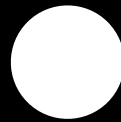


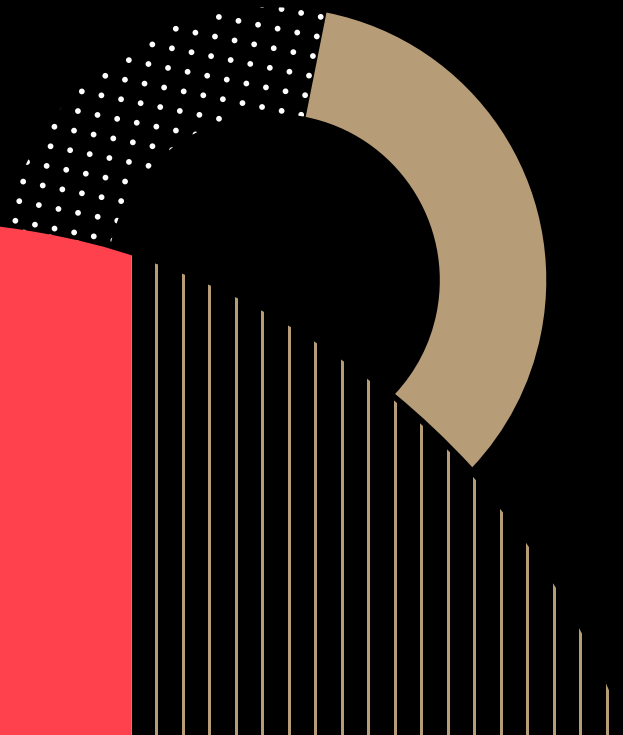
COVID –19:

Preparing Banks for Business Beyond the Curve

PUBLICIS SAPIENT FINANCIAL SERVICES
SPECIAL REPORT — APRIL 2020



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Much has already been written about the unprecedented impact of COVID-19 on the global economy and the millions of businesses forced into stasis by lockdown. While these effects are still very much current and of course challenging, we must start to plan for life on the other side of the curve.

As necessary as it has been to help customers and the public adjust to the crisis, equally as important is to focus on our approach once restrictions are lifted and we enter the ‘new normal’. Readiness for the next stage in what will undoubtedly be a long and uncertain period is crucial to helping businesses and workers drive the rebound that is so desperately needed.

The following report reviews some of the challenges banks face and defines a risk-based approach for addressing these, while realigning and setting up for longer term success through the lens of digital transformation.

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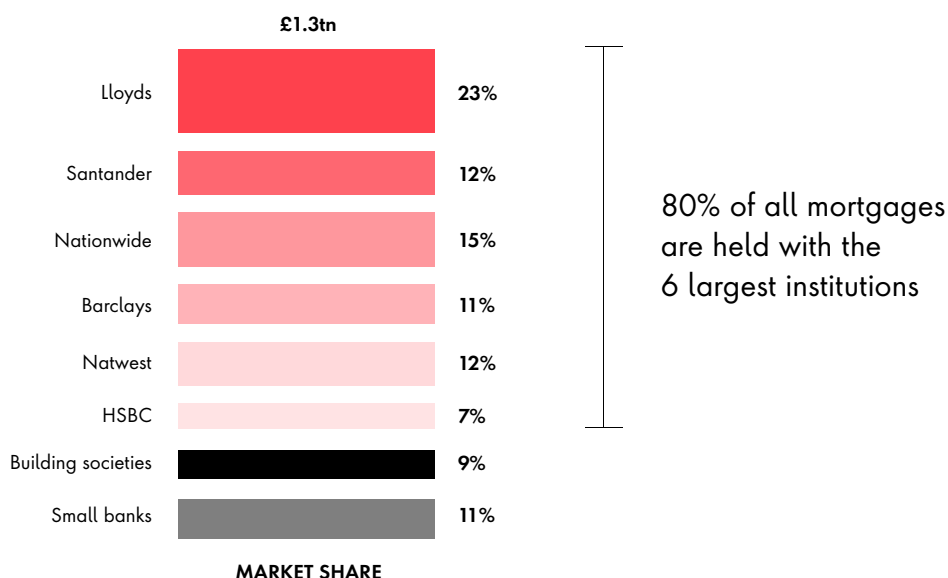
Banks on the front line of recovery

Prior to the emergence of COVID-19, and in the 10 years since the last financial crisis, incumbent banks have been focusing on customer leadership, revenue growth, operational efficiency and automation.

The economic impact of the crisis now in full effect, banks are well-placed to be a pivotal component of government intervention schemes, with the financial stability of customers being the primary concern.

