



RESPONDING TO COVID-19

**An open letter to retail and
commercial banking CEOs**



We're all in this together

By now most banks are in full business continuity mode and you're addressing the immediate challenges of protecting your staff from infection while providing much needed services to your customers.

Banks can obviously not be bystanders as this crisis develops. We all need to be active participants and do whatever we can to help consumers and businesses weather the storm.

While a challenging situation, this is also an opportunity for banks to show that they understand their customers' plight and are committed to supporting them through the crisis. The upside of these difficult circumstances is that they can be used to build stronger, enduring, trust-based relationships with customers.



While the focus of banks' efforts should be short-term, this crisis may very well accelerate many trends that were already reshaping the banking industry. It's quite possible that there will be no return to "business as usual". So, while short-term responses are clearly necessary, they may (and often should) lay a foundation for longer-term business model changes.

As the industry reacts, it cannot allow the perfect to be the enemy of the good. Numerous Accenture clients have immediately announced payment holidays for loans, resulting in call centers being overwhelmed. The triage of issues was difficult for under-trained staff, and there was a lot of confusion. But we agree with the calculus of our clients: it was more important to quickly signal the banks' intent to be supportive partners and display empathy, than to worry about getting all the details sorted out before setting customers' minds at ease.

These banks adopted the approach to a crisis that is often taught to leaders in the military: be clear about the intent, set a direction, get a basic plan in place, get started on the mission, buy some time to revise the plan, and then adjust as necessary*. This is also a good description of the agile way of working that many of our clients have adopted in recent years. While it's tempting to treat a crisis like this with a waterfall "plan, resource, and execute" process, we think this crisis calls for a focus on short sprints within the broader purpose of always trying to do the right thing for your customers.

We hope you find at least one issue in this document that you and your team might not already have thought of, and perhaps a few new ideas on how to address this crisis. We have aggregated our ideas into a checklist that appears at the end of this letter. As always, we appreciate your feedback and support.

Through it all, let's not forget that this is first and foremost a health crisis, and that our primary responsibility is to safeguard the health of our families, our colleagues and, indeed, ourselves. Stay well!

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3 * See Accenture's report on the [10 practical steps leaders can take](#) now to steer their organization confidently through the crisis.

Four key areas will demand banks' immediate attention

This letter is not about business continuity planning. Rather, we want to get specific about the likely impact of the COVID-19 pandemic on the retail and commercial banking industry and hopefully offer a useful checklist of issues to be addressed and initiatives to be considered.

Accenture is already engaged in helping many of our clients stand up virtual work environments. For example, over the course of a single week, we helped a client get more than 60,000 staff onto the Microsoft Teams platform to allow them to work remotely. Every day there are more stories of organizations doing extraordinary things to pivot their businesses towards different types of operating models.

We are also eating our own cooking. Most Accenture staff are working from home, including more than 60 percent of our Technology Delivery Center professionals in India and the Philippines. We were already the world's largest user of the Teams collaboration platform, but over the last week our usage has jumped to over 30 million minutes per day. If you're interested in how Accenture is responding to this crisis by expanding remote work, read our report on the [Elastic Digital Workplace](#).



Banks should focus primarily on the short-term impacts in four key areas of retail and commercial banking:

Credit Management

NPLs will surge as consumers and businesses are unable to make loan payments and there will be increased demand for new credit

Revenue Compression

Rate cuts as well as a collapse in demand will have a top-line impact

Customer Service and Advice Provision

Restrictions on personal interactions will push customers toward digital channels for service and sales

Operating Model Adjustments and Cost Control

Misaligned revenues and cost will require banks to improve operational flexibility and rethink short-term priorities

1 Credit Management

By far the greatest and most complex impact of COVID-19 for banks will be on credit management. The cashflow of many consumers and businesses is collapsing as lack of demand flows through into lower business revenues and employee layoffs. For some workers, like those in the gig economy and the restaurant industry, the impact will be immediate and severe as indicated by the spike in unemployment claims around the world. For those in regular salaried employment the short-term impact may be limited, but in the coming months layoffs will rise as will furlough programs and other measures that will reduce household incomes.

If effective action is not taken, there will be a rapid rise in consumer and commercial NPLs as borrowers struggle to make scheduled interest and principal payments. There will also be a material impact on the auto and equipment finance sectors as borrowers struggle to make lease payments. We think lenders of all types should focus on a few priority issues:

Support Government Action

Beyond macro stimulus measures like reductions in interest rates, salary support programs, and direct monetary transfers, governments around the world are going to intervene to mitigate the credit impact of this pandemic. Many of these efforts will aim to postpone the inevitable difficulties faced by current borrowers. For example, in the UK, banks have been asked to provide three-month payment holidays for mortgages and to suspend repossession and court actions across most asset classes.



The challenge for many banks will be how to operationalize these programs. Many core banking and loan accounting systems are just not set up for this type of operational flexibility at scale.

These programs will be particularly challenging if mandated payment holidays are not universally implemented, but instead are targeted at specific segments of the population. Many banks have some experience of these types of loan modification programs from the aftermath of the 2008 financial crisis (particularly for mortgages). But this time the loan programs requiring modification may be much more expansive, the timeline to get it done much shorter, and the resulting operational complexity much higher.

