Infosys® | Knowledge Institute

BEING RESILIENT

NAVIGATING YOUR NEXT IN RETAIL AND COMMERCIAL BANKING

Infosys®
Navigate your next

BEING RESILIENT. THAT'S LIVE ENTERPRISE.

Global financial services are having a tumultuous time. As of April 2020, banking spreads — the difference between what a bank charges its borrowers and what it pays its depositors — have declined, weighing heavily on earnings.

Asset price declines have reduced investment bank trading activities. Indeed, demand for many financial services has slowed as people and businesses hunker down and reduce costs. At the same time, banks are bracing for a rise in mortgage and other loan defaults. Indeed, many banks are deferring mortgage payments and offering mortgage holidays. All these stresses weigh down on banking profitability.

On the operational side, the pandemic is causing significant challenges. Banks are experiencing a spike in demand for services such as loans, debt restructuring and accounts receivable financing, placing new demands on an already overburdened workforce that itself is threatened by the coronavirus.

According to the Financial Times, U.S. banks grew their commercial loan books by $243 billion in the last week of March — double the normal amount.[1] They are repricing revolving lines of credit and providing additional standby lines. Meanwhile, COVID-19 is forcing more customers to do business online, placing stress on websites and back-office IT systems often ill equipped to handle such a huge volume of traffic, even as bank phone lines become significantly strained.

This represents a huge weight on contact centers that many simply cannot handle. And this situation may get significantly worse before it gets any better.

Banks are making changes to cope with the crisis, understanding that their business — and the world — may never return to things as they were.

Customers who have gone online may stay there. Those banks (and there are many) that closed branches temporarily may not need to open them again, ever. The pandemic — and the physical distancing it has introduced into society — is also turning people away from cash and toward digital payments that can be made remotely, without physical contact at the point of sale. Even traditionally personal services such as advisory work, mortgage closings and wealth management are increasingly going digital, as has customer onboarding.

A time to focus

Instead of mourning what is passing, banks can look at these tectonic changes as an opportunity to cut their losses, future-proof themselves and strengthen their competitive stance.

> It's the time to cut losses, future-proof the business and strengthen the competitive stance

They can do this by taking a hard look at three areas: their competitive positioning, their technology capabilities and their people.

1. Competitiveness

Current market dynamics are such that demand in each business line has fallen through the floor (as in trading), has shot through the roof (as in debt restructuring), or needs a complete paradigm shift (as in the acceleration from cash to digital payments).

In any of these cases, whether fallen, rising or changing, only the best in class in each service line and region is likely to profit. Being spread thinly across multiple service lines and countries opportunistically may have been a suitable strategy in the past, but it won't work today. Price- and speed-sensitive customers will flock to the best in each market, leaving little for the also-rans.

A retreat from underperforming markets can enable a bank to consolidate and keep enough headroom for the big transformations it will need to make in the future. For instance, as increasing numbers of countries head toward negative interest rates, banks will be forced into a paradigm shift in terms of understanding the value they provide. Similarly, as the market picks up, there will be many opportunities in the SME market for those banks that move fast enough. Keeping your powder dry and being able to invest at the right moment to capture growth will be key.

Banks should evaluate each part of their business, asking how strong they are in relation to their competitors. Do they possess any advantages in the current environment? Would it be possible to improve their technology rapidly and cost-effectively to address a process that once required an in-person meeting, such as digital signature collection or online notarization for document completion? Or to bolster an area in which they are relatively weak by, for instance, providing insurance solutions online? If not, they might consider exiting those businesses where a competitive disadvantage seems insurmountable.

Conversely, they can identify those parts of the business that are strong, capitalizing further on their competitive advantage by investing in the resilience and scalability of their people and technology in those areas.

2. Technology

Clearly, the role of technology is increasingly central to business continuity. Businesses that were digitally stronger before the pandemic took hold have been able to maintain employee engagement (through a variety of web-enabled conferencing and collaboration tools such as Zoom and Slack). Banks that have moved their critical applications to the cloud have been able to function more smoothly, as their employees can access what they need from their homes.

For example, Utah-based TAB Bank quickly shifted to remote work. In three weeks, it went from about 10% of its staff working from home to 96%, by March 18. It was able to do this largely because it had already implemented digital onboarding for loans and deposits and moved away from paper-based processes five years ago. It recognized this as a competitive advantage on which it could build.[2]

Now is the time to accelerate the transition to digital banking and make it central to a bank's operating model. Banks need to go for a "customer first, cloud first, mobile first, API first, automation first" strategy. And they need to plan for digital scalability in order to react quickly to new opportunities.

> Take a "customer first, cloud first, mobile first, API first, automation first" strategy

To start, banks should identify key functionalities that can be improved quickly. For example, they can increase the limits placed on online transactions. They also can simplify the steps required to reset passwords, implement alternatives to in-person sign-offs and document notarization, and improve their remote advisory capabilities in areas such as mortgage lending and wealth management.

