BEING RESILIENT

EMBRACING THE NEW NORMAL IN BANKING DURING COVID-19

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Abstract

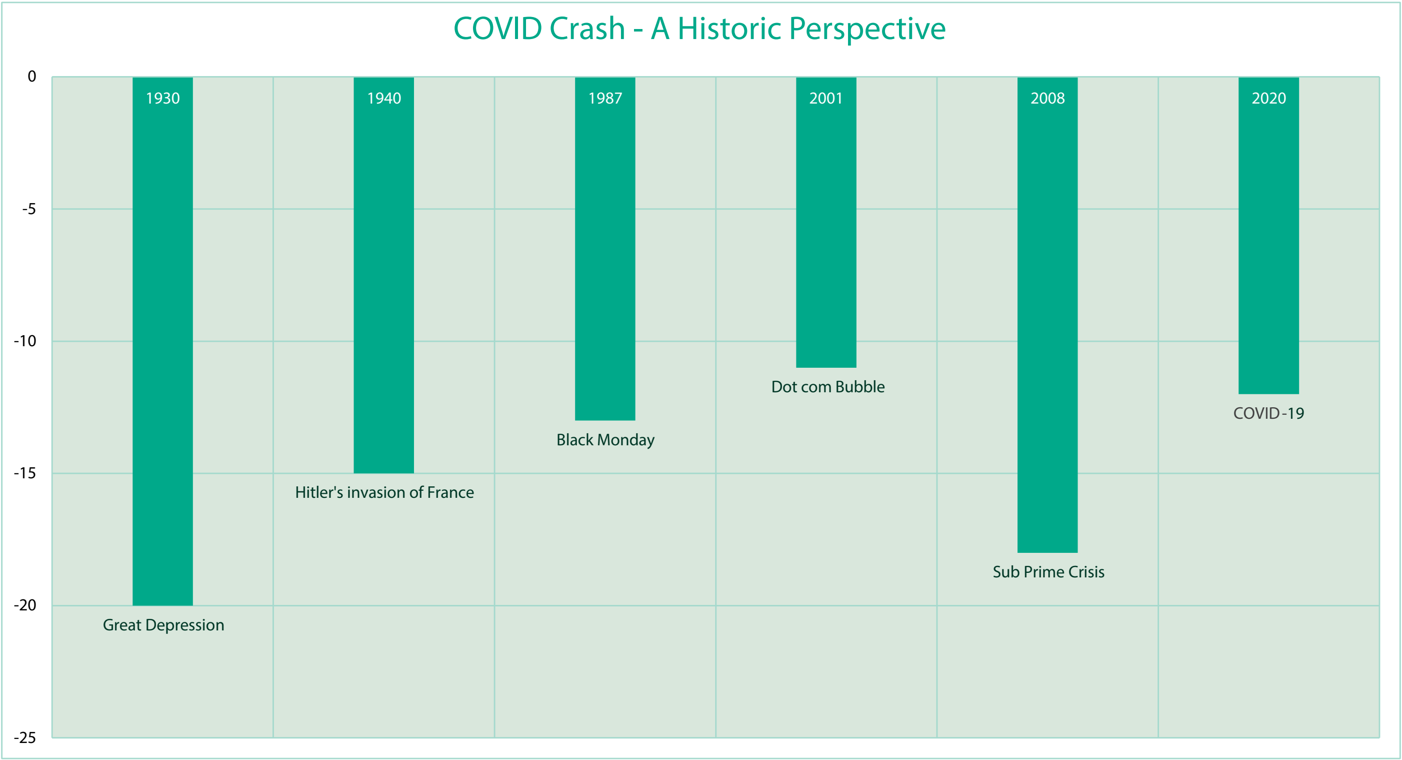
The world is currently facing an unprecedented crisis due to the pandemic unleashed by COVID-19. This is creating lot of disruptions in the global economy and is setting new normal in every walk of life. How humanity in general and industries in particular come out of this crisis will define the new world order. This paper intends to look at the changed world for opportunities while reassessing the strengths from a Financial Services industry standpoint.

Prelude

Looking back, the pre-corona world was largely uneventful except for a few troubled financial institutions. The volatility index was trending at historical low until December 2019. Towards the end of 2019, a few cases of pneumonia of unknown origin started being reported from Wuhan City, of the Hubei province in China but that was largely sidelined as an issue confined within that country. The world had stepped into the New Year clearly ignoring the "black swan" event of our generation which was just around the corner.

The Onset

The sheer speed at which COVID-19 spread took the establishments by surprise and the choice had to be made between saving lives or saving economy. By mid-March, most of the countries, barring a few exceptions such as Sweden, went into complete nationwide lockdowns, to fight this invisible enemy. The global markets were dealing with another price impact of the price war between Saudi Arabia and Russia to dominate the oil market. COVID-19 crisis pushed the global markets into a downward spiral. Travel and tourism industry bore the most brunt and continues to do so. However, Pharmaceuticals have bucked the trend and are hoping to cash in on the potential vaccines. Global economic activities are at unprecedented low levels and the impact of lockdowns to the livelihood of the citizens around the globe is huge. The extension of lockdowns could drive industries down and for the financial institutions, this would mean more NPAs, lower transactional revenue and lower technology budgets. Technology companies have to stay ahead of the curve, pick the changing trends and align themselves before the rest of the world settles into the new normal.



