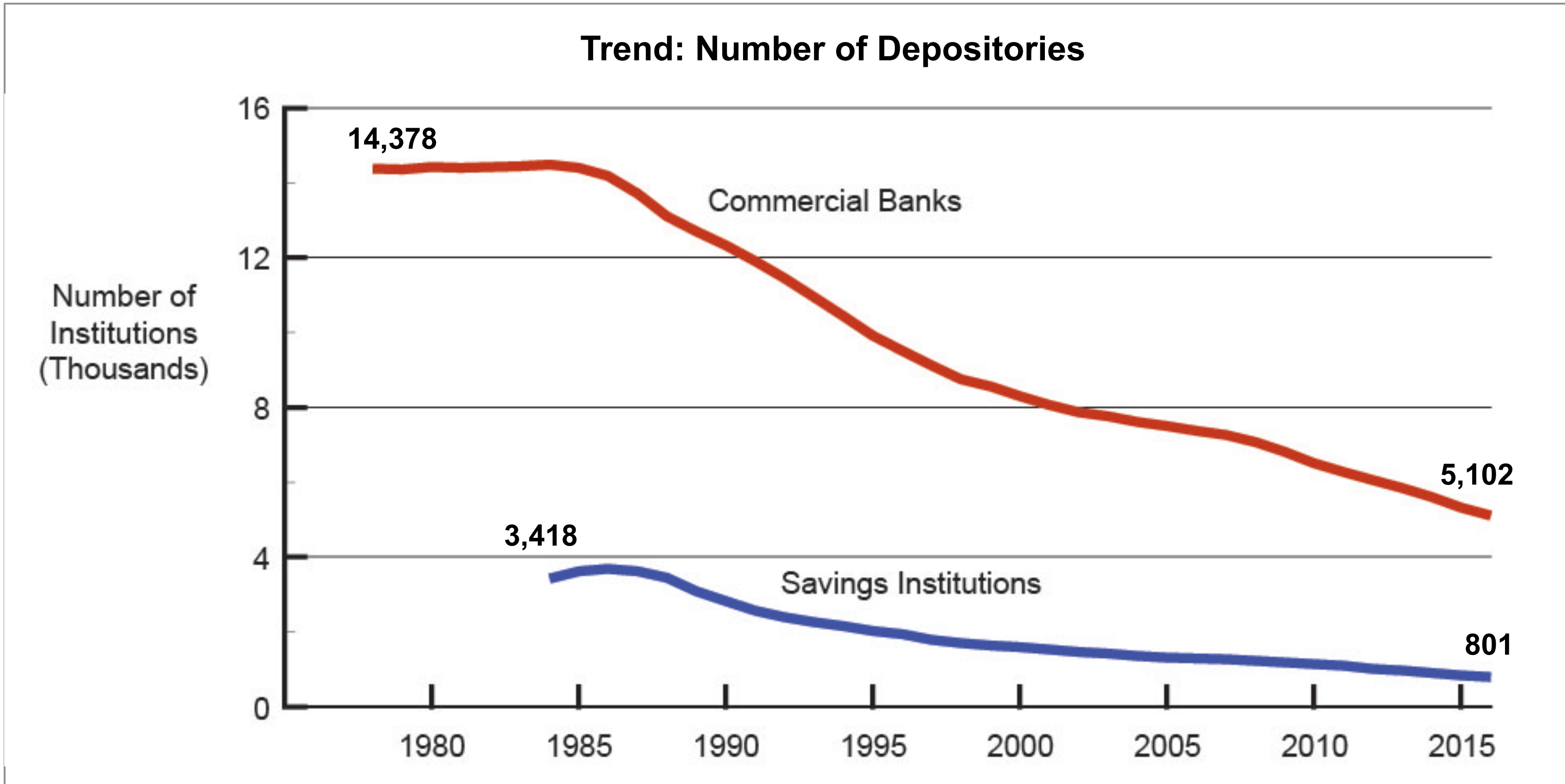
Contents: **Slide Number**

Depositories

In the past four decades, the number of depositories has declined significantly. However, household use of the number of depositories has increased (from 4 to 7 relationships), as has the number of products from a depository (from 18 to 22).

Will the trend of using more products at fewer institutions continue? Will the number of depositories continue to decrease? Or with effective efforts to expand, combine, and simplify product offers, will depositories capture even more business from their customers?