Governments will also inject fresh capital into the economy via SME loan guarantees and direct support for the hardest-hit industries. In markets with government-guaranteed SME lending programs – like the SBA in the US and KfW in Germany – we will see a surge of applications. Banks that aren't structured to offer these types of loans should reach out to regulators to figure out how they can participate and maximize the capital deployed through these channels, and potentially partner with banks that are set up to process these loans. Those that do have the operational processes in place to make these loans need to scale capacity quickly by training staff to originate and process applications, and simply to be aware of the options that are available to borrowers. One of the challenges is that, while the intent from many governments to provide support is clear, it is hard for banks to scale capacity before the qualification criteria and application process have been detailed.

With ideas like “writing a check to everyone” being considered in the US, the industry should have a collective response in each market to make the fiscal stimulus process as efficient as possible. Back in 2008, the US government sent physical checks that took two to three months to reach consumers – but the aggregate drop in demand was far less than we expect in Q2 2020. With P2P payment networks, push-payment systems like Visa Direct, and other money transfer options that have appeared over the last 10 years, the industry needs to be engaged to make economic stimulus easy to deploy. While it won't be with us for a while, this could have been a perfect use case for Central Bank Digital Currency that could have been pushed to registered and secure mobile wallets.

Banks that aren't structured to offer government-guaranteed loans need to figure out how to participate. Those that are, need to scale capacity quickly by training staff to process applications.

Initiate Your Own Credit Forbearance and Modification Programs

There is no need to be constrained by government action or to wait for regulators to provide detailed guidance. In the US, banks have already received guidance from the OCC that “prudent efforts to modify the terms on existing loans for affected customers should not be subject to examiner criticism.” So, banks should proactively notify customers that they will do “the right thing” and adopt a highly flexible approach to payment schedules.

While payment holidays for mortgages are helpful, outside of North America and the UK renting your house is far more prevalent. Therefore, banks may also need to pay special attention to supporting the rental sector in two ways: short-term loans to pay rent, and an extension of payment holidays to “buy-to-let” mortgage holders. This will also ensure that economic support is not inadvertently skewed towards homeowners and those who are relatively well off.

Many banks and other lenders have already started to communicate these broad-based forbearance programs, typically suspending payments for a period of 90 to 120 days. Some of the leaders in this wave have been crowdlending platforms like October (with a presence in hard-hit markets like Spain, the Netherlands, Italy and France) which were ahead of the banks in asking their investors to approve a blanket three-month payment holiday.

But many lenders also have the ability to intervene in more targeted ways. Ideally, banks should be data-driven in their approach to this rapidly evolving credit crisis.

Clients – commercial as well as individual consumers – will not be equally impacted by this pandemic. It follows that lenders should be doing not only sectoral modelling but also individual customer cashflow modelling (particularly where they have transaction account information). These analyses can then be used to proactively reach out to customers with tailored, relevant solution proposals. For example, it will quickly become apparent which restaurants can move to a pick-up / delivery business



model, and what impact that will have on their income, versus those outlets that can't and whose revenue will disappear for the duration of the crisis. Likewise, auto lenders whose individual or commercial clients are using their vehicles or fleets for ride sharing, will know that revenue is going to decline at a precipitous rate and those borrowers will need more support than other customers.

The principal task of credit analytics should be to model the roll rate from stress to delinquency, to resolution and recovery, and then target interventions that will keep those roll rates as low as possible and help as many customers as possible avoid default. Banks have become very sophisticated at micro-targeting for marketing purposes – understanding the lifestyle and spending habits of the self-employed single professional musician versus the “married with kids” sports fanatic who owns their own business. This is an opportunity to use all that personalization expertise to craft highly targeted messages in the customer's language and tone of voice. Using a tailored approach will help cut through the noise. Many people will be overwhelmed by this crisis, so getting communication right and getting customers' attention is going to be critical.

Beyond getting interventions and messaging right, banks also need to proactively consider alternative lending structures, particularly if there is a way to convert cashflow-based lending into asset-based lending. A struggling restaurant may be housed in a family property that has been owned for generations, so now might be the time to consider a commercial mortgage to create cash reserves.

Asset finance companies with balance sheet capacity also need to be thinking about how they can support the industries they are involved in by lending against unpledged assets. While credit files and CRM systems will not have all the information needed to proactively shape these alternatives, good commercial RMs need to be given the license to be creative while still being prudent with respect to future credit risk. These RMs will also need immediate training and support to ensure they understand all the bank-specific and government-sponsored options that are available.

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Prepare for Losses

Regardless of how effective both government and bank-sponsored credit modification and forbearance programs prove to be, NPLs will undoubtedly rise in both the retail and commercial sectors. Banks need to increase their capacity to deal with rapidly increasing volumes of delinquent accounts. Forbearance programs may push this NPL surge out for 90 to 120 days, but there will be many businesses and consumers who, even after that period, will not be able to make their next payment.

This will also be the first credit crisis in which credit investment funds are the owners of large swathes of middle-market and commercial assets. We don't know how they will respond to a stressed payments situation such as this and their actions could be a cycle amplifier if they look to take quick write-downs and recover assets. Some of the first casualties of the crisis have been a number of commercial REITS in the US who have been unable to make margin calls and whose lenders have initiated asset sale and recovery procedures.

