CAPCO

2021 CUSTOMER HORIZON:

CONSIDERATIONS FOR YOUR CUSTOMER TREATMENT STRATEGY

INTRODUCTION

As banks switch focus to their COVID-19 ‘new normal’, characterized by tectonic shifts in individual customers’ circumstances, plus an elongated period of recovery, we believe this is also the time for banks to nurture their customer base. Whether that may include assisting them back to stability, strengthening their financial position, or helping them out of serious hardship, acting now is to the customer and bank’s short and long-term benefit. In this paper, we share how they can kickstart their customer treatment strategy as expectations of recovery continue and 2021 looms.

STATE OF PLAY

When the coronavirus pandemic first gripped the western world back in March 2020, it's fair to say that many businesses and governments opted for a wait-and-see-approach. As the situation worsened, nationwide lockdowns subsequently ensued. On the evening of Monday 23rd March, the UK's own lockdown commenced, signaling both the closure of many banking branches and reduced services across the UK, and a new operating reality which has come to be known as 'the new normal'.

In spite of such uncertainty, many banks and customers have done their best to adapt. Customers went online in their droves[1], as did many bank employees to serve those customers' needs (with many others courageously continuing to serve employees in-branch).

Now UK banks have proved their ability to be resilient and responsive in a time of crisis, and one that has been quite unlike any which came before, they must harness their new responsiveness to work even closer with customers for the sake of their future business. It is imperative they restore their assets, status quo on balance sheets, and re-stock future profit pools; and this will require strategic thinking.

FIVE IMMEDIATE PRIORITIES FOR BANKS

In time, we expect government and regulators to set rules and guidelines for these customer treatments, but for now banks can prepare themselves for this next phase of recovery, by focusing on five priorities. We are advising clients to:

1. **Be socially purposeful and proactive** – do their bit for the UK economy and people in hard times

2. **Increase the frequency and intensity of interaction** with their customers to actively manage risk and restore customers to financial wellbeing

3. **Establish an overlay operating model to deal with ongoing difficulty and restoration**, to a next normal, with the same speed and effectiveness as they reacted to Covid-19 emergency policy

4. **Take thoughtful and prudent commercial steps** to manage their own success and future shareholder value

5. **Work in step with government and regulators** to lead the way and mitigate the risk of intervention.

At Capco we have combined our expertise across customers, products, data, channels and operations to devise a preparatory approach and 2021 customer treatment architecture that deliver on these five priorities and tackle the challenges ahead

THE CHALLENGES AHEAD

In the decade since the financial crisis, UK consumer debt had already increased by 25 percent to £225 billion[2], which equates to £4,300 for every adult in Britain. Since the coronavirus pandemic took hold, many consumers financial situations have worsened. Since lockdown began, 3 million Universal Credit declarations have been made,[3] one in ten are estimated unemployed,[4] over 1.8 million on mortgage payment holidays[5], and disposable monthly incomes have dropped to an average of £515.[6]

This dramatic change in customer circumstances will have long-term impacts for financial services firms, which they will need to factor into their business decision making over the next 12 to 24 months. Indeed, traditional classifications of customer circumstances will not be fit for purpose in the wake of COVID19. Firms need to reassess their customers' journey to the 2021 horizon. With this in mind, we have categorized today's consumers into eight distinct profiles:

Good Borrowers

- Good borrowers have survived the initial lockdown stresses, having kept up their repayments and not materially increased their liabilities.
- This group are keen to ensure they are getting the best value from their financial products and will be keen to switch if the right product and customer experience is cost-effective and convenient for them to move to.

Savers

- Savers have their monthly expenditure covered by their incomes, with room to spare.
- With their additional financial capability, they look to gain mid-to-long term value from their investments and savings.

Steady

- The steady customers have no material financial concerns or at-risk liabilities.
- They share traits with the good borrowers and savers but have the added advantage of resilience in their finances, that will help them survive future aftershocks in the wake of COVID19.

Windfallers

- These are customers who have been able to work and/or gain throughout the outbreak (e.g. senior-level key workers).
- They have typically improved their financial wellbeing and are best placed to thrive in the next 1-3 years.

Consolidators

- Consolidators have survived the pressures of the outbreak through a combination of expense reduction and consumer credit.
- As they look to recover from the lockdown, they will try to consolidate some or all their existing liabilities. This includes reassessment of their mortgage and financing loans (e.g. cars).

Squeezed

- This group are only just making ends meet, and it's a real battle from month to month, e.g. because of furlough.
- If they can get back on a solid income/expenditure footing, and start to build some contingency into their finances, they will be able to move up the spectrum of customer groups.
- Working-parent and single-income households are worst-affected.

