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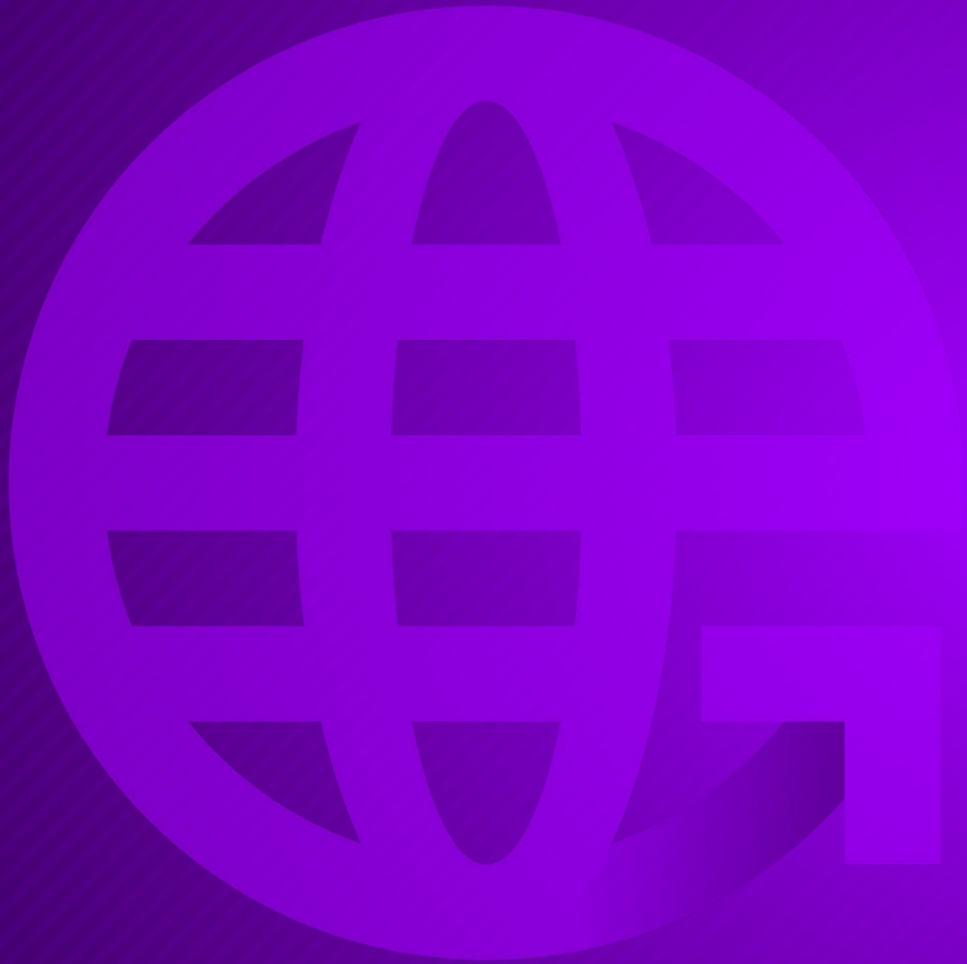
Commercial banking and COVID-19

Navigate to emerge stronger

April 2020

COVID-19: What to do Now, What to do Next

NOW NEXT



What To Do Now, What To Do Next.

Commercial banks are at the epicenter of a global economic storm fueled by COVID-19. In it, they are up against a two-fold headwind: helping their customers—especially small and midsized businesses—stay afloat, while shoring up their own businesses and scaling capacity. We understand the challenges you face and offer our assistance wherever it may be helpful—our global perspective and resources are at your disposal as you plan and enact the necessary steps to generate continuing value for the bank and your customers.

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Position now to emerge stronger

Many small businesses are being forced to take some sort of downsizing action to adjust to the changing economic conditions.[1] Many have even had to close their doors temporarily in compliance with government mandates. For how long is uncertain, as the health crisis expands at unprecedented speed and scale. Many businesses will quickly use up their available cash reserves. According to JP Morgan research, half of all small firms hold a cash buffer of less than one month and 25 percent of them hold a buffer of less than 13 days[2]. Small businesses are looking to and calling on banks for financial insights, answers, and solutions that they can use to form and execute adequate responses in the short and long term.