Within their IT departments, banks can apply robotic process automation to automate day-to-day server and application maintenance, customer onboarding and offboarding, and permissions processes. Applying RPA to these functions can often be accomplished in a few weeks.

In tandem with these efforts, banks can encourage the use of remote services by launching positive, safety-oriented messaging aimed at reducing customer reliance on branches for services that are available online, while providing tutorials for their use and enhancing remote support options.

All these initiatives depend upon having a robust digital platform. If a bank does not have one already, that may sound like a massive job of remediation. But to the extent the current IT architecture allows, there are off-the-shelf platforms that offer much more flexibility and user-friendliness than homegrown or fragmented ones.

Most important, banks should move their systems and data to the cloud as quickly as possible (again, to the extent the current architecture allows).

Cloud-based solutions enable banks to adjust their costs according to their revenues, thereby achieving a faster breakeven point for their investment. Once systems, applications and data are in the cloud, business processes become more agile and flexible, especially if the cloud architecture has open APIs for collaborating with financial technology partners. And cloud services are easier (and less costly) to secure than on-premises infrastructures.

That said, it still pays to be vigilant. The European Central Bank has warned banks to prepare for a possible surge in the volume of cyberattacks as criminals look to take advantage of the higher reliance on remote banking services and on the disruption the pandemic has caused.

3. People

With more people working remotely — and digital becoming the primary mode of transaction and interaction — it will be essential to cultivate a new operating environment that will ensure a workforce's health and productivity. This, and encouraging cross-team collaboration and regular meetings, will be critical to attracting and retaining the best employees.

Banks will have to move from "high touch/high tech" to "low touch/high tech" in the way they interact with customers and employees. But this does not mean that they should lose focus on the health and welfare of staff, who are still critical to enabling a bank to rapidly respond or expand as new opportunities arise.

In this crisis environment, banks have been extremely attentive to and concerned about their people. Citigroup, Bank of America, Morgan Stanley and Goldman Sachs have all announced there are no layoff plans as a consequence of the coronavirus pandemic. JPMorgan is giving its tellers and other frontline employees a one-time bonus of up to $1,000,[3] and Barclays is offering triple overtime pay to thousands of lower-paid employees in its call centers and branches.[4] TAB Bank discovered that some of its employees were relying awkwardly on their smartphones to access the internet. In response, the bank "ordered $400 laptops to distribute to those employees."[5]

> Move from "high touch/high tech" to "low touch/high tech" in interaction with customers and employees

All these actions are highly laudable, being both humane and necessary. Yet this is also a time to reassess a bank's people strategy as it looks to focus competitively and transform digitally. People are a valuable asset but are not necessarily being used effectively in a digital-first model. That said, it can be difficult to know where people can be best placed in a market as turbulent as today's.

Banks could take inspiration from the gig economy model. Employees can be seen as valuable and knowledgeable resources that can be focused flexibly where they're needed most — perhaps providing customer service for multiple product lines or dipping into different business roles.

In order to do this effectively, banks need to focus on agile upskilling, investing in cutting-edge learning platforms and automating as many repetitive processes as possible. Indeed, a future role for many employees will be helping to continuously automate processes and train colleagues as a bank evolves to meet changing market demands.

A transformational crisis

It is a truism that every crisis presents an opportunity. This sad and uniquely terrible time is no exception.

The COVID-19 pandemic will accelerate the demise of many traditional, high-touch banking services. But, with bank balance sheets generally strong, most banks are in a position to change, adapt and move forward.

But to do so, they need to embark on a profound transformation toward automation, digitization and agility — one that many believe is long overdue. Those banks that seize this opportunity to focus on their people, digitize their operations and target their most competitive niches will emerge from this crisis stronger and better positioned to compete in an inevitably more digitized future.

References

[1] How are US banks affected by coronavirus? What we know and what we don't, Laura Noonan, March 31, 2020, Financial Times.

[2] Crafting a Last-Minute Telecommuting Policy, Emily McCormick, March 20, 2020, Bank Director.

[3] JPMorgan is giving tellers, other 'front-line' employees dealing with coronavirus a $1,000 bonus, Hugh Son, March 20, 2020, CNBC.

[4] Barclays offers triple overtime pay for staff on coronavirus frontline, Kalyeena Makortoff, March 31, 2020, The Guardian.

[5] Crafting a Last-Minute Telecommuting Policy, Emily McCormick, March 20, 2020, Bank Director.

Authors

Mohit Joshi

President, Infosys
Mohit_Joshi@infosys.com

Ajay Vij

Senior Vice President, Financial Services
Ajay_Vij@infosys.com

Samad Masood

Infosys Knowledge Institute
Samad.Masood@infosys.com

About Infosys Knowledge Institute

The Infosys Knowledge Institute helps industry leaders develop a deeper understanding of business and technology trends through compelling thought leadership. Our researchers and subject matter experts provide a fact base that aids decision making on critical business and technology issues.

To view our research, visit Infosys Knowledge Institute at infosys.com/IKI

Infosys®
Navigate your next

For more information, contact askus@infosys.com