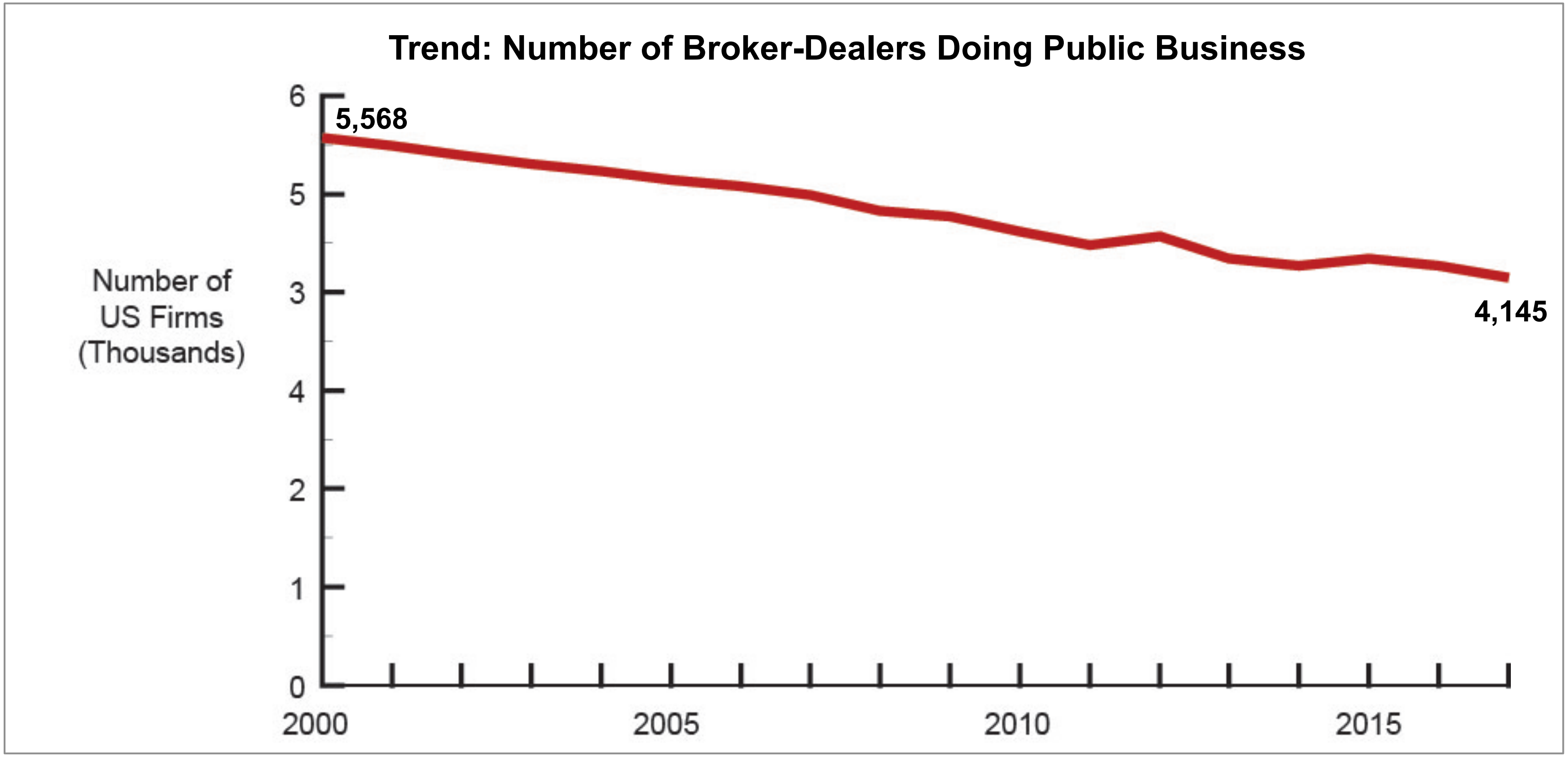


Source: Federal Deposit Insurance Corporation

Broker-Dealers

In the past decade and a half, the number of broker-dealers has declined. During the same period, MacroMonitor trending shows that the number of households trading annually (between 10% and 13%) has not varied meaningfully. However, the average number of annual trades has varied significantly (from 8 to 31). The number of annual trades gradually increased to a high of 21 trades in 2000 and then declined to 16 trades in 2006. In 2014, the number of annual trades was 31; in 2016, the number of annual trades decreased to 26.

Will the number of broker-dealers continue to decline? Will more households engage in trading? Or will trading decline in an era of passive investing?

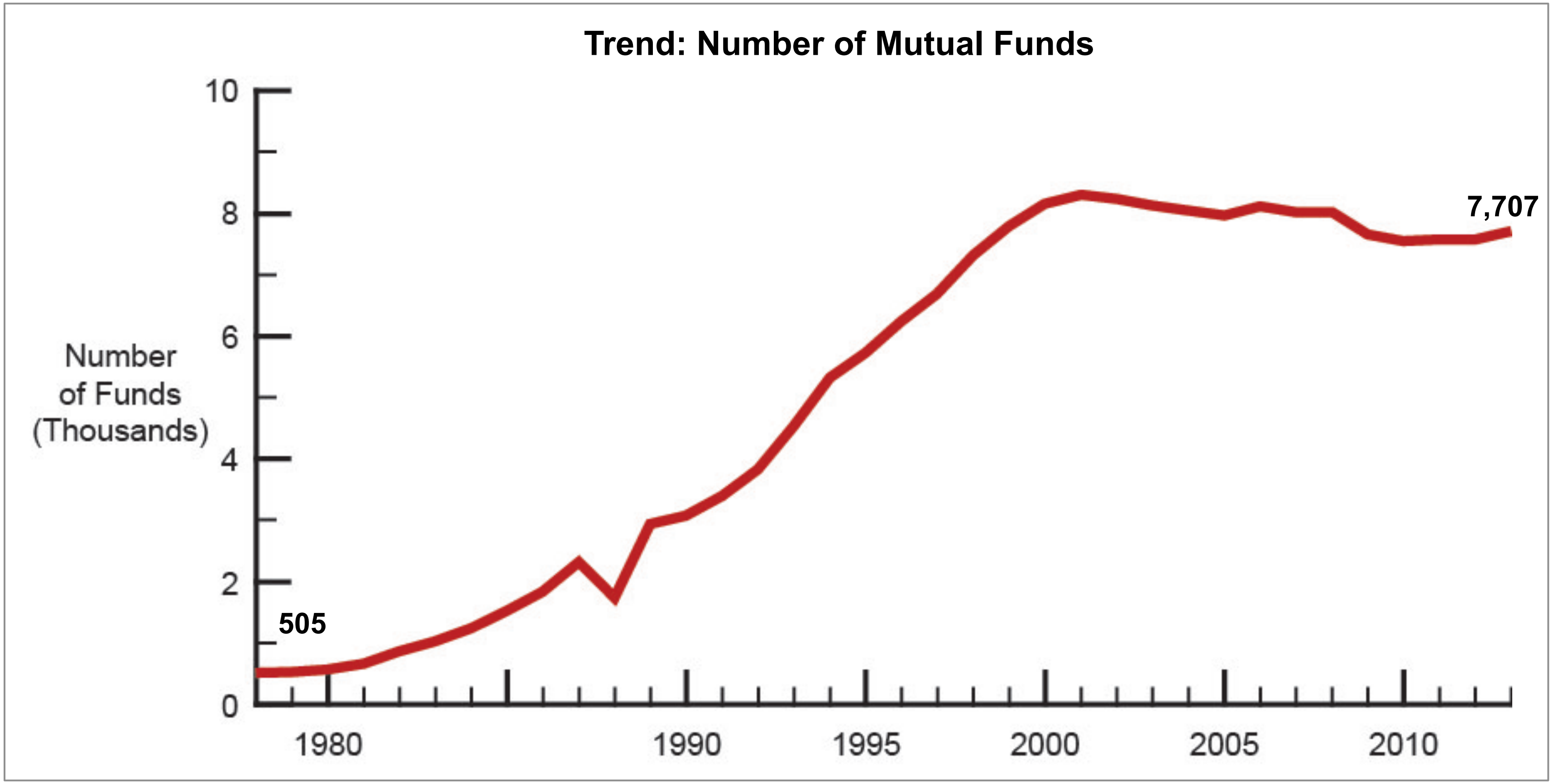


Source: Securities Exchange Commission, FOCUS Report

Mutual Funds

Mutual Funds are responsible for the (relative) democratization of investing. The number of funds grew significantly during the 1980s (through 401ks) and through retail investing in the dot-com 1990s. The MacroMonitor reports that household ownership of retail stock mutual funds has returned to 10% after peaking at 24% in 2002. (The incidence of retail-bond funds has returned to 5% following a peak of 10% in 2002).

