

CAPCO | DIGITAL

COVID-19: ACCELERATING THE MOVE TO DIGITAL BANKING

COVID-19 has accelerated the transition to digital and remote channels and the ongoing shift in customers' needs and expectations, creating challenges for banks both in the immediate and longer-term.

Consumers are deeply anxious as they look simultaneously to manage their finances, make ends meet and plan for their financial future. As they adjust to the many impacts of the virus, many are unable to pay mortgages, loans or overdrafts and are concerned about their credit ratings. Given the economic downturn and potential for a deeper recession, anxieties around longer-term savings and retirement planning abound.

Meanwhile vulnerable and non-digital customers have faced some challenges when accessing bank services. Equally, many businesses are fighting for survival, an imperative that is prompting them to for new sources of support or guidance. Business customers are finding it especially hard to access the lending support that they need, not least via the UK's Coronavirus Business Interruption Loan Scheme (CBILS). When they are able to access lending information, it is often difficult to determine whether their specific situation meets the eligibility requirements and other terms and conditions.

Banks are accordingly looking to address these new customer needs while also under intense pressure to protect their bottom line, counter potential threats from new entrants, and reorient their servicing channels for today and tomorrow. How can they enhance customer support immediately? What paths forward will allow them to enable digital channels to deliver more? How to reduce costs and protect revenues? **Moreover, the current turmoil presents an opportunity – welcome or otherwise – to identify fresh avenues for differentiation**, and, by extension reposition, reimagine and reengineer business models, workforces and services to emerge fitter and stronger into the post-pandemic 'new normal'.

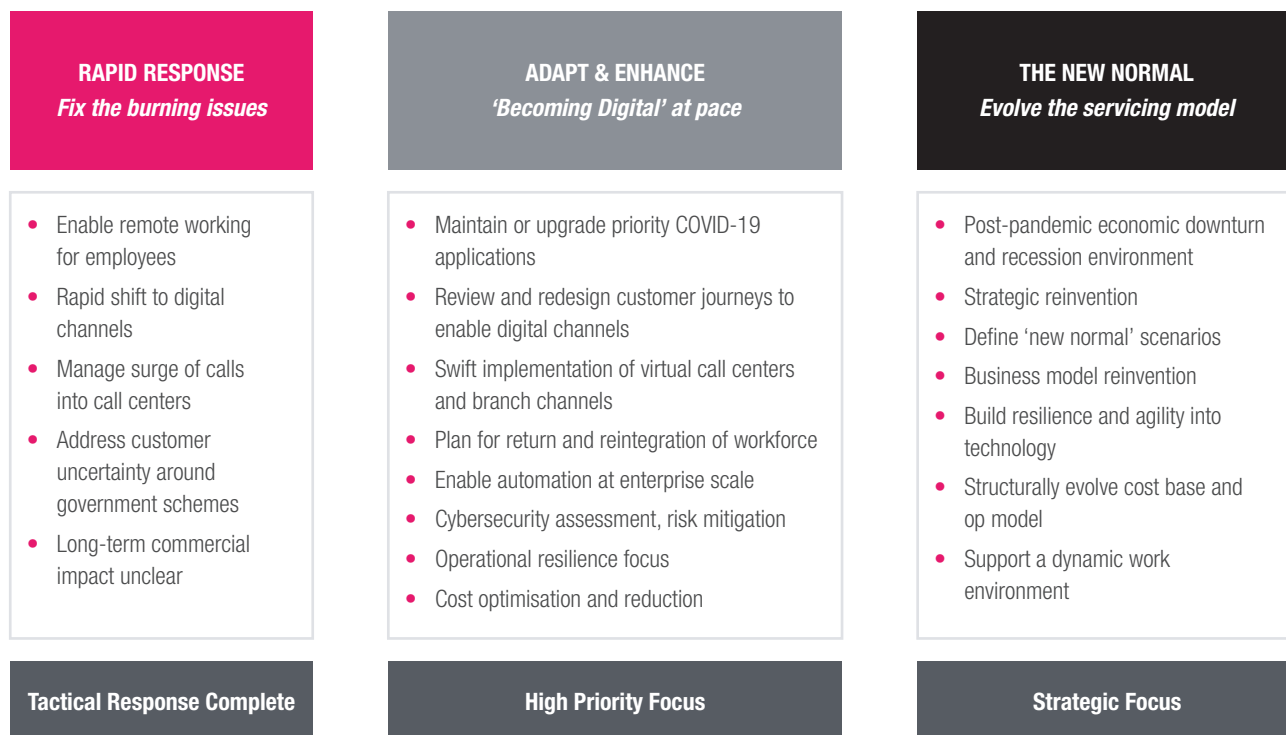
Certainly, defining new ways of working is one strand within a strategic and operational reboot as firms look to transition to - and thrive within - a new 'business as usual' state post-COVID. At the same time our disrupted, socially distanced existence presents a unique opportunity to accelerate digital enablement and enhance customer experiences and journeys.