Y Axis – Week on Week change S&P 500(%)

Looking back…

Before we get into what will change, we also would need to see how the world coped up with last few financial crises. The stock market crashes due to the great depression of the 1930s or Hitler's invasion of Europe are prehistoric from a technology industry standpoint. From then until the 'Stock Market Crash' of 1987, there were not any major events in the financial world. The 'Black Monday' of 1987 laid bare the influence of complex financial products and technological innovations such as algorithmic trading in increasing the market volatility. The circuit breaker and trading halts that we see in markets across the globe are the repurcussions of this event.

'Dot-Com bubble' burst was comparable with the 'Tulip Mania' of the 17th century. The technology industry saw consolidation post the crash and companies such as Google, Amazon, Facebook etc. came up and grew in the decade after the crash. However, there were no regulatory changes which were brought in on this. The financial crisis of 2008, known as 'subprime crisis' was quite different from the earlier meltdowns. The aftermath of this crisis was that there was a plethora of regulatory changes that swept across the financial markets. When things started getting back to normal, the regulatory changes required banks to update their IT systems which resulted in more business for the technology firms. COVID-19 Crisis however, is less likely to bring about any regulatory changes. What this may bring about is a sea of operational changes for the banks.

The Onslaught

Banks are facing the risk of rising defaults. They are hit by fresh asset quality troubles as both organized and unorganized sectors are adversely impacted by the lockdowns. There is a severe dip in demand resulting in disruptions in payments and lengthening of the receivables cycle alongside contractual disputes, thereby straining the current liquidity situation. As a result, banks will delay servicing debt obligations. Meanwhile, regulators have also requested banks to halt all shareholder payouts such as dividends. Banks are adopting forbearance measures such as moratoriums and extending new loans to companies in need of liquidity. However, the tenure of such leniency is short and a prolonged coronavirus crisis situation will force the banks to change their approach and adopt different measures to protect their business.

Regulatory landscape across countries have quickly risen to the occasion to help financial services cope with the prevailing pandemic situation. They have deferred financial reporting deadlines by two months. They have brought in additional liquidity facilities to the banks.

IMF has declared that the world is in a global recession where the demand has been destroyed due to the fear of virus. Several countries have announced stimulus packages which can handhold the economy till a light can be seen at the end of the tunnel. The US announced a USD 2.2 trillion stimulus on a USD 20 trillion GDP base; Malaysia has mobilized close to 18% of its GDP. Banks are playing the crucial role of transferring the cash from the Federal Reserve to the individuals and businesses who are in need of the money. This stimulus money can stem the economic crash.