THE CHALLENGES AHEAD CONTINUED

Defaulters	Crisis
• Defaulters have been pushed into financial difficulty because of the fallout of the outbreak. • With their income streams severely dented or wiped out, e.g. by sabbatical or redundancy, there is a strong risk of payment difficulties for these customers as payment holidays expire.	• Crisis customers are customers who were in serious difficulty pre-crisis, who are now in severe financial difficulties. • They are probably already seeking assistance from their lenders and relevant debt advice services. • Deprived, low-income and single parent households are most likely to be experiencing this severe hardship.

All customers are facing an uncertain future through 2021, with key concerns being health, wellbeing, and financial stability. With this in mind, more customer choices will be made related to cost, convenience and health, meaning customer treatment strategies need to change too. These include:

Home Ownership • A drop by 5-10 percent in residential property prices combined with increased repayments from COVID-19 forbearance, simultaneously increases the risk of default and the weight of parent dependency for first-time buyers.[7] • Pre-COVID collections, recoveries and credit operations need to be rethought for fairness, suitability and eligibility for the newly vulnerable.	**Conclusion** • Lenders who start their strategy reviews now and offer flexible products or term adjustments will be best prepared to deal with what could happen next.
Urban living • Rising unemployment and safety/health concerns will drive customer decisions on where they live, where they work, and how far and frequently they are prepared to commute for everyday financial services.	**Conclusion** • Those who provide comprehensive omnichannel services that facilitate convenient customer choices will be ahead.

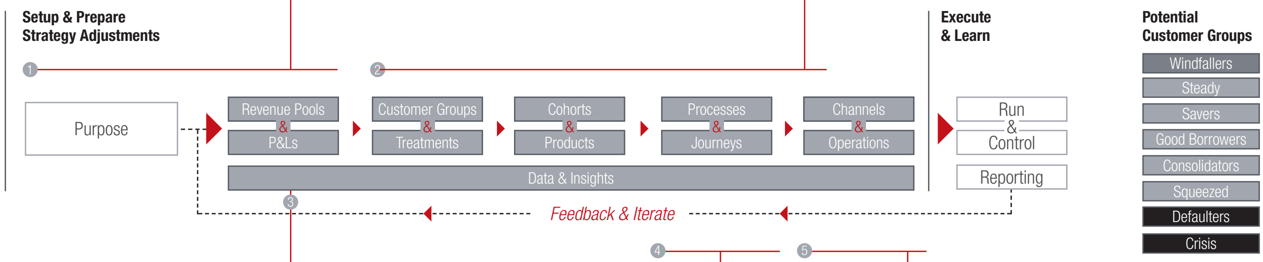
ESG • The more de-globalised and localised rhetoric in the UK, combined with people's recollections of the environmental benefits of lockdown, drives a resurgence in consumer uptake of UK, ESG-sensitive brands.	**Conclusion** • Customer and product strategies that synthesise personal circumstances, UK branding and environmental benefits will have an advantage.
Lifestyle • The comeback from lockdown will be tailored to individual circumstances. • Large social events will still not be possible, but smaller, socially distanced groups will begin to socialise and steadily spend income on entertainment. • Some customers will also re-evaluate how well their lifestyle is protected, e.g. income protection, family safety, child welfare, elderly care and health/life assurance will be front of mind.	**Conclusion** • With customer consent, changes in spending patterns can start to be analysed now, to enable personalised tailoring and better financial protections, at scale, over the next 12-24 months.
Business ownership • Negative media risk for large corporations increases. • Retail and commercial customers' financial detriment during the outbreak creates downward pressure on executive pay, sports wealth and public sector leadership, akin to perceptions in the wake of the global financial crisis. • Personal wealth managers continue to evaluate their clients' portfolios; adjusting to their retirement and protection plans as needed.	**Conclusion** • Large business entities and high personal wealth individuals can withstand the wake of the crisis, but owners of UK micro-businesses will need additional support from the industry.

WHAT NEXT?

In reaction to the proliferation of the COVID-19 crisis, Capco has identified five key steps organizations can use to formulate their 2021 customer treatment strategy:

1. Setup a cross-organisation team and define your intent
Set up an integrated cross-bank, cross-segment, cross-product strategy, change and run capability to define, enable and run post-Covid customer treatments

2. Identify key customer groups and treatments
Identify key customer groups by situation, behaviour, history and product to fit them to appropriate treatments and engagement



3. Acquire insight and understand the future
Set up data queries to help fit customers to groups, and modelling to understand outcomes from possible treatments

4. Adapt processes and journeys
Apply temporary changes to processes and customer journeys to enable engagement and treatments

5. Harmonize digital and human channels and operations
Ensure channels and operations are optimised to support both BAU and the post-Covid customer treatments

In time, we However, the success of the above strategy will also rely on a number of factors, including:

1. Pools and profits and losses

Banks should model the current customer/business impacts and future scenarios.

a. Re-assess your business income streams in-light of the COVID-19 impacts on customers, and model the new baseline

b. Identify key adjustments in how you support customers, and what that means to that customer group's future wellbeing, and the business overall

c. Plan how to support customers over the next 1-3 years, focusing on customer retention and mid-to-long term recovery

2. Treatments to drive customer success

There are two measures banks could apply at the customer cohort and product level to help:

a. Lending related measures:
   - Postponements of credit servicing payments and revised credit agency filing, and plan for larger right-offs
   - Revision of principal, interest rate, and term on credit
   - Changes to affordability calculations and behavior scores
   - Availability of short-term lending, consolidation, offset products, and life time / second charge loans.

b. Consider holistic approaches to engendering financial health and sustainability:
   - Powerful budgeting and planning tools
   - Adopting innovative practices from insurance and health
   - Revisiting the long-term relationship, human journey and life events
   - Exploring ways of providing financial advice.