Traditional channels and venues for service delivery and (once) commonplace business interactions have been severely compromised, if not flat-out eliminated, by COVID, with negative impacts on customer relationships and satisfaction levels. With offices and branches either closed or operating at vastly reduced capacity, relationship managers are tasked with explaining and delivering CBILS funds and Bounce Back Loans to small business customers – even as the criteria and details change on a weekly basis – remotely via phone, email or perhaps video link. Meanwhile their colleagues on customer support teams are managing a huge influx of individual urgent queries about mortgage holidays and other loans.

Digitalisation is inexorably moving centre stage. HSBC, for example has seen a 30% increase in digital check deposits since the lockdown began; another leading global business bank saw the value of mobile payments during March and April double over 2019 levels. Even in the short-term, those firms that get their digital strategy right will be best placed to mitigate any decline in revenues via client retention and acquisition. Longer-term, customers' judgement on how banks responded during this crisis will have a lasting reputational impact – and, needless to say, challengers and potential new entrants (the BigTech behemoths among their number) look on from the wings.

So what does accelerated digital enablement look like in practice? For financial services firms, there needs to be a three-stage approach. A rapid, short-term response to address contingency priorities around increased volumes and the current 'virtual' business environment; followed by a fast-tracked programme of digital enablement; this in turn transitions into a final, 'new normal' steady state – a new way of banking. Delivering on these three goals will see a fundamental change in the way banks and customers engage with one another.

Banks are moving through three distinct phases, from urgent crisis management through strategic recovery to a reinvention of banking and the reimagination of BAU post-pandemic.



Phase one: a rapid response to fix the burning issues

- Due to slow due diligence procedures, 38% of customers are abandoning banking applications for CBILS funds. Businesses will gravitate towards the path of least resistance: whichever provider facilitates and approves their applications stands a good chance of remaining the client's go-to once this crisis is past. Accordingly, reducing friction and managing volumes around enquiries and transactions have to be the immediate focus. First steps must include triaging calls, providing clear and concise information via digital channels, and proactively identifying those in direct need to ensure that remote customer service teams can prioritise as effectively as possible.

Phase two: adapt and enhance - 'becoming digital' at pace

- Quick fixes are just that, serving only to buy time to enable new and more sophisticated digital services and journeys at scale. Self-service, remote support and automation for a

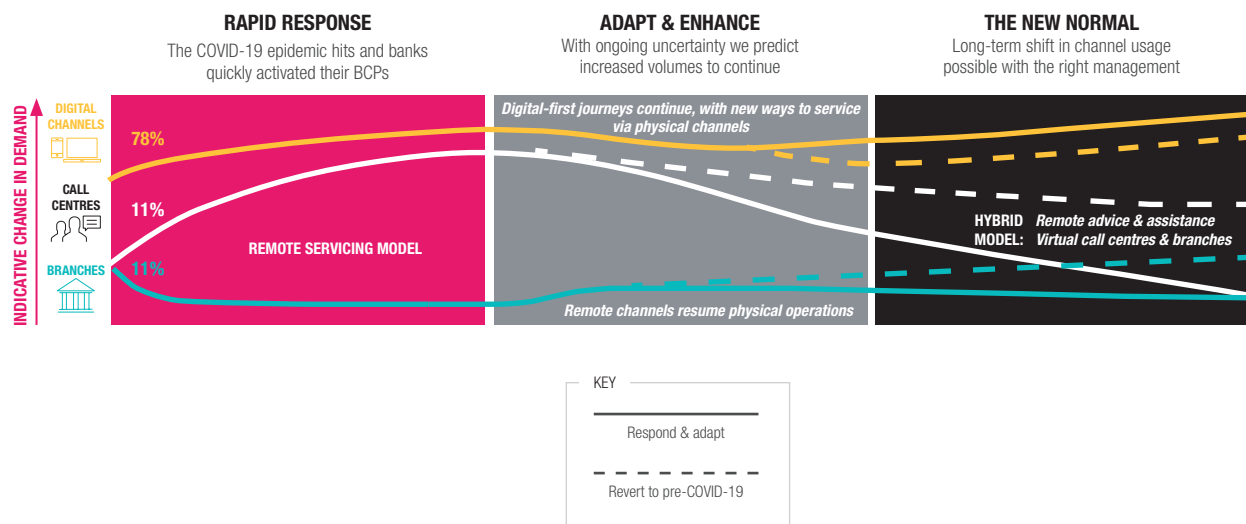
host of other functions from digital onboarding through to product offerings that align more precisely with emergent customer needs post-COVID: these are the building blocks to move customers to digital channels, and keep them there. In conjunction with an enhanced capacity for remote working and scalable technology solutions, they will facilitate a hybrid servicing model that is fit for the future.