So, in addition to considering repayment holidays, now is the time to build capacity to deal with delinquent and defaulting loans. Staff should be trained not only to handle an increased volume of typical recovery procedures, but also to address customers' credit issues empathetically and constructively, taking full advantage of whatever bank-specific or government-sponsored loan modification and refinancing programs are in place. In this respect, augmenting staff with intelligent machines can be hugely helpful in boosting both productivity and the quality of customer engagement, but the priority needs to be an authentic, human, and sympathetic response that builds trust.



Commercial as well as individual clients will remember for a long time how they are treated during the next 6 to 12 months (see our new [Purpose-Driven Banking](#) research report on the impact of trust on growth). So, banks need to give very careful consideration to their approach to credit resolution, as contractual and legal requirements are only one element of the equation.

That being said, there will be areas where credit extensions and flexibility are not enough. In these sectors, where banks hold substantial prime creditor positions, they should immediately mobilize and stand up restructuring units to anticipate step-ins and find ways to implement “business hibernation” programs that will protect the value of physical security in what may well be a fire-sale market for many asset classes.

Where supply chains are tightly integrated, the impact may be amplified or passed on to the weakest link in the chain. It may therefore be necessary to re-purpose credit research capacity, reinforcing middle offices to analyze network impacts or commission analytics-as-a-service providers to map and identify potential points of failure before chain reactions begin to happen. In many cases, the extension of trade credit from the strongest to the weakest links in the supply chain may be the quickest and most effective way of injecting capital into the system. Banks need to be prepared to increase working capital lending to the strongest players to allow them to activate this type of credit network effect.

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Credit Extension

Many of your short-term actions should be focused on managing existing credit. But in the coming months there will also be a spike in demand for new credit facilities to bridge what everyone hopes will be a V-shaped economic downturn.

Again, a data-driven approach to new credit extension will be critical. As income dries up and checking-account balances start to dwindle, banks will need to support customers with smart lending options and working-capital support. It should go without saying that simply allowing customers to go into overdraft, triggering fees on top of new borrowing, should not be the default. In fact, many banks are introducing blanket fee prohibitions to prevent that happening.

A data-driven approach to new credit should proactively ask questions like:

- Can home equity be tapped via a credit line?
- Can customers borrow against retirement income pots or other investments without liquidating them at depressed market values?
- Can you provide advances against term savings products like CDs, or provide access to those funds without penalties?
- Are there commercial assets like equipment or vehicles that can be appropriate security for new borrowing?
- More broadly, are there other ways to smooth cashflow by taking a holistic view of the balance sheets of your individual and commercial customers?

In the US there are approximately 13,000 pawn shops – it's to them that many strapped consumers will be turning for short-term cash. While the banking industry isn't typically in the business of lending against jewelry and watches, it should nevertheless be creative about its lending criteria and the assets that can be pledged.



In the SME sector, if banks are not able or willing to provide the necessary credit, we believe other players may step in. Cash-rich platforms like Amazon have already been dipping their toe in the water with respect to working capital and supply chain credit. They have an abundance of the data mentioned above and could potentially see the opportunity to help their customers, in the process strengthening their position in working capital provision. Any large corporation that has an interest in the survival of a vibrant SME sector may also be incented to provide extended trade credit and other short-term support to sustain its customers, suppliers, and other ecosystem partners.

For individual customers, banks might consider partnering with other relevant players in an ecosystem that offers a holistic suite of services. Working with, for example, Age UK or the AARP in the US, they could take the lead in helping address vulnerable consumers' financial needs or serve as a utility partner within a larger, more diverse network whose purpose is aligned with that of the bank. In the commercial sector, the right partner may be trade associations or public sector economic development units trying to provide advice to their members on the availability of credit.

Finally, this crisis is likely to increase the attractiveness of credit facilities that have inbuilt flexibility and the option to take payment holidays without waiting for action from the lender. With the possibility that we will experience waves of COVID-19 over the next 12 to 18 months, we may see consumers and businesses again focusing far more on payment insurance (despite the PPI mis-selling issues in the UK) and payment term flexibility becoming a more attractive product feature.

A data-driven approach to new credit extension will be critical.

The Credit Upside

While the primary credit impact of this crisis will be negative, and the focus should correctly be on the issues highlighted above, there could also be opportunities for banks. With emergency cuts taking interest rates close to zero in many countries, businesses with secure incomes or consumers in steady employment could see this as a chance to refinance existing credit at historically low rates.

We have already seen a mini-refi boom in the US mortgage market, with 30-year rates briefly dipping below 3 percent. Data from our mortgage processing business suggests a 100 percent increase in new mortgage applications in March, with the majority being refis. This boom could have a long tail, because when rates drop, not everyone who is eligible applies right away.

The short-term challenge for many lenders is how to deal with the resulting surge in demand when also dealing with the other aspects of the crisis. We are already seeing rates go back up, partly to dampen demand that lenders are unable to process and partly because of concerns about both credit risk and the availability of funding for these loans. In a number of markets like the UK, tracker mortgage products have been suspended given emergency rate cuts.

