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Looking Back: The Impact of COVID-19, Broken Down by Industry

How the Pandemic Affected U.S. Business

The general economic impact from the COVID-19 pandemic has the potential to result in a $3.2–4.8 trillion loss in U.S. GDP over the course of two years. Revenue challenges and the need for employees to rapidly transition to remote work has been common across all industries. The business landscape has significantly changed, from the cancellation of major events, the conversion of conferences to virtual, and the need to provide better digital customer service. The U.S. unemployment rate is at 6.9%, which is above the 4.5% natural unemployment rate. On a positive note, the economy has regained more than half of the 22 million jobs lost in March at the beginning of the pandemic. Here is a look back at 2020 and how COVID-19 affected credit unions, banks, insurance, consumer finance, payments, government, healthcare, and utilities.

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Credit Unions

This year, credit unions experienced unprecedented call volumes. Branch staff had to be reallocated to address the increased volumes. Since many members were in financial distress, modified payment agreements and emergency loans were amongst the most frequent requests. For example, many credit unions offered skip-a-payment options to provide immediate relief to those laid off from their jobs.

Before COVID-19, branch traffic was already declining with the promotion of self-service channels. However, the pandemic accelerated this trend. Another interesting impact of the pandemic was the rise of credit union savings balances. They have risen by 18.3% during the last 12 months due to stimulus checks, lower gas prices, uncertainty, and fears of a recession. With this growth, more institutions are considering different types of investments to deploy to increase deposits, such as corporate bonds or utilizing charitable donation accounts.

During the last 12 months the increase is due to stimulus checks, lower gas prices, uncertainty, and fears of a recession.

For credit unions, membership growth rates are heavily influenced by auto lending. Therefore, an overall growth rate of 2.7% in 2020 (down from 3.6% growth in 2019) was expected. However, the expectation is that the rate will increase to 3.0% in 2021. Delinquency rates due to the inability of many to pay their bills on time increased substantially to 1.00%. The decrease in asset quality is expected to be short-lived, similar to the lower ROA (.50% for 2020), while it's forecasted to be 0.35% this year.

Credit unions have traditionally used small-dollar unsecured personal loans to differentiate themselves from banks, which banks weren't as interested in because of the limited profitability. However, as the pandemic worsened, banks began offering them, which raises uncertainty for credit unions surrounding the future of signature loans.

Pre-pandemic, credit unions were bracing themselves for a slowdown in mortgage lending. However, the Federal Reserve lowered interest rates, and then the industry's market share shot up a full percentage point to 9%. While growth in mortgage originations have been record-breaking, the same can't be said for auto lending, which has suffered as car dealerships were not considered essential businesses and mobility was no longer a priority. As an example, car sales decreased by 47% in April.

Banks

Banks around the world attempted to flood credit markets with liquidity to stave off the damage from the pandemic. Luckily, after learning from the 2008 financial crisis, many banks have significantly more capital at their disposal compared to that time. The impact was huge. In April, 1 in 4 credit cardholders in the U.S. had their credit limits reduced, or their cards closed altogether.

Banks that focused on lending to hotels were hit especially hard. The hope was that six months of loan forbearance would suffice to ward off defaults and big charge-offs for the hospitality sector. Most initial deferral periods started in April or May and ended in October, making it so bankers would have to make hard decisions for loans coming out of deferment. A survey by the American Hotel & Lodging Association of its members in November found that absent new federal assistance, 47% would have to close down by summer 2021. Banks are faced with restructuring loans for hotel borrowers by lowering interest rates (to lower payments) or dividing hotel loans. However, the hope is that the impact of the vaccine will help stave off foreclosures.

To respond to the effects of the pandemic, banks and credit unions alike collaborated with fintechs and ramped up digital banking capabilities. Branch visits of course, declined sharply during the pandemic. Even after COVID-19, 18% of U.S. survey respondents expected to reduce visits to a branch for routine transactions. As banks digitized more interactions, structures have changed. For example, Citizens Bank transitioned some branches to "advice centers" where customers could go for financial guidance rather than for transactions that could be executed digitally.