Why has investor involvement in mutual funds declined, when online investing makes it so easy? Has the number of mutual funds peaked because of the increase in use of ETFs? Will Boomers return to mutual funds in retirement? Will Millennials turn to mutual funds when they begin to invest in earnest?

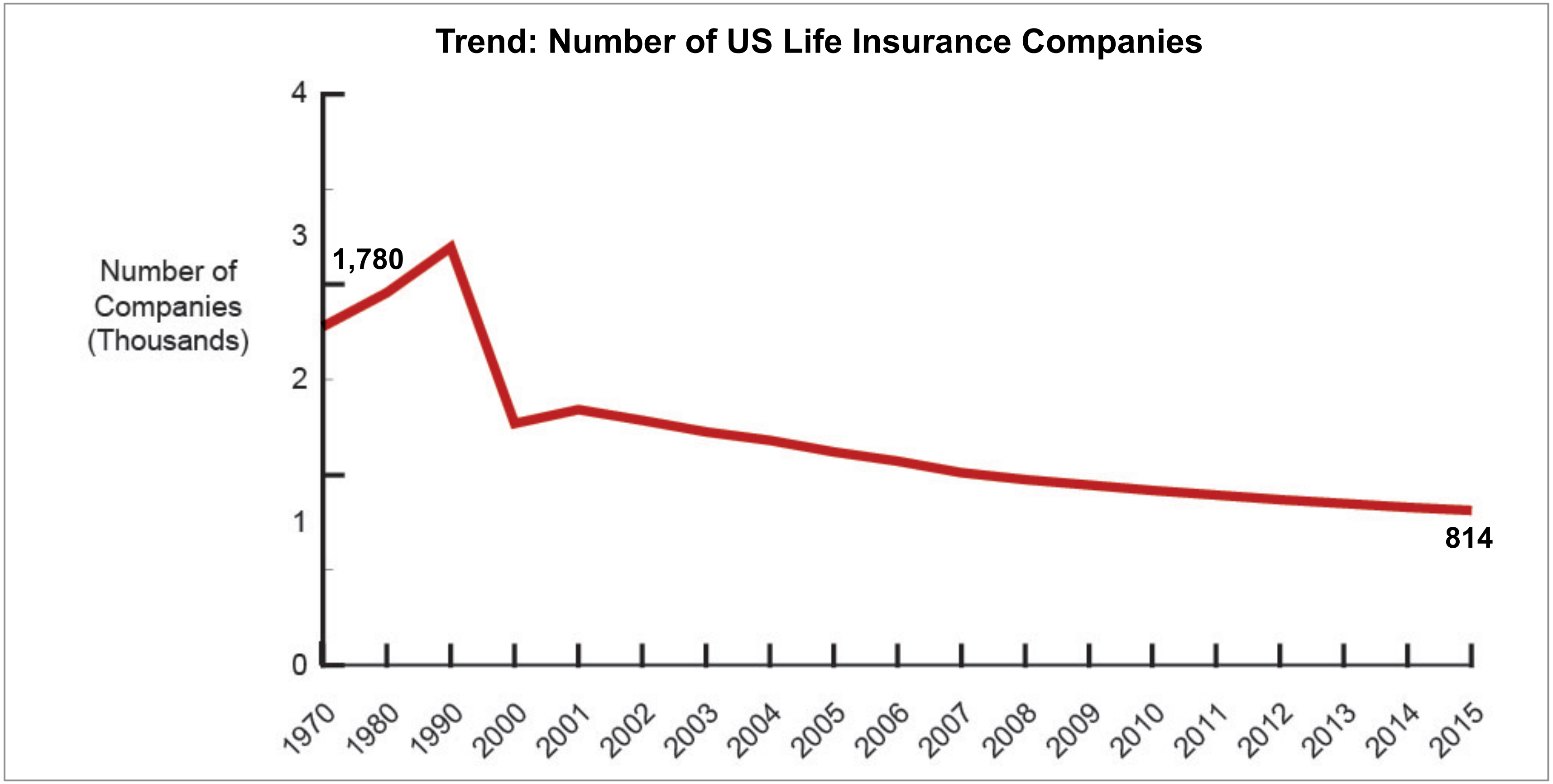


Source: Investment Company Institute, 2014 Investment Company Fact Book

Life Insurance Companies

Household penetration of life insurance (group and individual) has been declining for more than two decades. The MacroMonitor reports that household ownership of any life insurance product has declined from 80% in 1982 to 58% in 2016; group insurance has declined from 58% to 41%, and individual insurance has declined from 36% to 19%.

Is this decline attributable to the decline in the number of life insurance companies? Is it because of the declining number of life insurance agents? Will this decline continue? Is the underlying reason for this decline a shift in the perceived relative value of life insurance vis-à-vis other protection products and competing financial needs such as debt repayment, saving and investing, or day-to-day expenses?