A further challenge is that, while the application process can be digital, the back end of the lending process often still requires face-to-face interaction in many countries. So, if you were planning to move to a purely digital mortgage process, this is a great time to accelerate, as pure digital will be a competitive differentiator. More broadly, the ability to offer long-term fixed-rate lending to cushion short-term cashflow problems could be hugely attractive to customers who can offer appropriate security.



2 Revenue Compression

The second major short-term impact of COVID-19 on the retail and commercial banking industry will be revenue compression from multiple sources.

Declining NIMs

Emergency interest rate cuts to stimulate the economy may lead to net new lending, as in the mortgage example above, but will also compress banks' net interest margin in many markets. Stock market volatility may create a flight to safety to insured deposit accounts, but the pricing on these deposits needs to be addressed quickly to prevent the impact of falling rates from being amplified. Our partners at Nomis have plenty of suggestions for tackling the short-term challenges of deposit pricing in this market.

Payments Revenue

You should anticipate a short-term drop in payments revenues caused by the collapse in demand across sectors like retail, entertainment and travel. However, data from China indicates that while domestic demand certainly plummeted, a large share of expenditure moved to e-commerce platforms, as a result of which digital and online payment volumes spiked. A key driver of payments revenue is therefore likely to be a mix shift, with those markets that have less-developed e-commerce sectors being hardest hit.

What is clear is that, even though some domestic demand will move online, tourism revenues will evaporate. Chinese tourist spending has exceeded that of the US since 2013 and was \$300 billion last year out of a global total of \$1.5 trillion. With closed borders and little travel, much of this spend will disappear; due to local restrictions, only a small portion will reappear as domestic spend. This will certainly impact Chinese payment processors, but all major tourist economies will be affected. The total revenue impact is likely to be in the hundreds of billions of dollars, which at normal interchange rates could easily translate into a drop in payments revenue of more than \$10 billion from tourism alone.



Again, banks need to take a data-driven approach and – particularly in businesses like merchant acquiring – quickly identify those sectors where payment volumes will dry up. As indicated above, payments activity can also be an important factor in analyzing and forecasting credit stress.

Frankly, there isn't much that banks can do to mitigate an overall drop in payments volume other than try to actively manage fixed costs and capacity. What you can do, however, is work to make payments safer – for example, raise the payment limit for contactless cards to minimize physical interaction and provide education on provisioning cards into digital wallets that don't require physical interaction to make payments. Many European banks have also initiated broad-based prepaid card schemes to allow customers who primarily use cash to be able to transact online. A more aggressive approach to helping would be to target cashback rewards and other loyalty schemes to encourage spend. For example, raising cashback to 5 percent for all amounts spent at restaurants for the next couple of months would encourage the use of take-out and delivery options and help at least some of those businesses maintain revenue levels.

Other Revenue Impacts

While credit, payments, and NIM are likely to be the primary revenue impacts, no part of the bank will escape a widespread drop in demand that triggers a global recession. In wealth management, for example, fee income will decline not only because of the AUM drop associated with market volatility, but also because consumers' focus on short-term planning will minimize the opportunities for new product sales.

As economic activity slows and supply chains are disrupted, trade finance and cross-border payments will also decline and be disrupted (although a shift to domestic supply chains may increase capital requirements). This decline in cross-border activity will be driven by two factors: supply disruption due to affected countries not being able to manufacture and then export, as well as the anticipated drop in domestic demand.

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3 Customer Service and Advice Provision

The third major short-term impact of this pandemic will be rapid and potentially sustained changes in customers' servicing preferences.

Most banks will keep branches open as a vital service. However, customers are being told to minimize in-person interactions and stay home, so many will look to manage their financial life through apps, online banking, and greater reliance on their bank's contact center. How should banks react to this pivot? In addition to the observations and recommendations immediately below, take a look at our detailed COVID-19 report on [Responsive Customer Service in Times of Change](#).

Education and Training

Many people, like the elderly, don't use apps or online banking because they are intimidated by the technology. Now is the time to educate and support customers who have the capability to interact remotely. For those who haven't yet used digital channels, but have provided a cellphone number or email address, reach out and offer training on basic transaction banking. Also, use it as an opportunity to connect and talk to these clients, many of whom are the most vulnerable in the community.

To scale up this interaction, branch and call center staff will themselves need to be trained, but this can be done quickly at a basic level. This is one of those areas where the perfect shouldn't be the enemy of the good. Identify who is avoiding online or digital banking and start by helping them master basic transactions like checking a balance. Also, think about adding lots of inline assistance to apps and online banking to help customers navigate to less-used features that they may now need to access.

Reach out to those who haven't yet used digital channels and offer training on basic transaction banking.

Minimize Physical Infection Risks

For those customers who still need to visit a branch, consider special arrangements to isolate elderly and vulnerable customers so they can transact separately at a safe distance. While the “mobile banks” that once served rural areas have gone out of fashion, any bank that still has them in a garage somewhere should consider reinstating them to serve communities like those in sheltered living facilities, where it would be appreciated if the bank could come to the customer. Most regulators have provided relief for banks to close physical locations as necessary. We would suggest they continue to view the option to transact in-person as highly valuable for some customers and therefore should avoid wholesale closures if possible, although staffing levels can obviously be lower than normal. For customers who do want to do something in-person, a deflection strategy could be a dedicated call center that focuses on transactions by mail and provides prepaid express service.