At the same time, commercial banks must take immediate action to protect their people and stabilize their own business operations. In line with government mandates, most banks have already shifted to remote working arrangements where possible—doing so at a time when demand for their services is at its peak. The National Australia Bank, for example, saw the same volume of customer inquiries in just one week that it would normally see in a year[3]. Banks around the world are experiencing similar surges and the trend is set to continue indefinitely as the health crisis causes small businesses to slow down or even stop altogether, setting off another wave of impact as suppliers up the chain feel the tightening of their demand.

Many small businesses are being forced to take some sort of downsizing action to adjust to the changing economic conditions.

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Position now to emerge stronger

(continued)

A first and immediate issue, of course, is the workforce. Commercial banks are acting wisely to deploy people and scale their workforce as effectively and safely as possible. Some banks in Asia have called upon retired bankers and operational staff to help service the dramatic increases in demand.[4]

A large bank in Australia has undertaken rapid workforce planning to understand where skills can be repositioned. It has also halted projects that aren't immediately contributing to the response, again releasing key people to front-line or operational teams. Almost overnight, traditional business banking relationship management models have been redesigned to slow the contagion as some commercial banking clients still rely heavily on the human touch and paper-based processes while struggling to stay ahead of customer expectations, new regulation, and the infection.

And now many banks may be seeing returns thanks to their earlier investments in digital offerings that require little-to-no people power and are safe to use in isolation. A large bank in China drew on that advantage to quickly launch a "do it from home" campaign, educating its customers on the availability and benefits of using digital channels to engage with the bank.

Commercial banks are moving in the right direction, yet the next 10, 30, and 60 days are mission critical. Effective leaders will move even faster, with well-considered steps to further adapt the bank in light of COVID-19, and to emerge stronger when the crisis storm is over. In this paper, we offer guidance on how commercial banks that act now might make it happen across four key operational areas:

1

Enable clients to maintain operations

2

Help businesses access financial support

3

Digitize commercial banking offerings and automate processes

4

Proactively monitor portfolios to shield credit quality

We suggest what banks might do now to proactively meet business customers' immediate needs and what they should consider doing next to build the more valued, trusted relationships with their clients that can lead to differentiation and longer-term growth.

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1. Enable clients to maintain operations

Commercial banks around the world are seeing unprecedented demand from concerned and troubled small and mid-sized businesses looking to manage their insecure cashflow, as best they can, with extended credit.

They are seeking:

- **New loans, both organic and through government programs.**
- **Modification of existing loan payment terms or interest schedules.**
- **Facility or line extensions.**
- **Help in addressing impending credit risk deterioration.**

In many countries, banks may find it hard to scale their operations to handle the influx of new credit requests.

Governments and societies understand the importance of channeling capital to businesses, but they may not be aware of how constrained many banks are in their ability to scale the processes to meet this demand and execute at the speed many small businesses require.

Banks' existing processes, often as a result of local regulation, may require physical signatures or repeated interaction with customers for approval and drawdown. Digital capabilities are immature within commercial banking and are not prevalent globally across the industry.

Many organizations are either at the outset or in the middle of digital transformation programs, either of which may restrict the availability of digital services at a time when they are needed most. With workforce safety and virus containment being an immediate priority, many banks are operating with remote workforces as part of their new business continuity plans. And some offshore functions, where much of the scaled operating capacity may exist, may be completely cut off as many may have found it difficult to immediately enact continuity plans.

To manage such operational impacts, banks should move quickly—in the next 10 days—to stand up a command center and build scalable capability.

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Stand up a command center now

Within 10 days

Establish a fully integrated command center to coordinate all aspects of your crisis response.

Focus your command center on the operational areas where the bank is most likely to see origination volume spikes: government funding, line extensions, and loan modifications (such as payment deferrals).

Define how the command center will integrate with the bank's broader COVID-19 response initiatives.