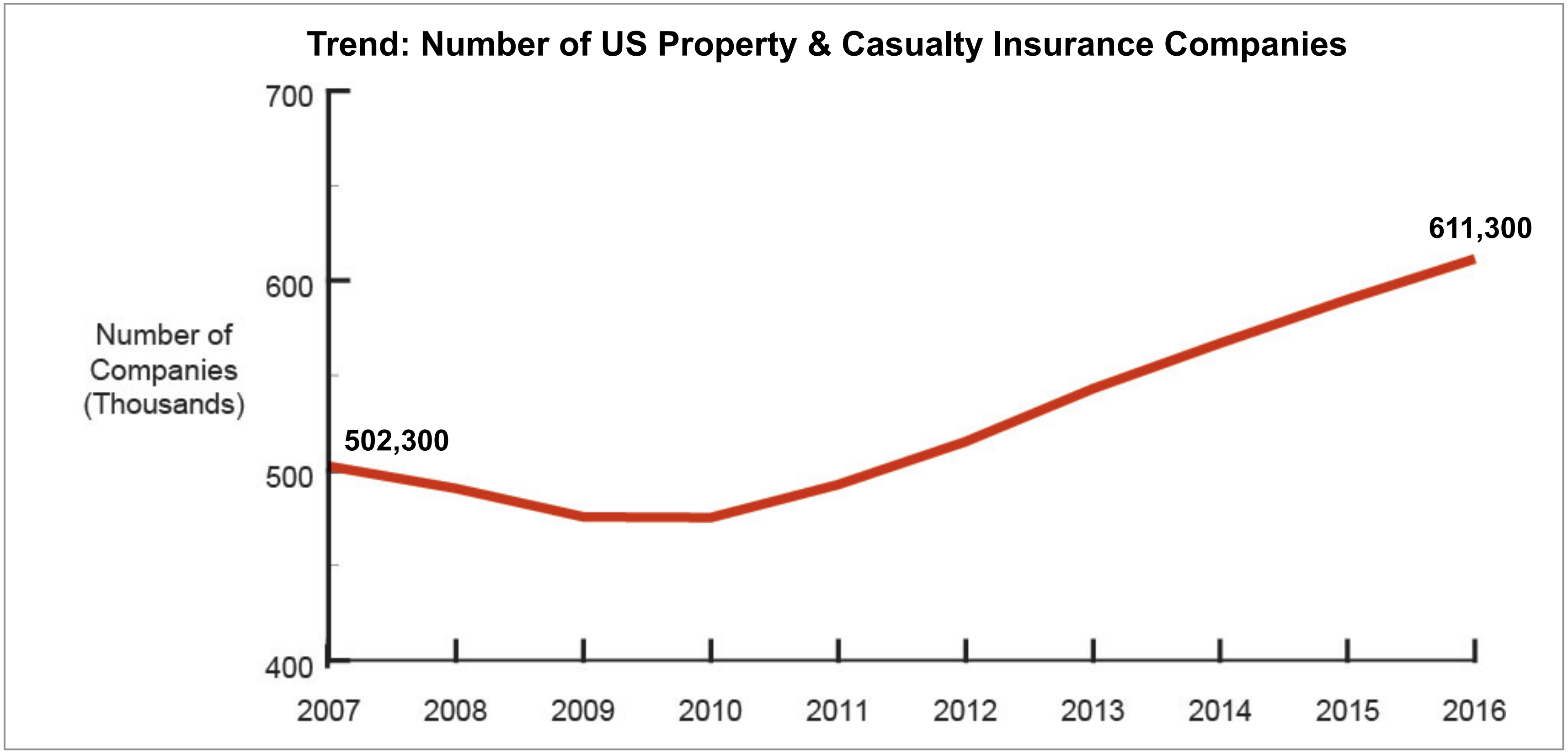


Source: Statista

Property & Casualty Insurance

- The use of property and casualty insurance parallels ownership of the underlying property or risk. Real estate ownership (especially ownership of a primary home) has grown consistently through the decades, but ownership increased rapidly right before the Great Recession. Since then, a large number of factors (such as the price of homes and debt among Millennials) have made buying a home more challenging than previously. Many Millennials are challenged to afford their initial purchase at the same time that house-rich Boomers need to unload to fund retirement.
- Vehicle ownership has peaked and prospects for autonomous vehicles improved.

What is the impact of the increasing movement toward urbanization and the impending introduction of autonomous vehicles?

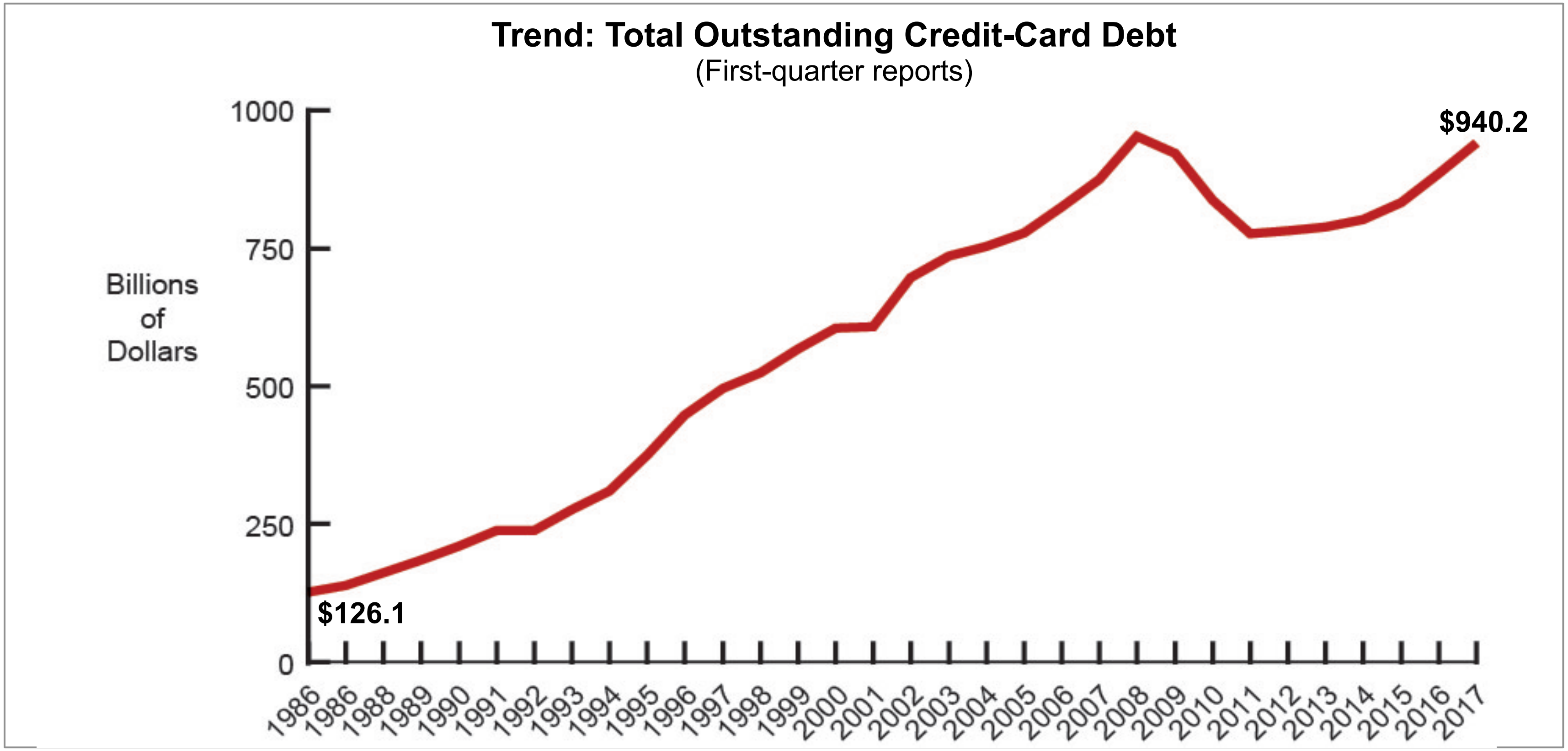


Source: National Association of Insurance Commissioners

Credit-Card Debt

Until the Great Recession (2008), credit-card debt continued to grow at a healthy pace. Postrecession, many households controlled spending and made efforts to minimize their debt exposure. Increased use of debit cards and cash and declining spending affected credit cards and debt overall. According to the MacroMonitor, by 2016, spending and the use of credit cards have recovered; with the proliferation of new transaction media, the use of cash is declining.