While we expect a lot of payments volume to migrate to digital and online, we also expect the usual consumer response to increased risk: to stockpile cash. Banks therefore need to ensure that ATMs remain stocked – there is enough panic without a cash shortage. An aggressive disinfecting campaign would also help to reassure customers that ATMs are clean and safe to use.

Where cardless ATM transactions are an option, this should be encouraged, and proactive training provided to consumers and staff to make it more feasible. Banks should also consider waiving ATM fees to allow customers access to cash if they are struggling without income. Where a bank has a cash and coin pick-up service for small businesses, it should be expanded – with the option to switch to an on-demand Uber-

like service such as that used until recently by Idea Bank in Poland. Banks should also consider raising remote deposit limits in order to allow businesses and consumers to deposit larger-value checks remotely.

Personalize Advice to Consumers

Retail customers will drive a surge in demand for help and advice on both short-term cash management and re-planning their future as their family situation changes (here are two useful links to FinTech partner who have thought about how to personalize customer communication: [Personetics](#) and [Flybits](#)). The banking industry was already facing an advice shortfall that will be greatly amplified by this crisis. Investment in chatbot capabilities may look like the best way to provide advice at scale, but given the nature of this crisis, banks should prioritize live interactions wherever they can – including using common consumer apps like Facetime and WhatsApp video to enable real conversations. This is a time when customers need reassurance and someone to speak to, not an impersonal alert that tells them their upcoming utility bill is about to put them over the financial edge (although cashflow management and information will be critical as personal and corporate liquidity tightens).

This is one reason why we believe wholesale branch closure programs may be counter-productive – there may be many customers who need to sit down and talk about their situation (subject to safe social distancing), and finding a locked branch door may send a message that the bank is not there to support them in their time of need. It may also be an argument for turning off your IVR system and just making sure there are enough live people to answer the phones. Even if they don’t have all the answers, they can provide reassurance, log the issues, and create a personal connection.

Virtual SMERMs

Most commercial relationship managers can ramp up their interaction with customers using all the collaboration tools available to the bank. But they can also help clients figure out how they can use those tools themselves to stay in touch with their own customers. Social distancing need not exclude intensive conversations, even if they are not in-person. For commercial banking, these conversations need to be informed by sector-specific insights on how to survive COVID-19 plus a 12-month recession. This type of advisory support could change the client's relationship with the bank and secure trusted-advisor status. While the best RMs will do this naturally, the typical commercial RM will need training and technology support to switch to a predominantly virtual model.

Accelerate Digital Sales and Service

Restrictions on physical contact require banks to quickly compile an inventory of the processes that require in-person interaction, and a plan to move them online as soon as possible. Can e-signature or digital ID processes be quickly deployed? Where is the bank still forcing a level of in-person interaction that may not be appropriate for the next few months? What transactions can be moved onto conversational platforms like Alexa or WhatsApp?

More broadly, what does your 2020 digital migration roadmap for sales and service look like, and can those initiatives be accelerated to deploy capabilities rapidly without incurring undue cyber or AML/KYC risks? That being said, criminals have already mobilized to exploit weaknesses and target vulnerable customers with scams, so while banks are trying to provide more flexible customer access they also need to be ramping up their cyber-security and anti-fraud teams. The risks and rewards need to be balanced, but we think there are effective tools that allow you to expand digital access safely and quickly.

While banks are providing more flexible customer access they also need to ramp up their cyber-security and anti-fraud teams.

4 Operating Model Adjustments, Cost Control, and Innovation

Because of the cumulative impact of the factors discussed above, there will inevitably be a misalignment of short-term costs and revenues in the banking sector for at least the next few quarters. Our economic modelling suggests a range of impact from a 50 to 100 percent drop in PBT, using assumptions about rising risk costs and revenue compression. These are global numbers, but clearly the starting point will make a difference – robust bank profitability in markets like Canada and the US (where the ROE of the biggest banks in FY2019 averaged 12.2 percent) provide more of a cushion than the already fragile banking economics in many European countries (average ROE 6.2 percent).

What is clear is that the demands of the next four to six months will not be what you expected six weeks ago, and banks should respond with as much flexibility as possible.

For a start, every bank needs to think about the tasks assigned to its “war room”. COVID-19 crisis management needs to deal not only with business continuity issues but also the panoply of business issues outlined above. There needs to be tight coordination of actions across investments, regulators, customer groups, employees, trade associations, and the many other stakeholders.

As a matter of urgency, banks need to review and prioritize project expenditures and assess what can be slowed / stopped and what can

be redirected to initiatives with short-term impact, such as improving digital servicing capabilities or building a loan modification workflow for call centers. Our experience is that virtual call centers can be stood up in days to better utilize staff who may be working at home – and you may need those staff members to scale up basic customer advice.

We expect deadlines to be pushed out on many regulatory programs. This may free up resources and capabilities to work on other things, and banks should be proactive in their conversations with regulators about what is possible.

Banks also need to work both sides of this problem. They should certainly look after their customers, but they also need to be flexible with vendors and suppliers in terms of service provision and contract terms (and yes, we do include Accenture in that statement). While limiting virus contagion is the number one priority, banks also have an important role to play in preventing economic contagion. That covers not only how they treat their customers, but also how they treat those who have the banks themselves as their customers. For example, this may be an opportunity to look at procurement processes and ask whether there is a way to shift more spend to local SMEs that may be struggling, rather than just optimizing spend among major vendors.