Phase three: the 'New Normal' and the evolution of the servicing model

- Those banks that get this right – in combination with a renewed focus on fundamentals including their cost base and risk management provisions - will be at the forefront of financial institutions emerging from this pandemic, having put in place the necessary foundations to sustain a competitive advantage over time. They will be best placed to deliver against future customer expectations while also shaping the banking landscape itself. Those who do not adapt now will have to work twice as hard just to catch up with their digitally enabled peers.

At the heart of this projected future state will be a hybrid omni-channel experience with high penetration across digital channels and a proliferation of remote channels for customer support and service. For example, we may see the rise of virtual call centres and virtual branches where face-to-face interactions have been replaced by a seamless melding of remote servicing and the human touch.

There is an urgency to reinforce digital channels – but also to reassess the value of a hybrid omni-channel model across your physical and remote channels.



We can expect to see a rapid expansion in usage across digital channels and the digitization of key customer journeys – digital onboarding & servicing, digital lending for SMEs, collections & recoveries, debit card transaction queries and fraud self-service, delegation of authority, bereavement. Capacity around scalable technology will need to be ramped up to support mobile banking, call centre services and remote working.

HOW SHOULD BANKS BE RESPONDING?

Banks have an immediate need to manage and protect their systems, people, processes and revenue – but the crisis also presents a unique opportunity to position for the future.

RAPID RESPONSE

ADAPT & ENHANCE

THE NEW NORMAL

1. IMMEDIATE CUSTOMER SUPPORT

- **MANAGE TRAFFIC:** Manage the call centre traffic and ensure there exists sufficient digital channel capability to reduce volumes into call centres
- **VIRTUAL CALL CENTRE:** Deploy a reduced physical call centre and pivot to a distributed call centre, while enabling the correct technology, culture, staff (redeployment, reskilling)

2. ENABLE DIGITAL CHANNELS TO DO MORE

- **CUSTOMER JOURNEY FOCUS:** Ensure the hardest hit customer journeys are fit for purpose and new customer journeys - such as mortgage holidays, loan deferrals, overdraft charge freezes driven by government mandates - are serviced
- **EXISTING CAPABILITIES DIAGNOSTICS:** Ensure you are getting the most out of existing technology and tooling and scale it
- **DIGITAL ORIGINATION:** Ensure that in addition to existing servicing, digital channels are enabled to prevent new customer journeys from being blocked
- **CHATBOT ++:** Use chatbots to reduce volume to the call centre and enable a broader range of journeys to be executed
- **DATA ANALYTICS:** Use data insights to inform proactive decision-making

3. PROTECT REVENUE & REDUCE COST

- **KEEP CUSTOMERS ON DIGITAL CHANNELS:** Ensure customers adopt digital channels and stick with them, creating both an immediate and a longer-term reduction in cost base at a time when some revenue streams are at risk
- **REDUCE BACK OFFICE COSTS:** Automate back office processes to improve efficiency, remove bottlenecks, reduce costs and enable better self-service

4. SEIZE THE OPPORTUNITY TO DIFFERENTIATE

- **CREATE NEW REVENUE STREAMS:** Banks have a huge opportunity to proactively react to the changed consumer behaviour due to COVID-19 and differentiate their offering, products, services and brand

5. BE READY FOR POST-PANDEMIC WORLD

- **SENSE CHECK YOUR DIGITAL STRATEGY:** COVID-19 is likely to have a lasting impact on how customers are serviced. There is a need to ready your servicing model and products for a post COVID-19 recession environment - and to prepare for the next global event of this nature.

In summary, there are five key steps the banks can take to prepare:

1. Deliver immediate customer support
2. Enable digital channels to do more
3. Protect revenue and reduce costs
4. Seize the opportunity to differentiate
5. Be ready for the post-pandemic 'New Normal'

The impact of COVID-19 stretches beyond markets and the world of business into the fundamentals of how we live our lives. It seems extremely unlikely that we can simply return to how things were before the pandemic. Profound and lasting change has been forced upon us all, and in that sense the current crisis presents a unique opportunity for banks to reimagine their business proposition and make strategic investments in longer-term differentiation around products, servicing model and their overall brand.

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