Create clear accountability on who is running the command center and empower the leader. This role requires senior leadership, ideally, with experience of managing in times of crisis and with clear decision-making authority and direct lines of communication into the executive team.

Within 30 days

Define your broader response strategy and clearly articulate it across the organization.

Plan and coordinate with the understanding that crisis-related task forces may be running for the foreseeable future.

A command center provides agility for banks in best managing business through months of economic uncertainty, including reacting to various government mandates and stimulus policies.

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Build a scalable capability

In responding to the high demand from customers, banks should immediately stand up scalable processes that enable customers to quickly draw funds from the financial system. At first, these processes may be more manual and less scalable than desired. Redirecting as much volume as possible towards digital or automated facilities underpinned with elastic cloud computing capacity will make it quicker and easier to scale. At one leading Australian bank, digital origination channels were used to support over 70 percent of new credit applications due to quick actions to change eligibility criteria and relax credit policies.

Here are some action-oriented ways you can build scalable capability:

Within 10 days

Address pressure on new credit requests**.** Banks should either design a new loan origination process or expedite their existing one to enable them to process high volumes of applications for government-sponsored loans—whether details of government programs are newly minted or even undecided.

Plan for loan modifications. Customers may seek clear and concise guidance on banks' expectations for loan repayments during this time. Communicate first and then work through the operational implications, including changes to loan servicing systems and legal amendment of terms.

Improve management visibility. There may be strong desire by some senior leadership to understand the number, value, and segmentation of new loans and modifications—how many new requests are coming in daily and where the bottlenecks and breakdowns are showing up. Assign a leader to define the reporting and underlying data strategies.

One immediate need is to stand up scalable processes that enable customers to quickly draw funds from the financial system.

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Within 30 days

Dedicate data analytics specialists to model roll-rate projections beyond payment deferrals and to better understand the credit risk position of the bank—ideally in real time, using all available internal and external data to guide targeted interventions. Existing analytics resources should be redirected to credit management as some banks' success will depend on their ability to understand and predict changes in credit risk.

Avoid disruption of business as usual. Traditional new loans, albeit at smaller volumes, are still going to require attention along with annual reviews. It will be important to segregate credit action relating to the COVID-19 crisis, where possible.

Partner with ecosystem players to improve the speed and the scalability of loan processing. A large commercial bank in Hong Kong redirected specific loan application types, that typically took much longer to process, to a digital fintech in the region. The loans were underwritten and passed back to the bank as term sheets once they were ready for funding.

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2. Help businesses access financial support

Many small and medium enterprises are feeling the sting of supply chains that are sluggish at best, and at worst have been totally disrupted. Understandably, some are shifting their focus to three survival-critical priorities:

- **Managing cash and debt obligations.**
- **Ensuring continuity of working capital financing.**
- **Keeping their supply chains as stable as possible.**

Across many countries, governments are using the banking system to distribute subsidies and support small business. Italy signed the "Cura Italia," a decree that includes a €25 billion package of economic measures to help Italian businesses and families cope with the fallout of the prolonged health emergency. The Australian government introduced a small-business scheme under which the state will provide 50 percent guarantees to lenders of new unsecured loans.

What should commercial banks do now and next to provide support for their customers?

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Within 10 days

Create probable data-driven economic scenarios as the COVID-19 pandemic evolves and provide perspectives on how clients can best manage business in those situations.

Extend assistance to the most-impacted client segments with an eye on reducing their costs and easing their payment obligations through actions such as moratoriums on funded facility repayments and pre-approved extension of trade loans.

Develop client-specific product offerings—funded and non-funded—factoring in possible discounts and waivers and taking into account any government-driven financial assistance schemes.

Assess and propose appropriate business interruption insurance coverage in partnership with insurance providers.

Within 30 days

Offer "digital" loans to provide quick access to financing, drawing on both internal data and external information and validation services (government-based and others).

Advise on strategies to capitalize on new business possibilities, better manage fixed and variable costs, and optimize tax opportunities.

Provide a singular view on client-specific account receivables and payables to support real-time cash forecasts.

Within 60 days

Propose access to clients' cash systems to reconcile cash positions, receivables, and payables positions, and even conduct stress tests on their financials.