Having indicated what it will take for banks to respond in the short-term, they also need to prepare for multiple, rapid cycles of demand / supply realignment. For example, in China, where infection rates peaked at over 3,800 a day in mid-February, just four weeks later the infection rate has dropped to below 20 a day and factories are rapidly resuming production. Published numbers suggest workflow traffic and core consumption are back to 80 to 90 percent of normal levels and production resumption rates are approximately 95 percent for big companies and 60 percent for smaller companies.*

In the West we should be planning for this to be a three- to six-month event, but China shows that things could bounce back more quickly in the short term, even while the risk of a resurgence in infections during the next Northern Hemisphere winter remains a real concern. This is a situation where it makes sense to plan for the worst while hoping for the best.

The other implication of the uncertain duration is the need to minimize wasting money on disposable responses. A lesson from the last financial crisis is that many banks put rows of people in warehouses to sort out compliance issues but did not build institutional muscle. In contrast, the best banks invested in technology and automation solutions that had long-run benefits.

As you think about your operating model response to this crisis, we believe you should act quickly yet resist the natural impulse to only think short-term. It is important that you solve issues with one eye on the future. This crisis will accelerate many existing trends, like the shift to digital sales, so there can be long-term value in developing short-term mitigants.

Another recommendation is therefore that you adopt the design principle of investing in things that will outlive the virus. As mentioned above, the analytics required to support targeted credit interventions could be pivoted to support “segment of one” cross-selling in sunnier times. If handled properly, the pivot to remote working can be sustained beyond the crisis, creating a workforce transformation that many banks have talked about, but few have followed through on. Our [Elastic Digital Workplace](#) report offers a roadmap and practical recommendations to embark on and embed this change.

Finally, this is a great opportunity to test the efficacy of new advice propositions, to understand what works and what doesn’t in an environment where customers are likely to be forgiving of experimentation. So, don’t be snow blind in this crisis – try to design interventions and initiatives that have long-term value.

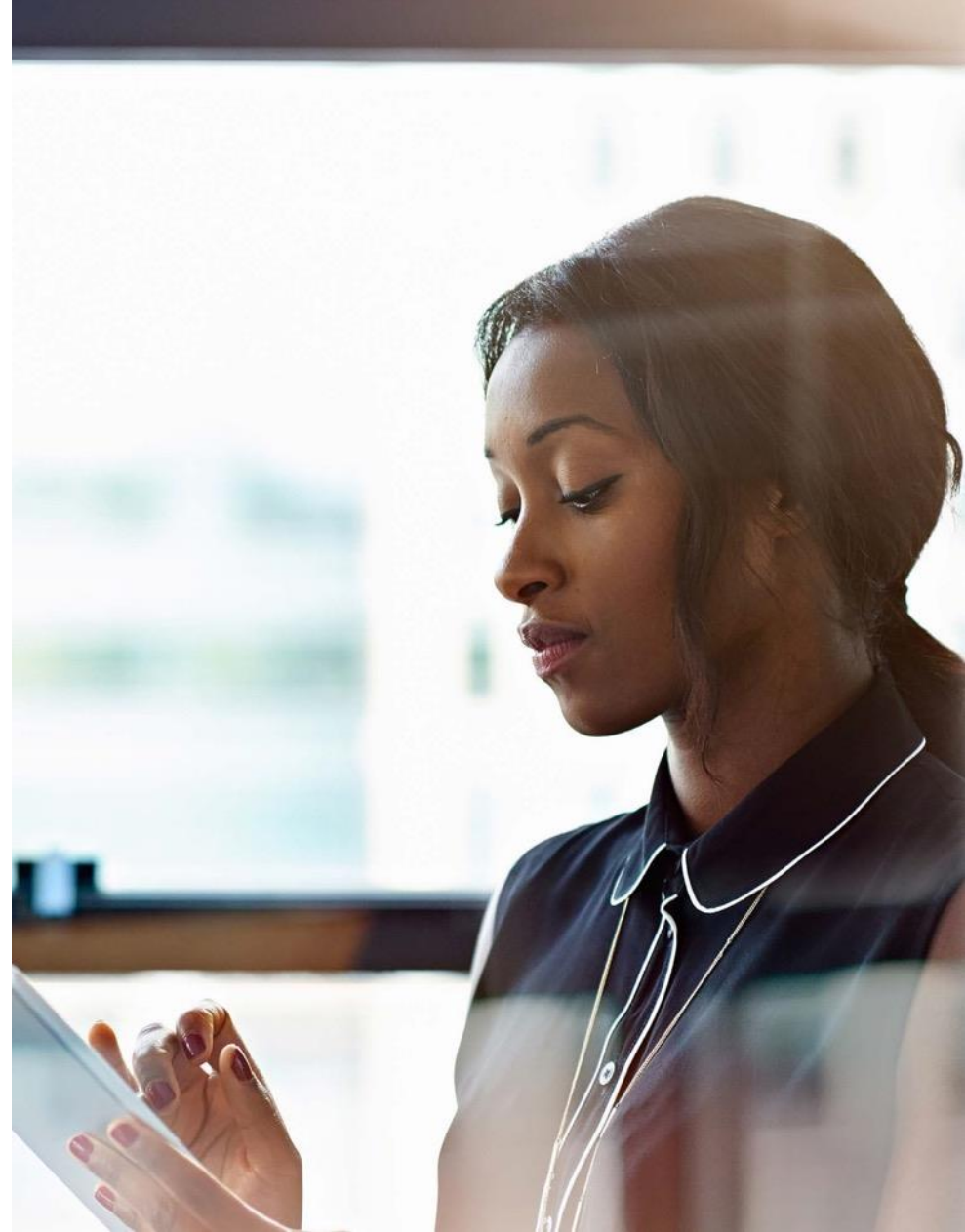
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Longer-term scenarios will provide valuable lessons for banks