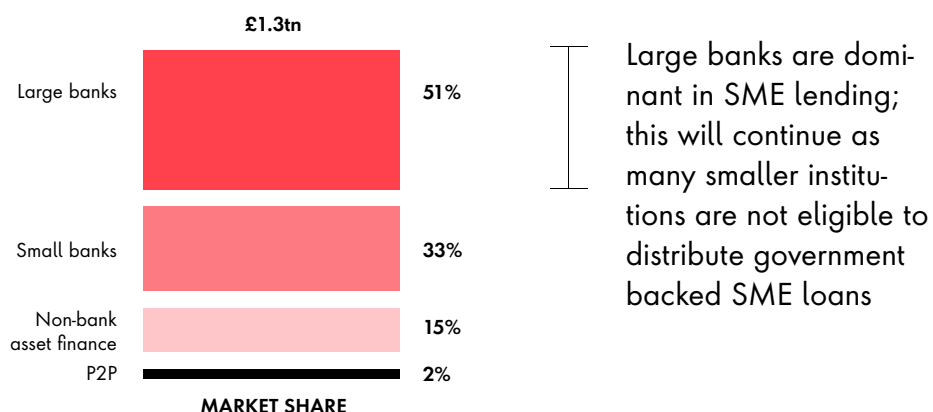
UK mortgage market share

Share of mortgage stock, (% of total), 2018

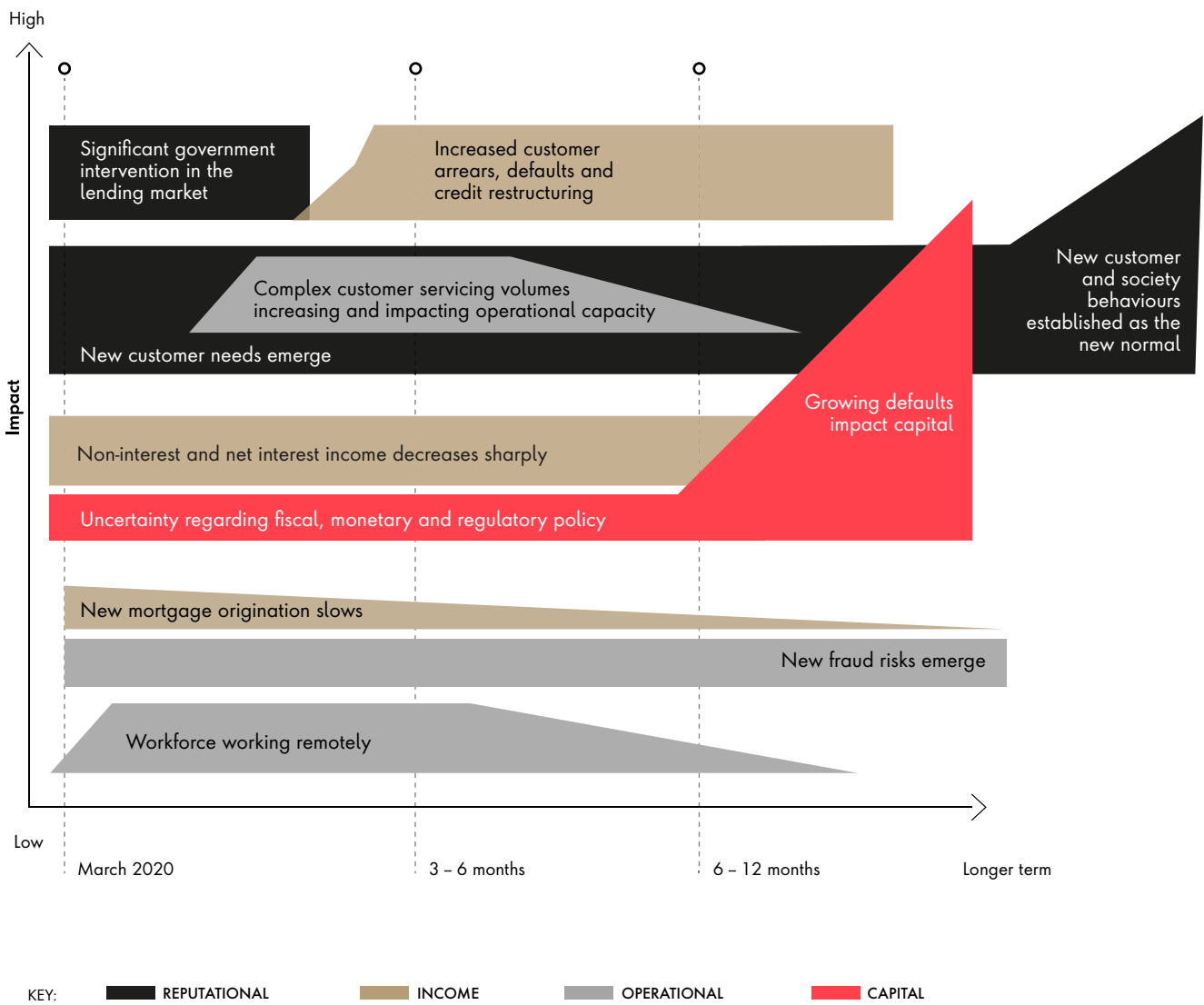


UK SME market share

Lending stock, (% of total), 2019

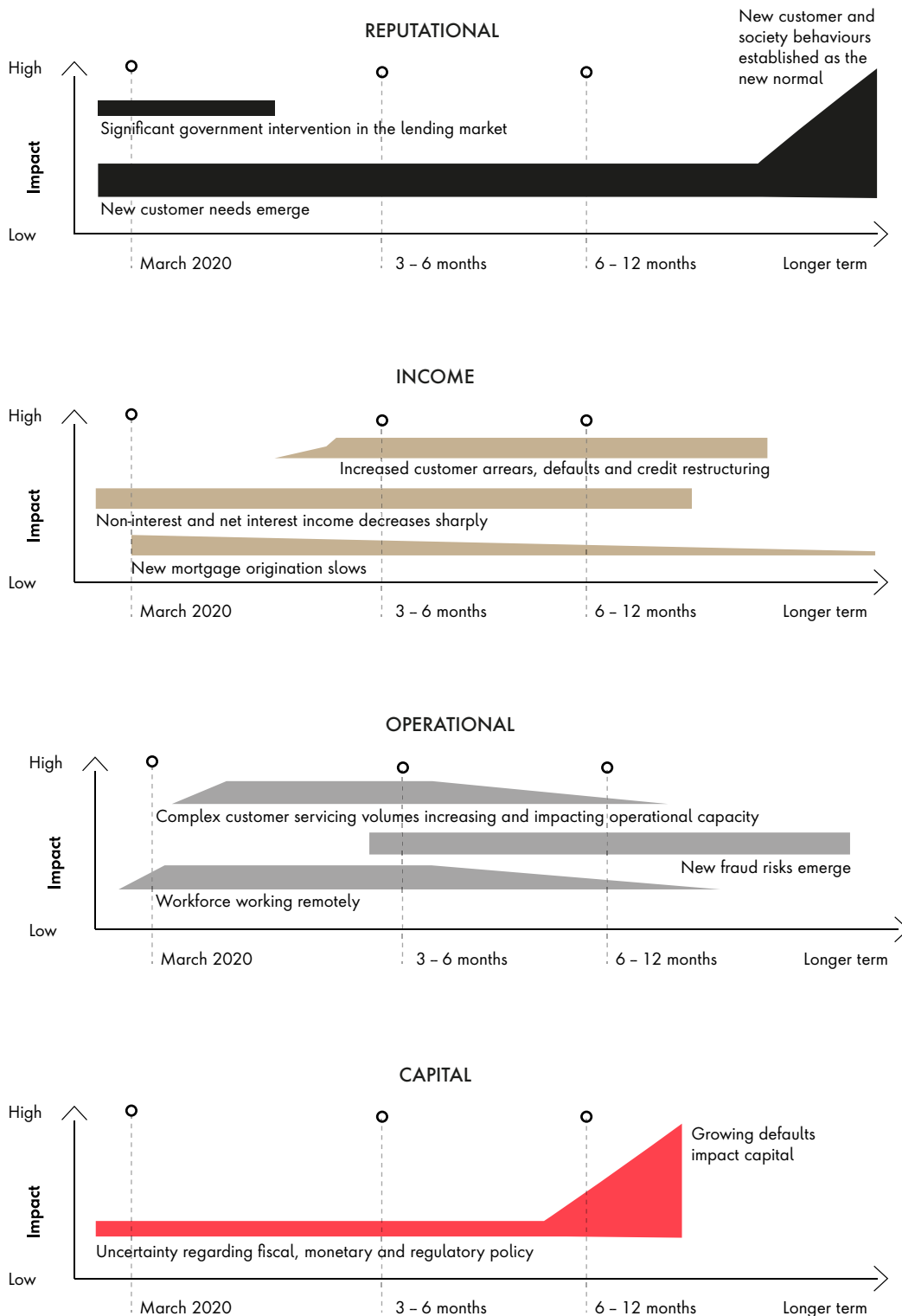


Banks face four categories of key risks



Source: Publicis Sapient Analysis