Will the continued penetration of these new FinTech products—such as contactless payments and person-to-person transactions—have a greater effect on credit-card debt? Does the flexibility associated with online control of accounts, transfers, and other transaction vehicles encourage households to shift their debt to lower-cost options (some with tax advantages)?



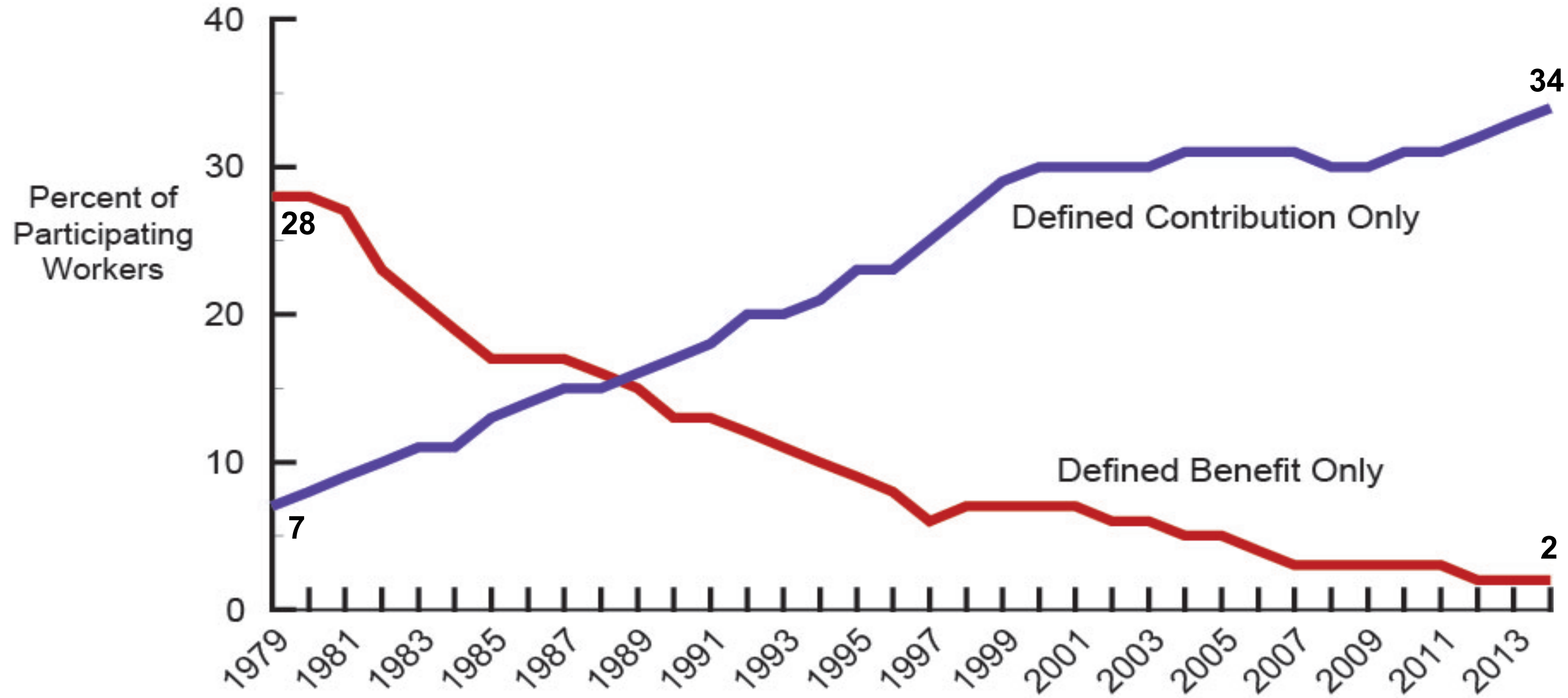
Source: WalletHub Credit Card Debt Study

Private-Sector Retirement Plans

In the past four decades, traditional pensions have declined in number and participation; today, roughly 30% of all households have a pension (including government employees). At the same time, defined-contribution plans (401k, 403b, 457) have increased from serving very few households in 1979 to serving nearly half (45%) of households in 2017. Employers have successfully off-loaded their retirement responsibilities to their employees, but employees have not done a good job of preparing for retirement. The vast majority of households have insufficient savings—ignoring Social Security—to assure that their incomes will enable them to maintain the same lifestyle in retirement. The impact of a major medical incident will throw most of these households into a personal economic depression.

With more than 70 million Boomers careening toward retirement, this train is heading toward the Grand Canyon, and the trestle bridge is out.

Trend: Private-Sector Workers Participating In Employment-Based Retirement Plans



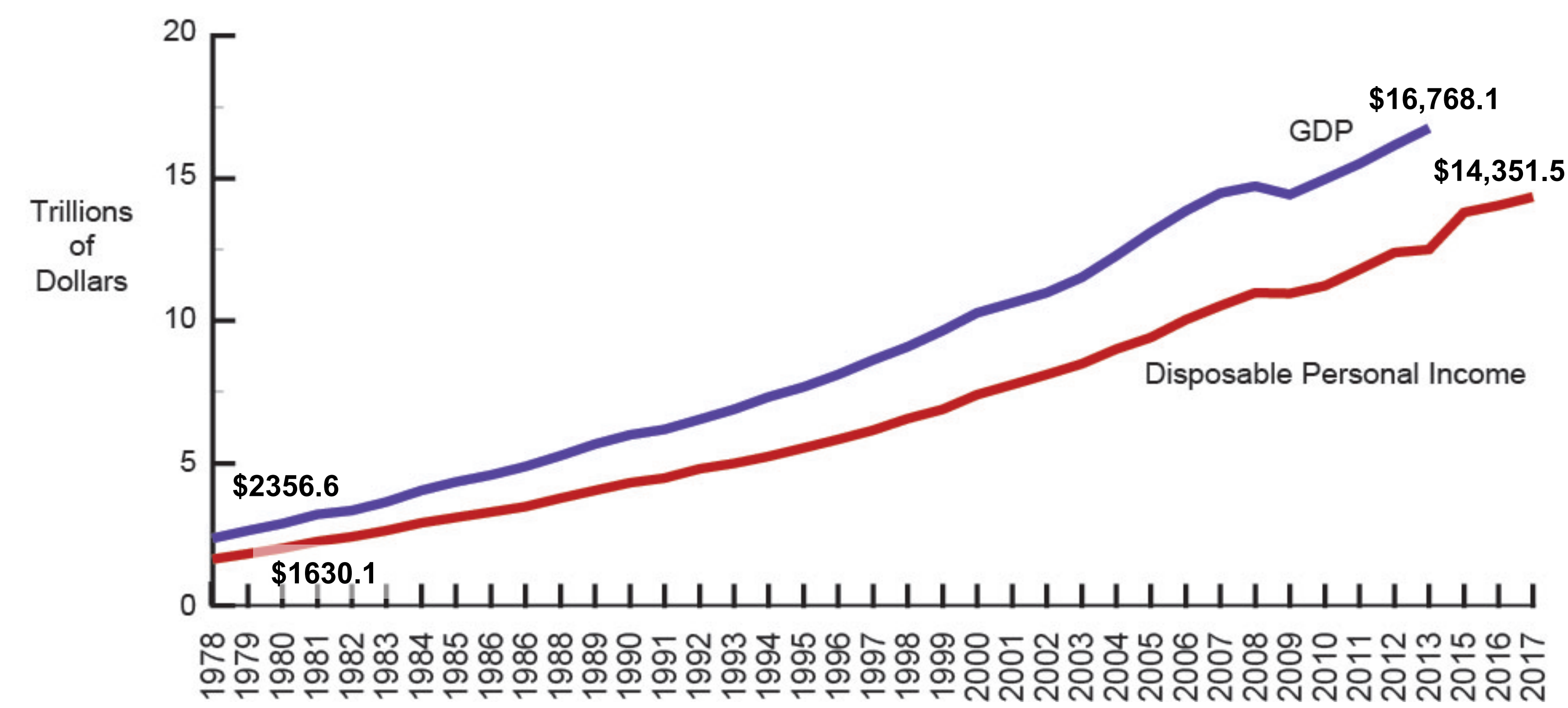
Source: U.S. Department of Labor 1979-1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999-2013, EBRI estimates 1999-2014.