3. Customer groups and services

We see there are five broad post-covid customer treatments that all banks and financial institutions should adopt:

a. **Nurture those customers** temporarily in hardship and distress

b. **Back customers new into the workforce** especially those without regular income and with student debts and other fixed outgoings

c. **Shield those customers who remain stable or squeezed** but are managing their income and outgoings

d. **Commend customers who are acting positively** to improve their position, their behavior and credit scores

e. **Spur customers who have experienced new financial upturns** in recent months to further their financial position.

4. How to adjust channels & operations

Since COVID-19, contact centers experienced a 53 percent increase in call volumes[8], and 6 million more UK consumers (12 percent) switched to virtual banking services[9]. With these shifts, channel and operations priorities for firms are:

a. **Revisiting channel roles in origination and servicing**, along lines of informational self-service, simple journeys and contextually complex interactive

b. **Confirming channels and operations can support the processes/journeys** that customers and the business needs

c. **Accelerating delivery of digital servicing for simple journeys**, e.g. switching, re-mortgaging, loan origination, money management and insights like balance after bills and savings pots

d. **Being flexible in scaling capacity/capability for triaged and tiered customer treatments** including collections and recoveries

e. **Dedicating branch and service center colleagues to high-value, high-complexity interactions** via remote and on-premise working.

CONCLUSION

The full impact of COVID-19 remains to be seen but industries have been told to brace themselves for the worst recession in decades.[10] Since the 2008 financial crisis, banks have worked hard to try to regain consumers' trust, with limited success.[11]

However, as some are already saying,[12] the coronavirus crisis is an opportunity for firms to heed the lessons from previous crises and repair their image, and that should start with considering what is in their customers' best interests. Plus, with the impact and uncertainty created by COVID-19, there is now a pressing need to address the future needs of customers who will be hit by lower financial security and heightened concerns in the wake of the outbreak.

Firms have the power to help support the financial wellbeing of all customers through the way their products and services are formulated, designed, and managed. If banks do not strategize now, they might not get many more chances - to not only regain customer trust but also to secure their future in a dramatically shifting industry landscape.

REFERENCES

1. https://www.finextra.com/pressarticle/82863/world-retail-banking-report-2020-57-of-consumers-prefer-internet-banking-in-the-covid-19-era
2. https://www.theguardian.com/business/2020/apr/23/uk-seeks-to-borrow-225bn-to-fund-huge-surge-in-public-spending
3. Department for Work and Pensions, June 2020.
4. Office for Budget Responsibility, May 2020.
5. https://www.theguardian.com/money/2020/may/22/uk-mortgage-payment-holiday-extended-by-three-months-covid-19
6. Centre for Economics and Business Research, April 2020.
7. https://www.thisismoney.co.uk/money/mortgageshome/article-8312433/House-prices-fall-7-year-lockdown-extended.html
8. https://www.dialogtech.com/blog/how-the-covid-19-crisis-is-impacting-call-volumes-by-industry
9. https://www.crowdfundinsider.com/2020/06/162360-digital-banking-six-million-or-12-of-uk-consumers-have-switched-to-virtual-banking-services-following-covid-19-outbreak/
10. https://www.npr.org/sections/goatsandsoda/2020/06/12/873065968/world-bank-recession-is-the-deepest-in-decades?t=1592232880593
11. https://uk.reuters.com/article/uk-britain-banks/british-public-dont-trust-banks-10-years-after-crisis-survey-finds-idUKKBN1L11EL
12. https://www.ft.com/content/3bb2fefc-726c-11ea-ad98-044200cb277f

CONTACT

Richard Emmett
Managing Principal, Banking & Payments
richard.emmett@capco.com

Ian Hooper
Partner, Head of Banking & Payments
ian.hooper@capco.com

Richard Lewis
Partner, Account Executive – Banking
richard.lewis@capco.com

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at **www.capco.com**, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

WORLDWIDE OFFICES

APAC
Bangalore
Bangkok
Gurgaon
Hong Kong
Kuala Lumpur
Mumbai
Pune
Singapore

EUROPE
Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
London
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA
Charlotte
Chicago
Dallas
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA
São Paulo

WWW.CAPCO.COM

CAPCO

JN_2182