They'll need to confront and mitigate each of these risks to form an effective response to COVID-19



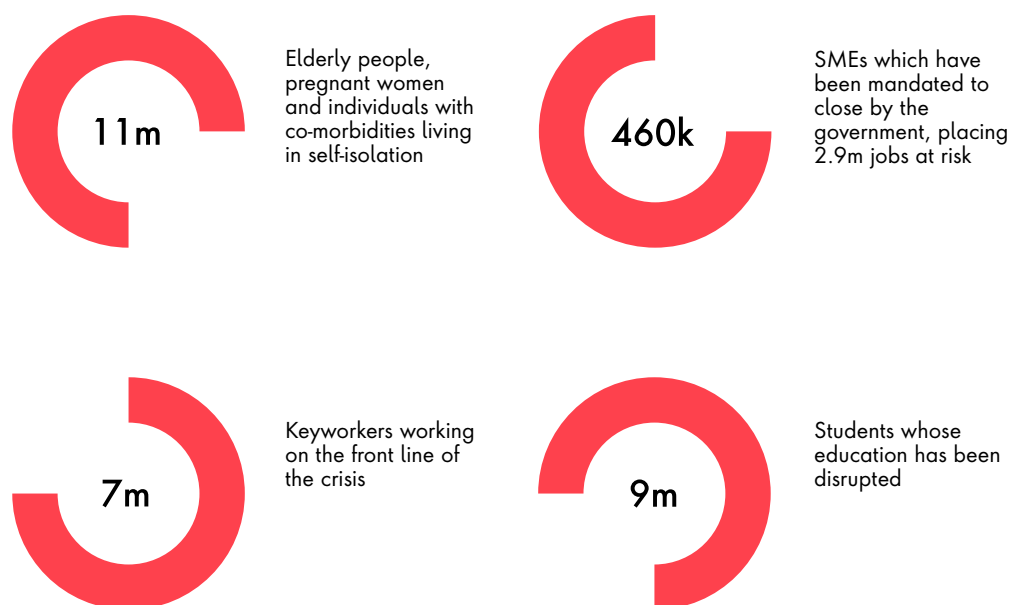
Customers at the center of the response

All solutions must start with the customer. Indeed, considering the severe impact COVID-19 is having on livelihoods and the sharp rise in unemployment, looking after the acute needs of their customers is paramount for banks.