Economic Indicators

At first glance, trends in aggregate GDP and personal disposable income paint a positive picture; both have increased steadily in the past four decades. What this trend does not reveal is the relative proportion of income concentrated in a smaller and smaller proportion of the population. The MacroMonitor—with its detailed information about the relative distribution of households and their assets, debts, and demographics—shows the impact of the income concentration across their complete balance sheet. This impact has already created a highly desirable concentration of households in the top 1% versus an affluent cadre of the top 10% who are more constrained.

If this development continues, financial providers may have to extend their services to less affluent households in order to grow.

Trends of Economic Indicators: Disposable Personal Income and GDP



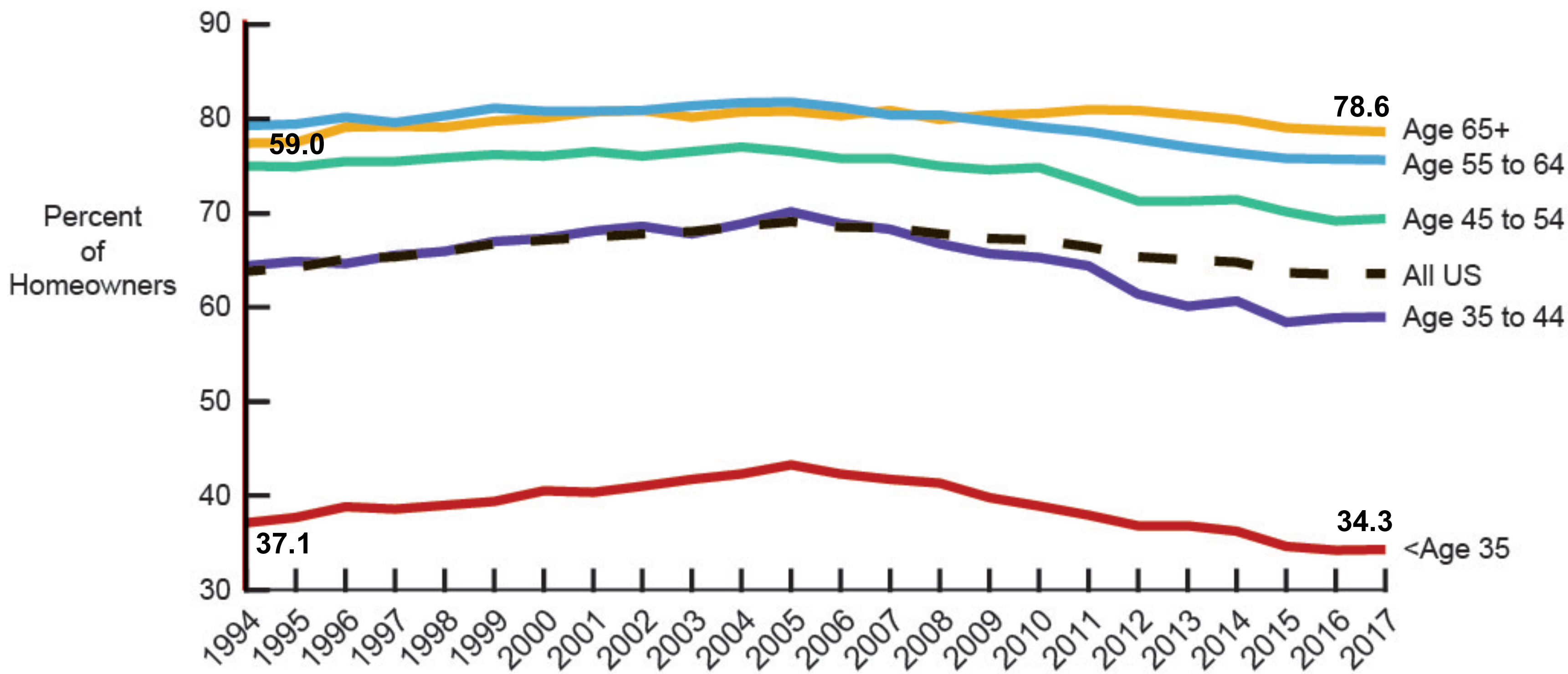
Source: Economic Research Service, and the Bureau of Economic Analysis Department of Commerce

Home Ownership

Homeownership's economic benefits ripple through the economy with the associated need for furnishings, remodeling, repairs, insurance, and so forth. For the homeowner, the home represents the largest asset—a means for building equity over time and a significant tax advantage. Since the Great Recession, home ownership—especially among younger cohorts—has continued to decline and affect household finances that ripple throughout the economy. The MacroMonitor demonstrates that even though the number of first-time homebuyers has contracted and moved upscale, the underlying goal of home ownership has not declined (yet).

If home prices were to fall, how would that outcome affect households: Would they take the plunge or would they wait?