Use insights from various markets, products, and government sources to structure appropriate product propositions for clients in collaboration with platform and network players.

Grant exclusive access to alternative and newer trade market ecosystems and trade e-marketplaces (such as TIN and TradeIX) that provide supply chain financing, extending to clients' risk-managed financing facilities.

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3. Digitize commercial banking offerings and automate processes

In the weeks after the outbreak, Asian banks serving commercial customers had to move rapidly to ensure their operations did not contribute to the spread of the virus.[5] Traditional relationship management methods had to be re-thought, along with the types of branch-based services that many small businesses valued.

In many ways, COVID-19 is forcing commercial banks to accelerate digital transformation initiatives and move customers quickly to digital offerings.

Similarly, to prevent the pandemic from blocking their ability to acquire new customers and sell new products, some bank chose to move quickly towards electronic customer onboarding, online document submission, and e-signature tools. The necessity that today drives small business and other commercial customers to use digital services will improve their propensity to engage with banks in this way long after the virus is under control.

This will allow long-term reductions in cost-to-serve, even for those customers who have proven the most reluctant to move away from "assisted" channels.

Commercial banks that choose to be integrated into a digital ecosystem of platforms and service providers and have invested in digitizing their own services will be able to roll out new or complementary offerings rapidly and engage with their customers more safely. A leading bank in the US, for example, deployed a new digital process, allowing its retail and business customers to defer repayments for 30, 60 or 90 days with two simple clicks on its internet banking solution. In the first two days, more than 25,000 customers took advantage of the new process.

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3. Digitize commercial banking offerings and automate processes

(continued)

Digital solutions like these allow employees to focus on higher-value or more complex customer inquiries. Using a network of integrated services and solutions, one of the largest banks in China added a "Coronavirus zone" to its mobile app to support customers who wanted up-to-date information on the spread of the virus, online counselling, and searches for available hospital beds. These services were offered alongside special access to financial services, such as COVID-19 insurance policies, credit cards with interest-free periods, and facility extensions for existing loans. In one month, the "Coronavirus zone" had over 100 million visits with more than a million people receiving online counselling. Many of those who downloaded the app had no previous affiliation with the bank.

Without extensive digital offerings, commercial banks need to consider ways to handle large volumes of inquiries, credit applications, and requests for support. Applying a three-month repayment break to a portfolio of 100,000 loans, for example, could take many hours of manual effort and could, if the process is not well enforced, documented and controlled, significant increase the operational risk. Instead, introducing automation could help a bank redirect human effort to more valuable customer engagements. A large Australian bank did just that, integrating its digital marketing platform with robotic process automation to apply repayment holidays and extend existing facilities for specific customer segments.

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Within 10 days

Clearly understand exactly where the impacts of COVID-19 will show up in the customer journeys. Define these impacted areas (prioritized based on volume, impact, and customer necessity) and map them to existing digital offerings.

Perform a rapid assessment of the internal capabilities required to support impacted journeys, including the urgent demand for credit (such as government-backed loans). Gaining a quick understanding of the capabilities on hand to support impacted customer journeys can help pinpoint gaps.

Establish cross-functional centers of excellence that focus on prioritized COVID-19 customer journeys. Use automation to deploy large-scale change in a standardized, low-risk, and efficient way. Millions of small business customers will request repayment holidays and facility extensions to help shore up their available capital as the virus isolation measures take effect. Applying these changes through well-tested automation reduces the risk that they will be made incorrectly and improves audit and traceability. A large Australian bank invested in a dedicated COVID-19 automation center of excellence designed to reduce the pressure on front-line and operational staff. The team includes cross-functional product team members empowered to make decisions quickly and technical resources with access to multiple automation tools and techniques.

Build awareness of existing digital banking services and reinforce the importance (and convenience) of using what's in place right now.

Create and enable a technology steering group to make key decisions and take action on implementing technology changes.