This crisis will be the ultimate test as to whether banks can do the right thing. They'll have to move from shorter term metrics driving customer decision-making to a focus on customer lifetime value.

They'll need to revisit their communications, policies, business rules and operational processes to ensure they are fit for a very different economic, sociological and reputational era. And on the point of reputation, customers will be looking to banks to cut them some slack. Following standard rules and policies won't cut it for a population that remembers very clearly the bail-outs of 10 years ago. Flexibility and regular, relevant engagement are therefore key elements of the response.

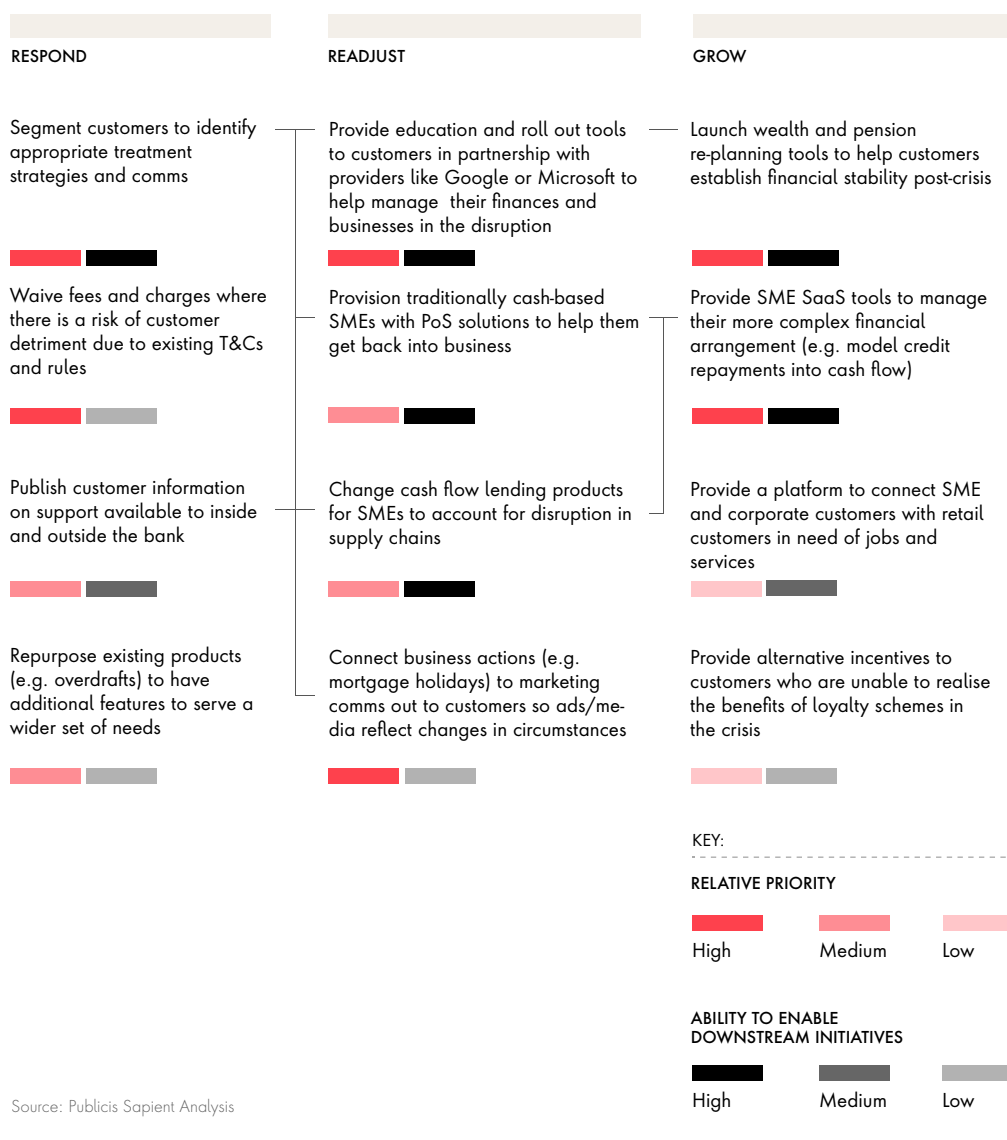
Examples of highly impacted segments



Source: Publicis Sapient Analysis; ONS; Department for Education; NHS England; Institute for Fiscal Studies

Empowering customers to digitally serve themselves through the crisis can provide both stability and longer term growth.

Range of potential initiatives



Key questions

What do you want to be known for?

How much capacity can you free up to help?

How can you best stretch the customer impact given resource limitations?