The sections above cover what we consider the short-term issues and priorities for the retail and commercial banking industry. What the medium-term impacts of the COVID-19 pandemic will be on the sector will depend very much on how the industry itself and governments react over the next few months.

The worst-case scenario could be a material credit crisis with high levels of charge-offs and sustained damage to the underlying economic infrastructure in many countries that will take years to recover from. Yes, the coffee shop that closes tomorrow could soon be replaced by a new coffee shop when demand returns, and it could hire the same baristas, but that type of service sector reset comes with material transition costs.

This worst-case scenario may also lead to medium-term ripple effects, all of which could limit GDP growth even when the current crisis is well past. If credit losses spiral, this scenario might also severely undermine the banking sector, leading to the types of rescues and rapid consolidation we saw in 2008. While it is too early to plan for these contingencies, if the crisis deepens and there is a negative reinforcing economic cycle, the strongest banks should start preparing to be part of industry-wide restructuring – as they were a decade ago.

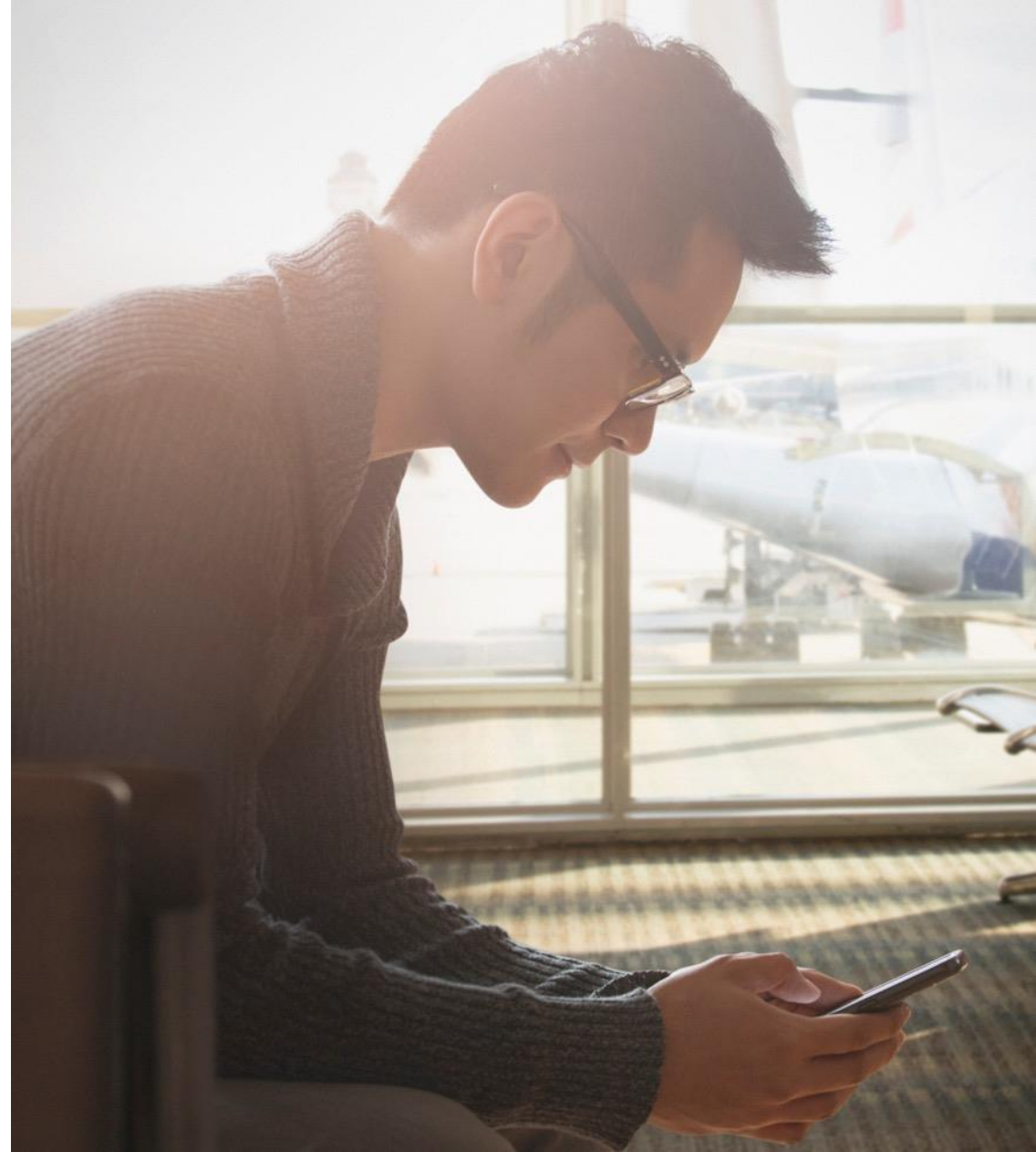


A more optimistic take is that the public sector and the banks work together to put the most vulnerable sectors of the economy into suspended animation for a period, slowing activity and expenditure but keeping businesses viable until demand turns up.