Trend: Homeownership Rates by Age of Householder

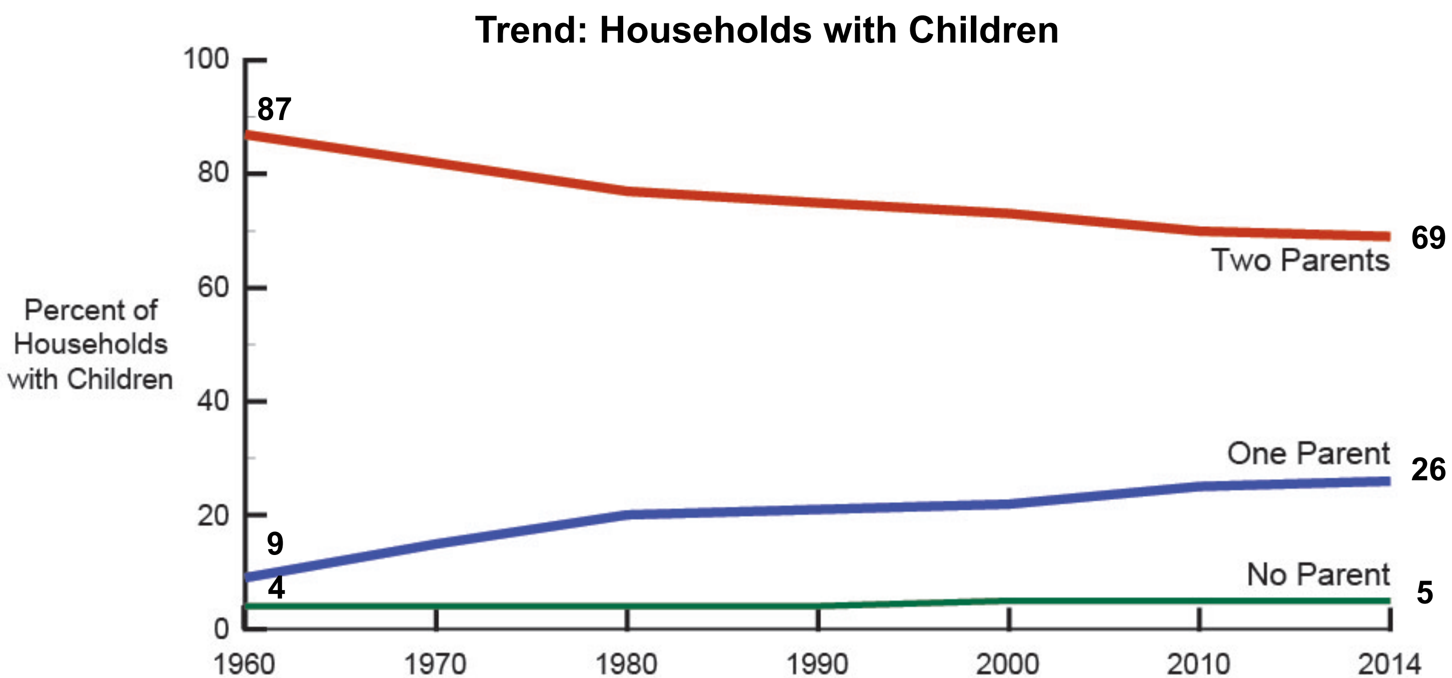


Source: US Census Bureau, Current Population Survey/Housing Vacancy Survey, Series H-111

Children

Marriage rates among household heads with a college degree have not changed in the past several decades. Among heads with a low level of education, marriage rates have fallen. Similarly, the proportion of households with children and two heads has declined, while the proportion of single-parent households has increased. Children—and immigrants—represent the future of society. To ensure the future of the United States, having children and allowing immigration are two basic, long-term, and necessary investments. Having two parents is generally preferable to having only one, but if the incidence of single-parent households continues, we may see single parenting become dominant.

If this development continues, then it is important to understand the challenges that these households face to make ends meet and to design better ways in which to help them; doing so will provide both corporate profits and societal benefits.



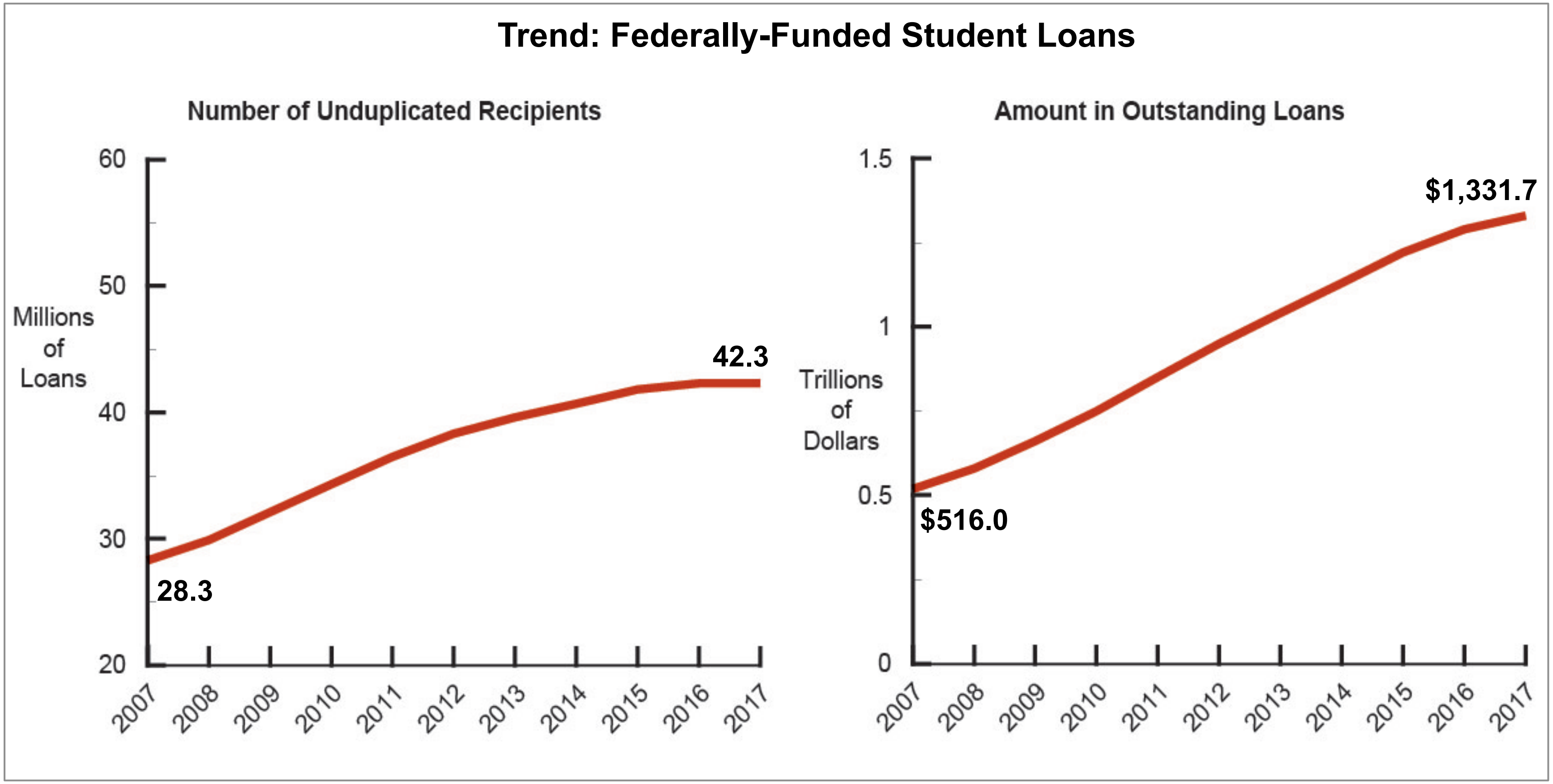
Note: Based on children under age 18. From 1990–2014, a child living with cohabitating parents is counted as living with two parents. Prior to 1990 cohabiting parents are included in "one parent."