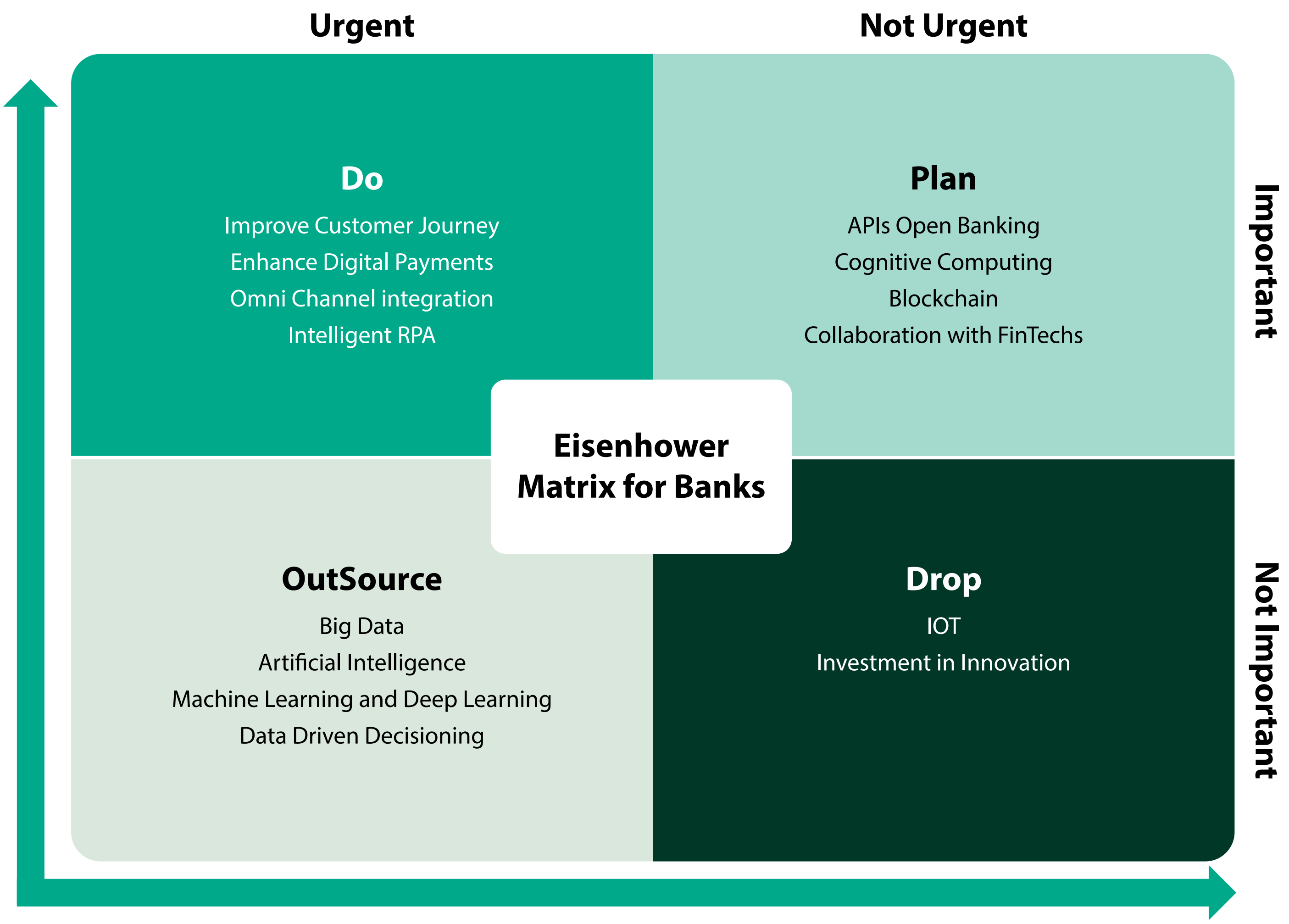
The Aftermath

Several experts in the financial sector while making predictions for 2020 backed on increased spends in the areas of artificial intelligence, leveraging blockchain, increased digitization and so on. The focus could remain on these; however, the driving factors could probably change. The closure of many branches of banks has forced customers to do their transactions online, thereby increasing the digital usage for banks.

Studies suggest that hygiene factor will be a major push for adoption of mobile wallets and other digital payments. What demonetization did as a push for digital transactions in India, COVID-19 could do for the rest of the world, especially for the US, which still relies on lot of transactions based on cheques. In terms of technology spends, all the fancy investments in the financial world will take a back seat. The spend on innovation will be on an extremely important and urgent basis. Many banks woke up late to the fact that chatting option to connect to customer is no longer an innovative feature but a necessity for survival.

The Life after...

The common characteristic of all 'black swan' events is that it takes time to understand what has been hit. By the time that is figured out, the affected entities would be neck deep in trouble. The immediate reaction is a series of actions executed so as to go on a survival mode and stay afloat. No one can plan for a black swan event but there are quite a few things that were considered in a lower priority that will take the top most priority. Making the customer journey smoother is going to be the top most priority in the changed banking world. Major banks that were yet to adopt "live chat" and other advanced customer engagement platforms are investing on these on a war footing. Increasing payment limit is just an example of the urgent changes that the major banks have taken up in wake of the COVID-19 crisis. Central banks in all probabilities will extend the regulatory deadlines for the banks. The banks could therefore divert the budget to the important and urgent requirements to make sure the banking functions run smooth.



As per one of the senior WHO officials, the world may never see a vaccine for COVID -19. Assuming that as a plausible scenario, the current circumstances might stay for long. Digitization of payments will be an absolute necessity. Firms, not confined to the financial industry, will be investing disproportionately on the payments domain. In addition to this, digital customer onboarding aided by virtual interaction may gain quick traction among conservation financial institutions.

One another area that will find considerable action is the domain of fintechs. Though the themes fintechs are involved in are payments, AI, Bigdata etc., the crisis has hit most of the venture capitalist funding. The fintechs could probably find themselves easy targets for acquisitions by the larger firms who would be looking for outsourcing the required but not so important capabilities. The industry could also see mergers and consolidations between the fintech players.

Most countries are moving towards economic self-reliance and there have been talks of strategic autonomy by European Union officials. Digital trade is thriving at a modest scale and as a result, long-term investments are sinking and the flow of capital is suffering. Cross border investments have been cut by a third by many multinational firms and on top of that countries have tightened their rules on foreign investment. Travel is restricted and the disruption to the industry is lasting. This is creating a fractured world making it harder to solve global problems and help economic recovery. Banking industry will now have to survive in an era of protectionism.


6:00
THE CORONAVIRUS COVID-19 SINKS THE WORLD STOCK EXCHANGES
Time: 02/28/2020
Minimum: 19,04
Last: 17,5 (2398)
Maximum: 29,33
FEAR OF CORONAVIRUS
OUTBREAK SPREADS AROUND THE WORLD

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Mandar is responsible for banking and capital market segments at Domain Consulting Group. He has a proven track record of building and leading technology and consulting teams in financial services technology. His expertise includes leadership, technology consulting, and strategic program implementations. Mandar is closely involved with many transformation programs that Infosys is delivering for its clients. These include programs like implementation of Digital strategies, Legacy modernization and adopting new cost models. He is also associated with developing FinTech ecosystem to deliver focused solutions to solve challenges faced by clients in dealing with COVID aftermath.

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