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Within 30 days

Partner with organizations that can help deliver rapid digital credit origination at scale. Software providers can help banks quickly stand up ready-to-go, out-of-the-box solutions to meet market demand quickly with minimum barriers to entry. Technology firms that are well-versed and experienced in specific technology solutions can enable rapid deployment.

Extend your existing retail banking digital offering infrastructure to commercial customers to provide very basic and minimal self-servicing functions, enabling more autonomy and reducing menial tasks for relationship managers. This includes duties like viewing balances, categorizing transactions, making payment notifications, and analyzing cashflow. Doing so will help lighten the workload on relationship managers and contact centers that are being bogged down in the crisis with a flood of requests from large and small business customers.

Create tactical commercial digital offerings that can handle credit requests, focusing primarily on the products that are backed by government stimulus plans and electronic document management. This will help ease the interaction between applicants and relationship managers.

Within 60 days

Integrate tactical commercial digital engagement solutions into the broader IT stack as solutions come on stream and immediate demand becomes manageable. This can help a bank to address both temporary and longer-term needs, while maintaining a digitally-decoupled architecture.

Establish the future state of tactical solutions. This will entail deciding whether to improve, keep, or remove any of the resources, process, and technology changes implemented in response to the health crisis. Consider how these changes may be integrated into the broader picture once the pandemic passes.

Develop appropriate change materials for broader rollout and adoption outside of the cross-functional center of excellence and optimize value by determining how the wider audience can adopt this change into everyday business.

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4. Proactively monitor portfolios to shield credit quality

The pandemic has exposed major shortcomings in the access to short-term credit for small business customers as many banks are unable to process applications and disburse funds quickly. And whenever the impacts of the crisis start to abate, we expect that small and mid-sized businesses will need more long-term support to ensure they survive (and thrive) in a post-COVID-19 economy.

Banks should aspire to make access to credit simpler and adhere to government directives to provide credit to small and mid-sized enterprises more flexibly—and even go further to find ways, both financial and non-financial, to support these clients in running their businesses.

New, trusted relationships may come out of it as small businesses may be more willing to engage in more open dialogue with those banks that helped them through the crisis.

With many banks relaxing credit policy substantially to issue credit faster, tomorrow's problem may become higher default rates and the need for more intensive collections processes. Banks should be looking to protect both themselves and their customers from the likely credit deterioration and, ultimately, defaults in what will be a long-term recovery to pre-crisis levels of demand. For this, banks will need a coordinated and comprehensive portfolio view that draws on data and analytics tools embedded into their portfolio management functions. Tapping into these data sets to drive processes, such as credit reviews that can be triggered through specific business rules, will enable operational efficiency and the ability to direct human capital towards higher-value workloads.

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Within 10 days

Segment customers quickly based on higher risk criteria (industry, exposure to imports and exports, and such) and on whether they have been issued credit based on relaxed credit policy. This will help banks to promptly identify loans that have a greater chance of future credit deterioration, and cluster them for different advice and ongoing management.

Within 30 days

Create an advice portal for stressed businesses in need of immediate answers and solutions, such as finding cheaper rent, restructuring employee contracts, and accessing government funds or incentives.

Within 60 days

Invest in credit portfolio management tooling, powered by AI, that processes internal and external data to predict and detect credit deterioration and serviceability challenges. Banks can more proactively track the requirement for relief, repayment holidays, or even loan extensions through new trigger-based actions.

Provide cash flow forecasting capabilities to small businesses as a value-added service to provide early warning of upcoming cashflow issues and increase cross-selling opportunities around short-term loans or deposit products (where excess cashflow is experienced).

Conduct micro-segmentation of customers, based on advanced data and analytics, to determine which types of businesses will likely be hardest hit and which customer segments are likely to recover the quickest.

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Calm amidst the storm

It's a challenging time for everyone. The primary concern of all right now is to safeguard the health of those close to us and for whom we are responsible, and to do what we can to moderate the damage which the pandemic is causing. At the same time, we can think about what life and business will be like once the crisis has passed, and about the measures we can take now to ensure that we and our clients emerge stronger and better equipped to deal with the future.