Source: Pew Research Center analysis of 1960–2000 Decennial Census and 2010 and 2014 American Community Survey (PUMS)

Student Loans

Just in the past decade, the number of student loans has increased algebraically while the amount of these loans has increased exponentially. It's hard to imagine this development continuing, but without adequate education, the productivity of the entire economy suffers. The MacroMonitor details the added burden this development places on younger households and the impact it has on their having children, buying homes, and saving and investing for their futures.

Even with a longer life span, this debt encumbers and jeopardizes their future and society's. Yet the trend in education's cost inflation and financing shows no sign of abatement and is untenable in the long term.

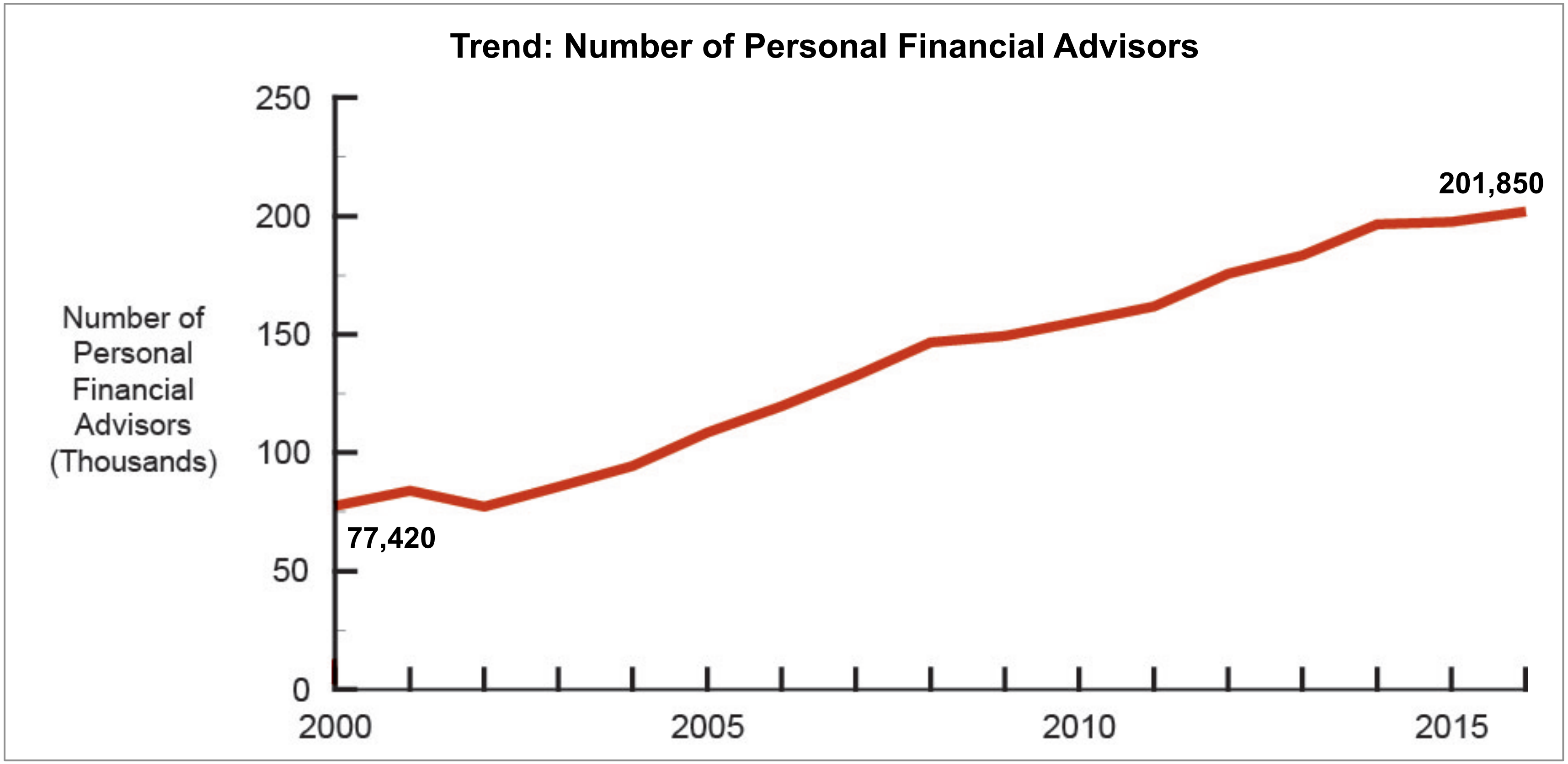


Source: National Student Loan Data System (NSLDS)

Financial Advisors

The number of people who are providing personal financial advice continues to increase. These people may be certified to provide this advice or may do so in an ancillary capacity as accountants, lawyers, and tax preparers. They may focus on a narrow portion of a household member's financial need or take into account all household members, their broad responsibilities, and the complete panoply of financial products, services, and needs. This development supports the underlying household need for help in surviving in a world in which financial services are necessities, not luxuries—and in which each household is ultimately responsible for every life-threatening decision.

The Bureau of Labor Statistics' American Time Use Survey shows that Americans spend a minimal amount of time on their finances, and the MacroMonitor demonstrates that financial stress, anxiety, and uncertainty are growing and affect a wide variety of households. Something has to give.



Source: US Department of Labor, Occupational Employment Statistics

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