How do you trade off getting something live in the short term with enabling a longer term opportunity?



This crisis will be the ultimate test as to whether banks can do the right thing for customers.

The role of digital transformation

The availability of new digital capabilities means that banks can fundamentally change their response from previous crises.

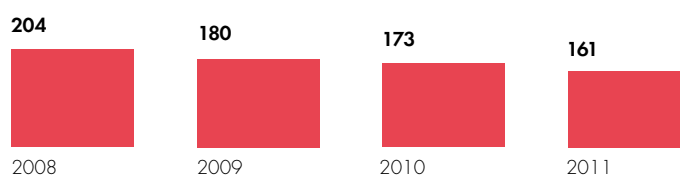
Enhanced data and analytics to optimize decision making

What
happened
in 2008

Availability of credit declined as rigid scorecard-based credit policies tightened in response to non-performing loans

Three year consumer credit stock
Total market, GBP BN, 2008-11

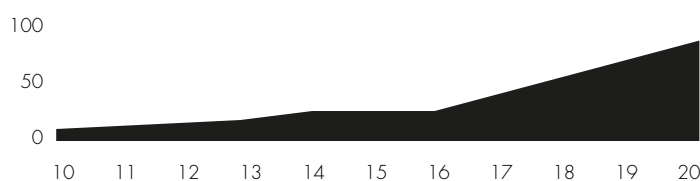
-21%



Significantly more customer data available to make more effective decisions and serve a broader set of customers

Forecast data generated yearly,
Zettabytes (=1 trillion GB)

+2,425%



What is
different
now

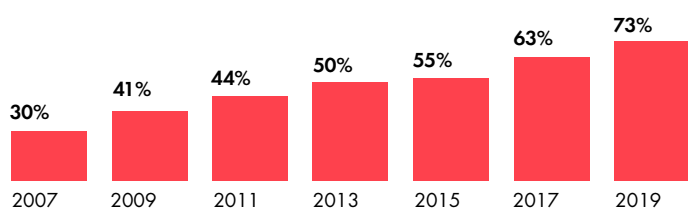
Source: Publicis Sapient Analysis; Bank of England; IDC Infographics; ONS NOMIS Database; Knight Frank, Statista

Digital channels are prevalent and replacing physical interactions

Digital channels were not the primary engagement channel for most customers

Online banking penetration in the UK
Regular use of online banking, %

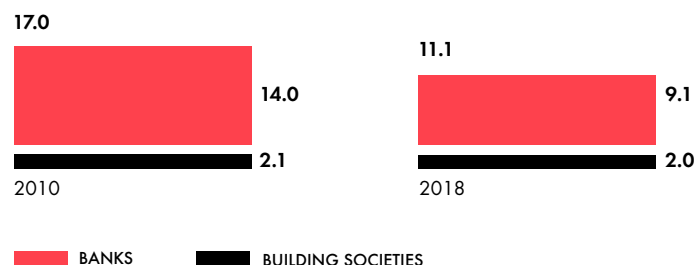
+43%



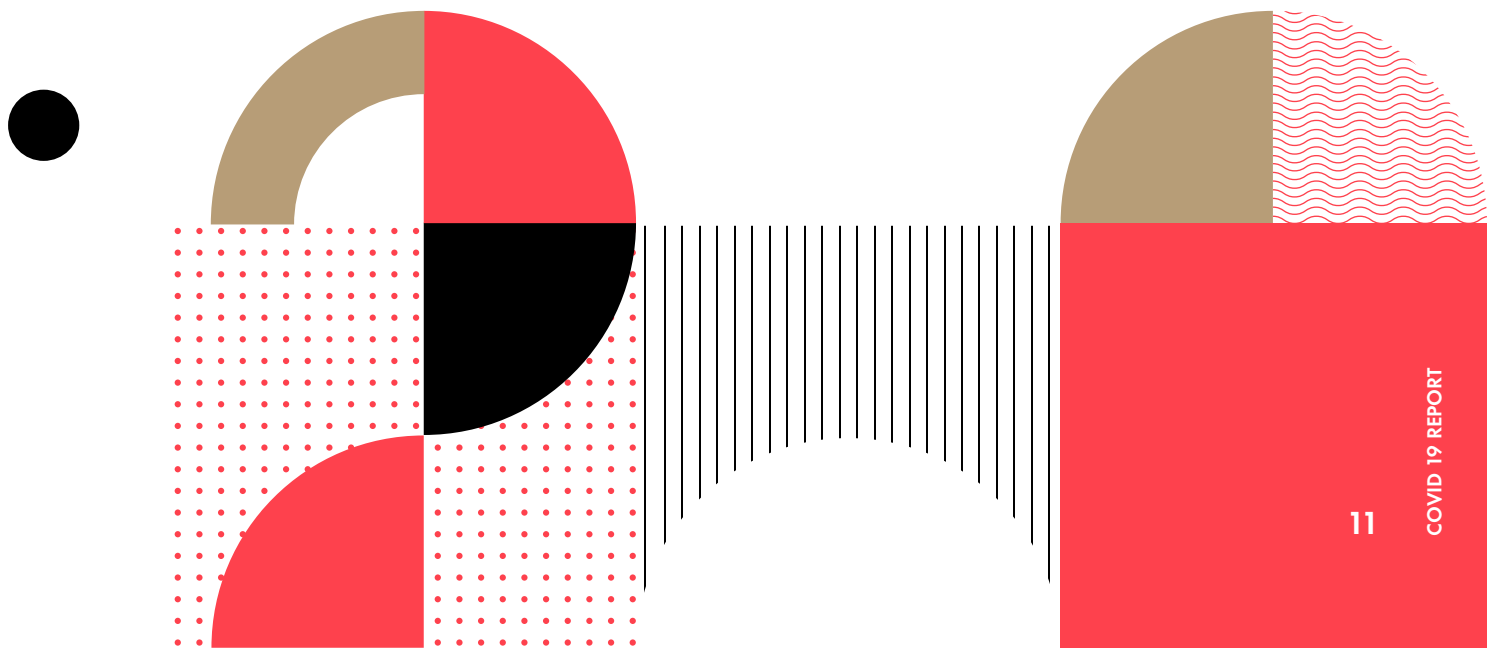
Increased digital self-service has allowed banks to operate more cost efficiently with a smaller physical footprint