The crisis is likely to accelerate many existing trends, like the shift to digital sales, so there can be long-term value in developing short-term mitigants. There is also a great opportunity to test—in an environment where customers may be willing to forgive experimentation—the efficacy of new advice and other customer value propositions to understand what works and what doesn't. While the full economic impact of this crisis remains to be seen, banks have an opportunity to support both new and existing clients through this difficult time, and to emerge as trusted partners in market-leading positions. But they are only likely to achieve this if they are operationally equipped to do what is expected of them. What we have outlined in this paper is a good starting point for the many crisis-driven calls to action that banks are facing.

Accenture is ready to help commercial banks go further and emerge stronger—providing the skills, capacity, support, and advice needed to shorten and reduce the impact of the COVID-19 crisis.

It's a challenging time for everyone.

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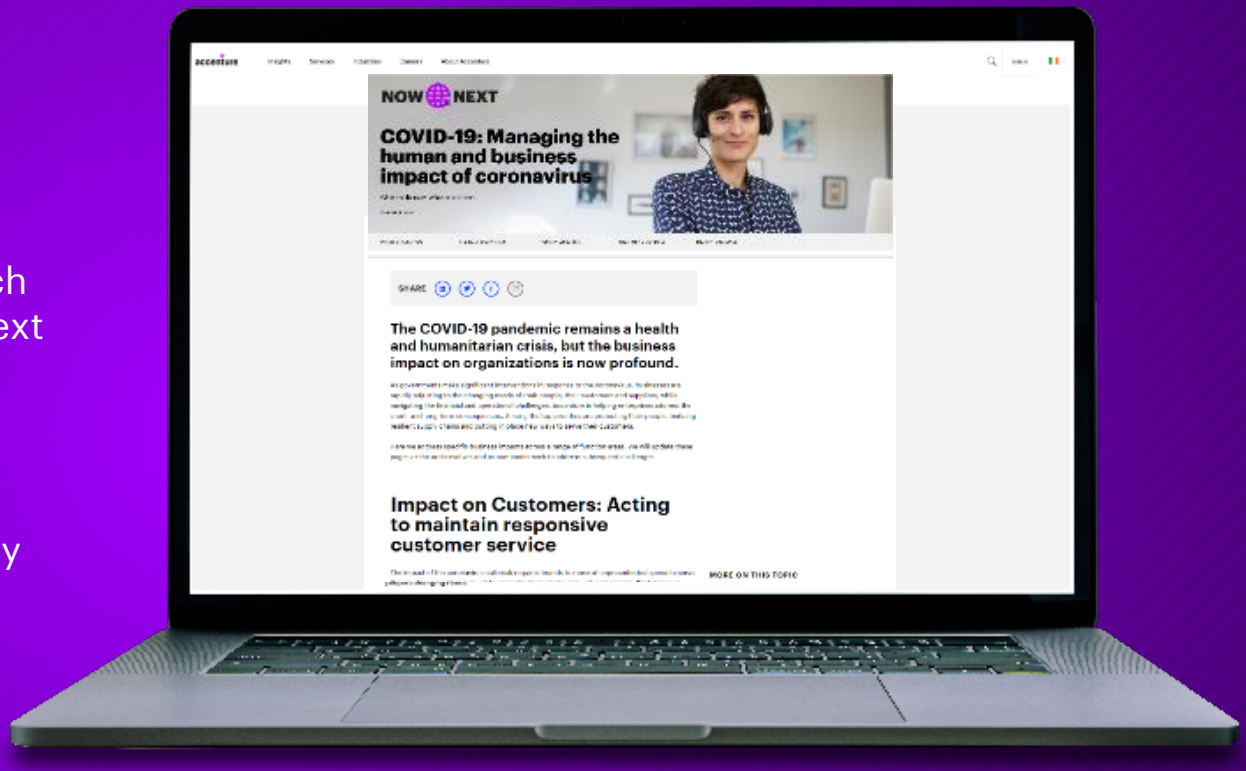
To help our clients navigate both the human and business impact of COVID-19, we've created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

VISIT OUR HUB HERE



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Endnotes

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References throughout to industry actions are based on Accenture client case studies and industry knowledge.

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