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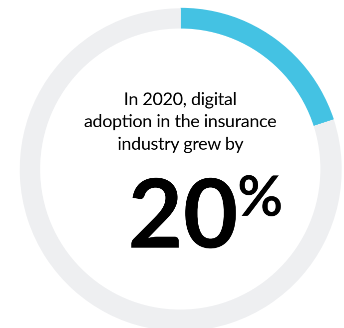
Digital sales also became more prominent. Before, traditional retail banks relied on in-person interactions for the majority of their sales. In fact, it is estimated that ⅔ of simple bank product sales could be digitally fulfilled. Interestingly, 15–20% of customers surveyed expect to increase their use of digital channels even once the crisis has passed.

Insurance

According to a recent report by S&P Global, the impact of COVID-19 on global insurance markets is primarily felt through asset risks, capital markets volatility, and weaker premium growth prospects. Since most COVID-19 related losses (e.g., business interruption or event cancellation) are expected to be picked up by reinsurers, the primary insurer's technical performance might not actually have significant deterioration.

For auto and medical claims, the lockdowns actually helped, providing a positive impact on loss ratios. U.S. auto insurance carriers are estimated to return $14 billion to customers to provide financial relief, which also makes sense because there are fewer miles driven. The commercial automotive space has experienced relative stability with fewer claims due to less congested roads and less driving. On the other hand, there has been an increase in the distribution of higher-risk auto insurance shoppers and those with payment accommodations in 2020.



The pandemic impacted health insurance for Gen Z and Millenials the most. Larger percentages of these younger generations deferred non-essential care. When millions of Americans lost their jobs, they also lost their employer-sponsored health insurance. However, most individuals who lost employer coverage should be eligible for Medicaid or the Affordable Care Act health insurance exchanges.

Similar to the banking industry, COVID-19 pushed the need for innovative digital solutions and services, along with the increase of digital adoption. Digital adoption in the insurance industry grew by 20% in 2020 globally, spanning the entire insurance policy lifecycle from marketing to claims submissions to digital policy servicing. The need for digital solutions is especially relevant for life insurance, where life insurers are using accelerated underwriting to minimize in-home visits by leveraging third-party data.

Expectedly, the ability to actually pay insurance bills was impacted. In a 2020 TransUnion survey, respondents were concerned primarily about being able to pay their insurance bill (44%), car payment (26%), mortgage payment (23%), and life insurance bill (22%).

As an important part of digital adoption, COVID-19 also accelerated the already growing demand for digital disbursements. With many claims being quite urgent, digital payments provide another opportunity to satisfy policyholders with faster, more convenient disbursements. At the same time, the benefits to the insurer include reduced costs and streamlined operations.

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Consumer Finance

Credit card usage went down substantially, with numerous states going into lockdown. With consumers staying at home, shopping, traveling, and dining was limited. As a result, average consumer-level credit card balances have declined across all credit risk tiers during 2020. Total bank card balances declined by more than 10%. However, there was more credit card spending on home-related purchases. Also, consumers spent more on the holidays than last year (albeit not by much). Mastercard's SpendingPulse report showed that sales between November 1 and Christmas Eve grew by 2.4% year-over-year.

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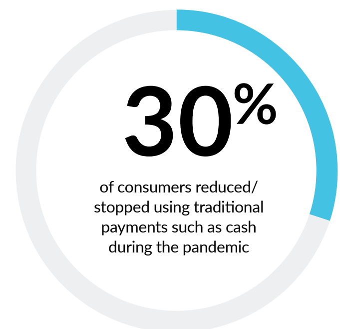
Financial hardship status includes factors such as deferred or past due payments and frozen accounts. The percentage of accounts in financial hardship status rose for credit products such as auto loans, credit cards, mortgages, and personal loans. This seemed to have peaked in May and June but dropped in July for the first time since the pandemic began. Also improved in July — serious delinquencies (60-90 days past due).