of UK bank branches
Thousands

-33%



Source: Publicis Sapiient Analysis; Bank of England; IDC Infographics; ONS NOMIS Database; Knight Frank, Statista



Strategic acuity, operational efficiency and resilience, and optimized decision-making have always been key drivers for banks. Digital transformation serves as the catalyst to enable banks to act and implement changes faster than ever before.

In terms of strategy, the right decisions will take into account short, medium and long term customer needs and challenges.

Key challenges in each timeframe and overarching strategic decisions

PILLAR	RESPOND (NOW)	READJUST (3 - 12 MONTHS)	GROW (12+ MONTHS)	OVERARCHING STRATEGIC DECISIONS
Help customers	Higher volumes of customer financial distress	Repayments start for customers who have taken on more debt during the crisis	Customer attitudes to their finances and livelihoods change	> How can we bring stability for customers?
	Customer services inaccessible due to isolation	Customer dissatisfaction at companies that ineffectively support them through the crisis	Digital expectations increase as companies (incl. non-FS) enhance their capabilities during the crisis	> How can we remain more relevant in the eyes of our customers than our competitors?
Optimise decision making	Net interest income decreases due to lower spreads	Higher levels of NPLs and customer arrears to be managed	Consumer credit needs are unmet as a tightening of credit policies leave customers underserved	> How can we minimise the impact of the crisis on our profitability?
	Need to scenario plan and demonstrate stability to investors	Greater scrutiny of balance sheet resilience	Tier 1 Capital requirements increase with the change in risk weighted assets held	> How can we instil confidences in our investors?
Maintain operational resilience	Complex customer servicing cases increase	New types of fraud arise as criminals seek to exploit loopholes	More customers will have more complex financial needs after the crisis	> How can I safely eliminate complexity?
	Staff utilisation drops with remote working and illness	Cost pressures force new efficiency requirements and reprioritisation of resources	Operational efficiencies made during the crisis enable savings opportunities post-crisis	> How can I manage efficiency and costs through this period?

Source: Publicis Sapient Analysis

Maintaining operational resilience is crucial. Changing traditional ways of working to enable the successful deployment of technology will be required to secure this.

Range of potential initiatives



Source: Publicis Sapient Analysis

Key questions

How well positioned is the bank to lead an industry utility or provide a systemically important service to other banks?

What is the journey that the bank needs to take the regulator and investors on to follow this approach?

Does the organisation have the right skills to deliver this?

Decision-making and approaches to many of the income, capital and reputational risks, can be optimized through the implementation of technical solutions, such as machine learning and AI.

Range of potential initiatives



Source: Publicis Sapient Analysis

Key questions

What cultural change is required to effectively adopt this new way of working?

What is the composition of your existing customer base and what support do they need to be more digital?

What expertise does the bank need to manage new types of digital fraud and security risks?

Digital transformation is the catalyst that enables banks to act and implement changes faster than ever before.



Clients taking action

We're already seeing clients take positive steps along the lines covered in this report: emphasizing strategic thinking and operational efficiency, with a response framed around the customer.

1. Prioritizing customer access

Within a week of the crisis hitting the UK, one of our clients acted to fast track communication to front line NHS workers and vulnerable customers. Working closely with them, we analyzed transaction data and implemented a solution which enabled the bank to prioritize contact from those customers.



2. Facilitating 'treasury-as-a-service'

Other clients, including smaller institutions and building societies, have been moving to more sophisticated systems for computation of their liquidity positions. This allows them to meet funding needs and regulatory requirements, but also take a long view to help customers get through the crisis.

We've assisted by providing cloud-based 'treasury-as-a-service' solutions, either through partnerships with fintechs or leveraging the capabilities of our existing clients.

