Financial institutions & COVID-19: How to lead through the crisis and prepare for the next one

Here are the top concerns of banks and diversified financial institutions for how to respond to the COVID-19 crisis and the best actions they can take.

The global response to the ongoing COVID-19 pandemic and local social distancing efforts has sent massive supply- and demand-side shocks to retailers, automakers, healthcare companies, and travel and hospitality purveyors. No sector is immune. In fact, banks are already feeling the downstream impact and bracing for longer-term consequences.

In our discussions with banks and diversified financial institutions (FI) about COVID-19, we hear the following areas of immediate concern:

• Survival and resilience start with prioritizing employee health and customer safety

Several leading institutions acted early by enacting work-from-home policies for employees who could work from home (i.e., those equipped with the right software and hardware, as well as high-speed access). Others limited branch hours for customers. Core values will provide clarity and priority as banks move from response to recovery.

• Virtual engagement requires first-class digital capabilities and customer experiences

Because of social distancing practices and restricted personnel availability, FIs are working to shift customer service volumes from traditional channels to digital ones. Availability of digital channels, operational capacity and scalability of solutions can be gating factors or competitive advantages, depending on whether FIs are prepared to not only meet but exceed customer expectations.

• The transition to e-commerce makes digital payments a top priority

To support changes in daily consumer spending behavior and reduced physical retail sales, banks need to offer scalable e-commerce and mobile commerce channels. E-wallets, real-time payments and e-commerce applications are top imperatives.

• Fast-changing customer predicaments require product portfolio refinements

Fundamental changes in customer needs and demands, such as repayment delays and alternative forms of repayment, are on the rise. FIs need to consider immediate changes to product features to accommodate these requirements and serve client needs.

• Credit losses will rise as small businesses and consumers are increasingly impacted by the crisis

No FI will be immune to a short-term pull-back in consumer spending - the single largest driver of the U.S. economy. The unprecedented erosion of sales and business stoppages across sectors is already having an impact on business liquidity, cash flows and consumer solvency. Increased demand for capital will create short-term solvency concerns for many FIs.

• A re-emphasis on efficiency and effectiveness is driving market response

Low interest rates notwithstanding, recent efforts to stem panic and inject capital into markets have created a narrow swim lane for recovering banks. These new ultra-low rates will put downward pressure on net interest margin, giving banks a renewed focus on driving cross-enterprise operational excellence initiatives to boost their competitiveness.

Remedial Action Differs by Subsector

While it's easy to lump all banks and FIs into one bucket, the impact and necessary response to the COVID-19 pandemic differ by sector.

• Cards & payments:

If they haven't already, FIs in this sector should scale their digital and mobile payment channels and related infrastructure to support the shift from physical to digital. E-commerce market share is significantly higher today than it was during the last major virus outbreak (SARS 2003). Swift enhancement of e-commerce payment capabilities could reduce the economic impact of the current pandemic. However, this doesn't mean payments and card giants are immune. Reduced global travel and trade has also had a significant impact on global card volume, as seen in the revised revenue guidance and transaction volumes from many of the large card networks.

As volume shifts from the physical world to the digital, cards and payments players should focus on accommodating spikes in capacity and scalability within digital and mobile commerce channels for issuers, merchants and acquiring partners. Those merchants and retail businesses that are prepared with advanced digital payments capabilities (i.e., digital checkout and advanced mobile capabilities such as contactless payments or facial recognition) will be better positioned once the crisis subsides.

• Retail banking:

The shift to virtual channels for non-essential customer interactions requires a deep focus on scalability, resiliency and availability of digital platforms. In the near term, as branch traffic falls, retail banks should follow a pragmatic blocking and tackling strategy in which resources traditionally funneled toward in-person customer service shift to digital applications and contact center channels. The ability for banks to respond to the personal and financial needs of customers in a time of hardship is a true differentiator for brands that seek enduring relationships with customers. Ensuring continuity of communications and maintaining high levels of customer satisfaction will create a positive impression that persists beyond the current pandemic.

Longer term, the lessons learned regarding which services are truly essential may be completely redefined by today's crisis. The juxtaposition of a "branch bank" and a "digital bank," for instance, may push traditional institutions to accelerate their core customer experience and reinvest in stronger digital channels and capabilities. Progressive customer engagement tools such as chatbots, facial recognition and natural language processing-powered IVR and personalization, will increasingly be prioritized as banks look to accelerate their digital journeys and support social distancing in the recovery phase.

• Consumer lending and small business:

Product portfolios will need to be adapted to address customer needs for security, safety and flexibility, while ensuring appropriate controls to address market and credit risk concerns. The extensive jobs pullback, in particular for part-time employees, will make it difficult for millions of consumers to meet their credit and debt obligations, including mortgages, student loans and credit card payments. The immediate response will be to reduce financial stress and ensure that consumers have readily available credit lines and expanded credit limits. In response, some FIs have already limited their reporting of missed or delayed payments to credit bureaus, and proactively increased credit limits for select customers.

For small- to medium-sized business, this is a two-front battle: customer attrition and volume decline on one side, and stretched working capital and making payrolls on the other. Beyond governments issuing emergency relief funds in the form of small-business loans, these businesses will look to FIs for similar forms of relief that are already being provided to consumers.

• Asset and wealth management:

Market volatility requires banks to work closely with customers to plan/balance their investments to address product risk, regulations and individual preferences. Traditional wealth management portfolios and passive products have revealed their limitations during this crisis. The market decline has adversely affected investor confidence and retiree plans. FIs should, therefore, communicate frequently with clients on updates to their approach, new ways to minimize investment risks and comply with regulations, and ongoing changes to the product portfolio. Given increased market volatility and trading volumes, resiliency has become a key area of focus for investment firms, along with cybersecurity.

Positioning for the Recovery, Post COVID-19

Given ongoing uncertainty, and the glaring need to be better prepared for future pandemics, FIs will need to reassess their operating models and identify how best to serve customers, reduce financial stress and optimally configure their operations and technology to flex with this new normal. As a result, FIs should consider the following:

• Improve operational and service delivery excellence to enhance competitiveness

Banks will need to consider how they evolve and coordinate their business continuity plans in light of what they've learned from the crisis and the limits and constraints on their business. We suggest conducting tests to ensure flex schedules/remote work options can be sustained, and that the right technology and infrastructure is available to support continuous service delivery without interruption or downgrading the quality of service and experience expected. FIs should also establish or enhance underlying capabilities to reduce customer attrition and improve overall customer experience. Such capabilities include voice-activated transactions, security or access through biometrics (i.e., facial recognition) and truly contactless ATM transactions, where the entire process from authentication to transaction completion can be accomplished via mobile.

• Anticipate ongoing business continuity and resiliency requirements

Banks need to examine their readiness by running tests and determining the appropriate response. Recommended actions include:

- Update the existing playbook to ensure coverage of new risk factors and limits revealed by the COVID-19 pandemic.
- Prepare and test the right communication strategy for both employees and customers.
- Identify and prioritize "must-haves" vs. "nice-to-haves" in the quest to continue providing services to customers and rethink customer journeys.
- Understand the economic implications of each decision on the business and operating model.