Payments

Payment revenues dipped due to a sharp downturn in economic activity. However, overall, the payment market was, and still is, in the midst of revolutionary change. COVID-19 has accelerated many digital payment trends we were already seeing in the industry — going from card to cardless, touch to touchless, and batch to real-time. The demand for no-touch payments was met by the issuance of contactless cards, digital wallets, and the installation of point-of-sale devices with contactless functionality. At the same time, cash and other traditional payment methods declined significantly — 30% of consumers reduced/stopped using traditional payments such as cash during the pandemic. There's also been a marked decline in the point-of-sale transaction volume.



Merchants of all sizes stepped up by offering at-home delivery, Buy Online, Pick-Up in Store, or drive-through pickup options have been rewarded with more purchases. This strengthened their bargaining power with payment networks for lower processing fees. Another ding on payment network margins has been the rise in chargeback volumes due to consumers canceling their transactions (e.g., travel and event tickets).

COVID-19 also drove plans to adopt faster payments. Fifty-nine percent of organizations maintained that the COVID-19 pandemic had not deferred faster payments implementation plans, while 20% indicated that it actually accelerated plans. Also, a whopping 75% of organizations described faster payments as a "must-have." Push-to-card made significant gains in the market, while real-time methods continued to grow in both customer/member demand and financial institution adoption. By December of 2020, The Clearing House reported an over 56% share of U.S. DDA balances in accounts able to receive RTP payments.

The government's disbursement of unemployment benefits to millions of Americans was possible with the current payments infrastructure. However, it highlighted the opportunity to have great efficiency with digital payment methods rather than use paper checks and legacy infrastructure. Digital and real-time payments could have improved the process greatly.

Government

COVID-19 affected governments at all levels. The pandemic response being highly politicized added another layer of complication. One of the signs of the huge impact of the pandemic was the extension of the IRS tax deadline from April 15 to July 15.

Federal actions began with travel bans, starting with a travel ban from China by foreign nations on January 21, with many more coming throughout the year. By March, Trump declared a national emergency under the Stafford Act. Also, in March, social distancing guidelines were introduced, which included avoiding eating and drinking in bars and restaurants, avoiding unnecessary travel, and limiting gatherings to fewer than ten people. The coronavirus relief bill was signed after being passed by the U.S. House and Senate. For individuals making up to $75,000, the coronavirus relief package provided $1,200 payments beginning in March.

Shutdowns were not only for the general public and businesses. The House and Senate shut down and did not reconvene until May, and the Supreme Court began hearing cases by teleconference. Corporations were affected by the shutdowns, but also by federal commands. For example, in March, Trump announced that he would use the Defense Production Act to compel General Motors to produce ventilators. This resulted in a $500 million contract between The U.S. Department of Health and Human Services and General Motors to produce 30,000 ventilators. An executive order was signed again under the Defense Production Act to designate meat processing plants as critical infrastructure. In order to protect people who lost their jobs, a federal residential eviction ban through December 31 was implemented as well (landlords could still evict for other reasons than non-payment).

By March, the $2 trillion coronavirus relief package was implemented, and in April, the White House began to release guidelines for state and local officials to reopen their economies utilizing a three-phase approach. Also, the U.S. passed a $484 billion aid package for funding for small business loans, hospitals, and testing.

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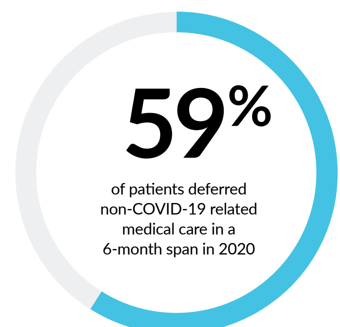
By May, the creation of Operation Warp Speed was announced. This administration task force existed to help develop a coronavirus vaccine. Funding was provided to pharmaceutical companies to manufacture medicines and vaccines to treat COVID-19. For $1.6 billion to Novavax Inc and $450 million to Regeneron Pharmaceuticals. Also, in May, Trump issued an executive order for federal agencies to remove barriers to economic activity.

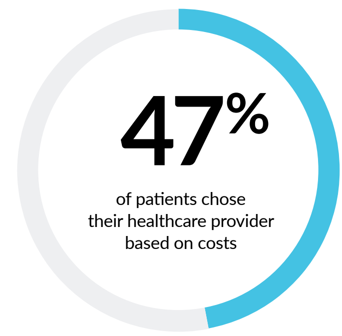
In December, the FDA granted emergency use authorization for vaccines from both Pfizer and Moderna. This began the process for the federal government to begin the distribution of the vaccines to states. The administration of vaccines began with health care workers and the elderly and will be rolled out to the public in phases.