Access new sources of funds

Accessing new products, new markets and new channels by going direct instead of through capital markets

Drive greater automation

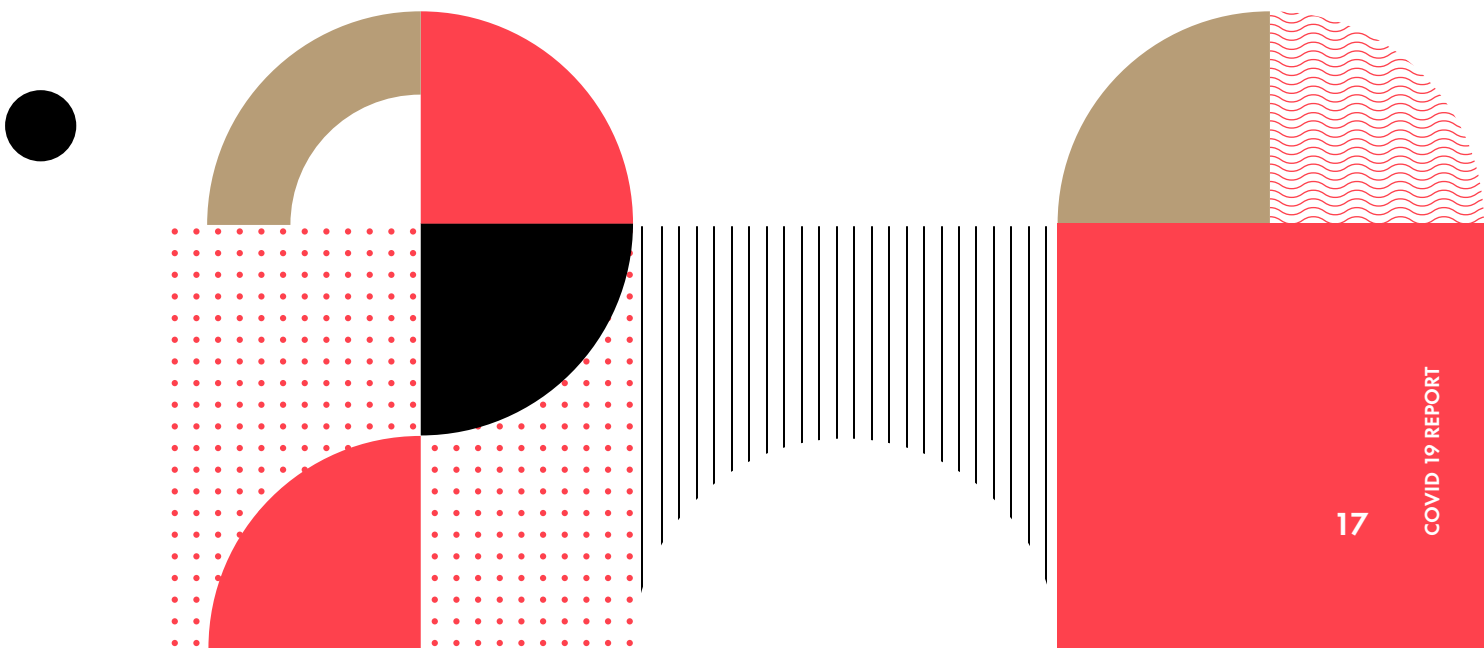
Driving straight through processing of payments and back office activities (including exceptions)

Simplifying the breadth or complexity products to enable the use of standard processes

Change product mix

Adjusting the portfolio based on risk appetite and market conditions

Enabling greater flexibility in pricing and product attributes (e.g. term)



3. Fast solutions for SMEs

Almost half of the UK's SMEs actively used credit prior to the COVID-19 crisis. With lockdown restrictions in place, this is expected to increase.

Leveraging cloud-based solutions, we're working with clients to transform their SME lending, and bridge the financing gap for SMEs. Based on our experience creating the Anglo-Gulf Trade Bank – the world's first end-to-end digital trade finance bank, developed in partnership with Microsoft – we're working to implement key features such as:

Accelerated time to loan (cash) of less than a day (up to defined bank threshold)

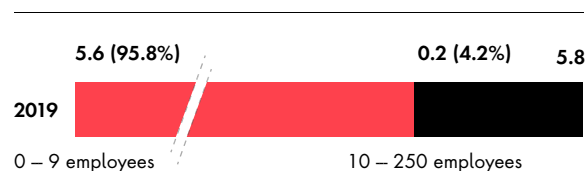
Dramatically enhanced customer interactions – enabled through self-service as well as digitally-driven relationship manager interactions

Streamlined operational capabilities – allowing relationship managers to focus on the customer vs. their back-end systems

Data driven with ML insights for immediate credit decisioning in the majority of cases, as well as the option for proactive ongoing advice and support

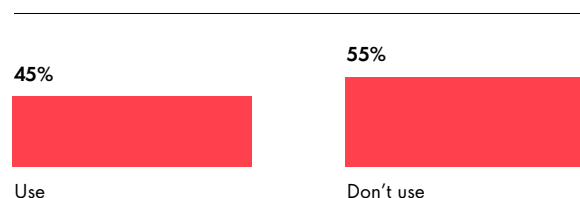
A large but challenging market

Number of UK SME business
by number of employees, millions



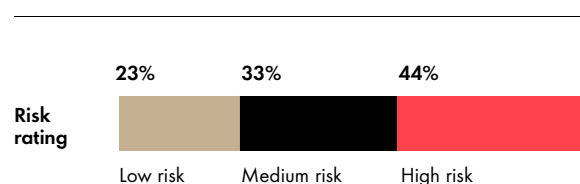
Large market
comprising mostly
small businesses