Healthcare

The importance of flexible care delivery options and payment issues became more important with the COVID-19 pandemic. Healthcare consumerism, where patients take their medical care and its costs into their own hands, grew. For instance, 59% of patients deferred non-COVID-19 related medical care in a 6-month span in 2020 from May to October. Telehealth, virtual care, and lower acuity settings all increased. Patients recognized the need to adhere to stay-at-home guidelines, and many elective procedures (which represent a large portion of hospital revenue) were canceled, and emergency department visits were avoided. This caused profitability challenges with hospital providers.



Across all generations, there was a greater drive to understand healthcare costs prior to service, rising from 75% to 80%. However, younger generations were more likely to research the costs. This tendency to do more research directly impacted healthcare providers, as 47% of patients chose their healthcare provider based on costs. This made it even more critical for providers to be transparent about pricing. Despite appeals in 2020, CMS' (Centers for Medicare & Medicaid Services) new price transparency rule will be effective January 1, 2021.



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By October 2020, outpatient volumes returned to normal levels, but inpatient visits lagged by 8–10%. At the height of the pandemic, overall hospital volumes dropped by 60%. Reduced volumes were projected to make profitability a challenge and result in $323 billion by the end of 2020. The surge in hospitalizations due to COVID-19 may have changed that.

Utilities

With the pandemic, many Power, Utilities & Renewables (PU&R) companies helped the customers they served by deferring payments and suspending shutoffs. Overall, demand declined for their services, most significantly in manufacturing and production centers where industrial demand has decreased. However, there was an increase in residential customer demands. This resulted in the prices in electricity wholesale markets decreasing.

At the beginning of the pandemic, every state in the United States suspended service disconnections for non-payment, either voluntarily or in response to state mandates. Some of the moratoriums were open-ended with no set expiration dates. Many utility companies are entering long-term payment agreements with their customers with past due balances, an offer that is required by many states.

Despite the challenges, the utility industry posted Q2 earnings higher than in 2019 and saw modest revenue impacts this summer. Higher residential revenues were made possible due to customers working from home. However, that was balanced by higher costs to supply electricity during the pandemic. There are efficiencies of scales when supplying power to a group in one place, so consumers ended up paying higher electricity bills than they were before the pandemic. A Tufts University study found that a 16% increase in residential demand during work hours offsets the decline from commercial and industrial customers.

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Conclusion

Although 2020 was discouraging, to put it mildly, control of the pandemic began in December with the rollout of the COVID-19 vaccines. Production and distribution will need to scale up to make mass vaccination possible. There will also need to be additional government spending to offset the damage to the economy. On the bright side, measures are being taken to assist with economic recovery. For example, the Federal Reserve will keep interest rates low until 2023 at the earliest. Also, although the unemployment rate is high, it's been dropping steadily since its peak in April. At the current rate of 321,205 positions being added back a month, economists predict it will be 2.5 years before the financial system fully recovers the 22.2 million positions lost.

"Since the pandemic is still raging, there's a high degree of uncertainty about the future direction of the economy," says Mark Hamrick, Bankrate's senior economic analyst. "But we have reason for hope. Some improvement is expected over the coming year, but the recovery will be uneven with respect to specific areas of the country and sectors of the economy."

Alacriti is a leading financial technology company dedicated to helping financial institutions and other organizations accelerate their digital payments transformation, all without requiring legacy system overhauls or replacement.

Alacriti's cloud-based platform, Orbipay, delivers solutions across the payments ecosystem, including The Clearing House's RTP® network, Electronic Bill Presentment and Payments (EBPP), and Digital Disbursements. In addition to driving modern and frictionless digital payment experiences, our clients benefit from faster time to market and continuous innovation on a proven platform.

To speak with an Alacriti payments expert please contact us at (908) 791-2916 or info@alacriti.com.

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