SMEs actively using business lending products
UK, % of SMEs, 2019



Low access to credit
today; compensated
by personal

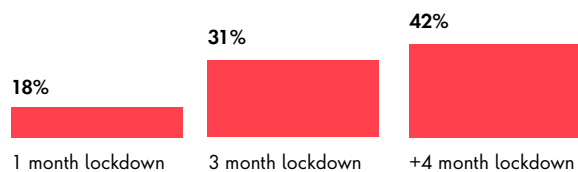
SMEs by credit assessment
UK, % of SMEs, 2019



Higher risk and
harder to assess than
individuals or large
corporates

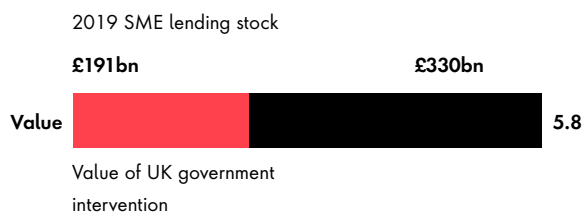
Heavily impacted by COVID-19

SMEs at risk of going into insolvency during the lockdown
UK, % of total SMEs, 2020



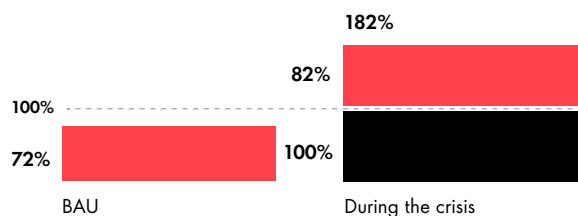
> An immediate need for credit for many SMEs now

Total value of loans previously in the market and now available
UK, £bn



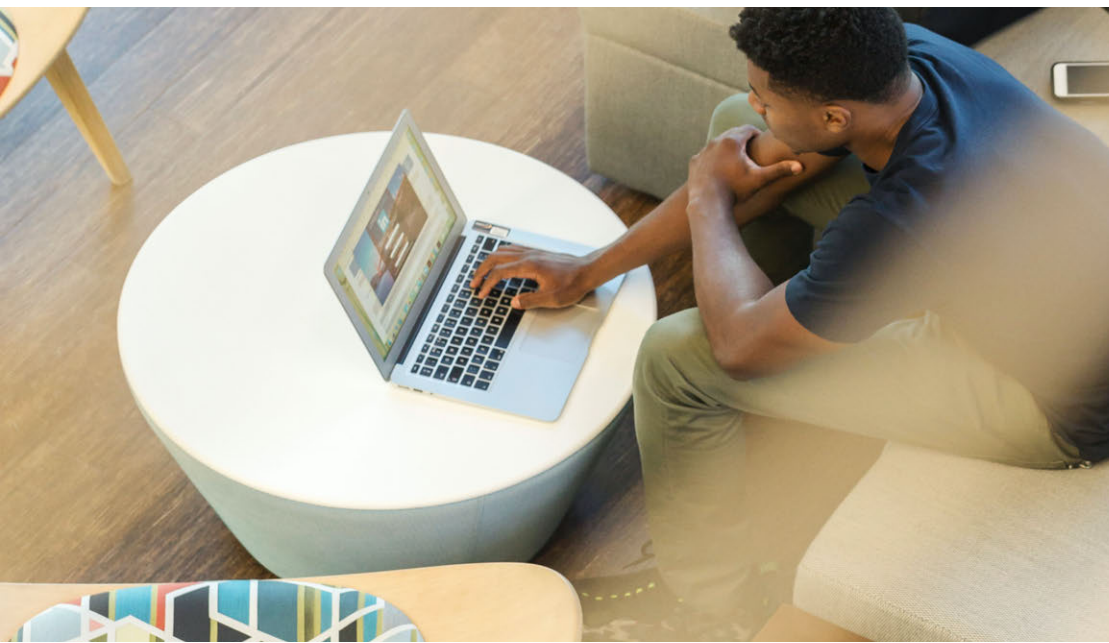
> Significant government intervention changing the market structure

UK SME Relationship Manager capacity
% of total



> Insufficient capacity to support these businesses

Source: Publicis Sapient Analysis; Corporate Finance Network; ThisIsMoney.co.uk; ONS; BVA BDRC SME Finance Monitor



Conclusion

At Publicis Sapiient, our purpose is helping people thrive in ‘the brave pursuit of next’. It’s an ambition that, now more than ever, has distinct relevance for an uncertain, rapidly changing world. Taking a bold approach to what’s next is key to tackling this crisis.

To start, you not only need to understand the opportunities to address immediate pressures and implement them quickly, but also have a plan for linking them to bigger changes that will resonate for the medium to long term.

Publicis Sapiient can help with both these challenges.

Firstly, through the formulation of rapid tactical responses to current pressures. And second, through strategic development, operational shaping and the technical and cultural know-how required to effect transformational change for the future.

We’ll expand further on how you can make the most of business beyond the curve and achieve customer and operational leadership with follow-up posts at our dedicated site:

www.publicissapiient.com/financialservices

Get in touch with one of our team to start the conversation

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