The mirror image, on the consumer side, is ensuring that everyone can meet their basic requirements, like feeding themselves, while slowing the metabolism of any credit crisis that could emerge as a result of them falling behind on their payments. The attraction of cryogenic freezing is that the person or business can have their metabolism slowed but be economically resuscitated at some point in the future. When things begin to turn positive, then both governments and banks can apply the defibrillator paddles and provide another jolt of stimulus.

The likely outcome is somewhere in between: banks will be subjected to a second half of 2020 in which NPLs become a major issue, revenue growth disappears, profit drops by 50 to 100 percent, and costs need to be right-sized in a smart and forward-looking manner. In this scenario, banks should be ready to communicate to their shareholders that short-term profit considerations need to take second place to the sector playing a role in stabilizing the global economy and setting a foundation for future growth. If credit losses can be controlled and we manage to avoid a 2008-like liquidity crisis, the banking sector should be able to weather this storm and use the capital buffers that have been built up over the last decade to absorb the losses.

Product companies have already learned hard lessons about location strategy and supply chain resilience in the face of this pandemic. There will be similar lessons to be learned by banks about their location strategy. Having a captive in Manila may have been a good cost reduction strategy, but if none of the employees there have laptops or high-speed internet at home, remote working may not be a viable option.



We suspect that once the dust settles on this crisis, many banks will have a new risk lens to apply to their offshoring and outsourcing strategies that may put more emphasis on resilience and flexibility and less on just lowering costs. This crisis will also tell us a lot about the human networks that are critical to banks' operational resilience, and how well those networks perform when participants are remote and many are simultaneously ill.

But we will wait until we are on the other side of the pandemic wave before dealing with these and other issues, such as whether COVID-19 was a boon or a crisis for FinTechs, whether banks regained lost trust by being exemplary corporate citizens in a time of need, and whether the world developed new savings habits as a consequence of not being able to visit the pub for a few months.

In the meantime, we hope our deep dive into the implications of COVID-19 for the retail and commercial banking sector has been useful, and that you found some nugget of insight in these pages. We have consolidated many of the implications into a checklist that summarizes some of things we think you should be considering. And don't forget to take a look at our cross-industry reports on meeting the challenges of leadership, customer service and remote working in the midst of a crisis.

Stay well, and over the next few months, let's collectively show the world what the global banking industry can offer on its best day.

Alan McIntyre

Accenture Global Banking Leader on behalf of the entire Accenture Banking Practice.

**Banks should tell
their shareholders
that short-term
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A COVID-19 checklist

Practical short-term actions that look beyond business continuity planning

Credit Management: Existing Facilities

- Broadcast payment holiday programs to all existing credit customers to be compliant with all government mandates.
- Decide how broadly payment holidays should be extended beyond mandates and to which borrowers and asset classes. Pay attention to ripple-through effects, like inability to pay rent distressing multi-family CRE lending and small-business closures impacting CRE. Err on the side of being helpful – interest and principal payments from holidays will be capitalized and not written off.
- Don't let the perfect be the enemy of the good. Communicate first and then work through the operational implications including modifications to loan servicing systems, legal amendment of terms, flow-through to credit scores, etc.
- Identify staff with experience of previous loan modification programs and get them working on processes and training materials for modification programs across multiple asset classes.
- Stand up a specialist analytics unit to model roll-rate projections beyond payment holidays using all available internal and external information to guide targeted interventions. Redeploy marketing and other analytics staff to focus on credit management. Get smart quickly about the likely differential impact and create industry / sector pods to do deep dives and develop creative mitigation tactics.



- Use analytics to develop personalized communication strategies that range from “checking in”-type messages to all customers, to “we know you’re in crisis, this is how we can help” for the most severely affected.
- Develop product-specific migration strategies and decision trees that can help consumer and commercial advisors navigate to the right solutions, help turn short-term cashflow credit into lower-risk longer-term secured debt, including liberating cash from under-leveraged assets like unmortgaged properties.
- Get creative about helping businesses generate income that can service debt when they’re unable to provide services, e.g. pulling their revenue streams forward by helping them establish a gift card or voucher program that encourages customers to prepay for future services when they reopen.
- Set up a central credit risk management team to track and manage changes in the asset portfolio and understand capital and credit risk implications. Banks need to be aggressive in helping clients, but they must also think about their own medium-term solvency. There needs to be a comprehensive understanding of the capacity to help within loosened but still controlling risk parameters.
- Maintain an open line to the regulators to understand how they want you to react and what the implications are of regulatory programs like IFRS and CECL. But be tolerant – they won’t have all the answers and will also be reacting in real time.

Credit Management: New Facilities

- Immediately scale up operational capacity to participate in government-supported loan guarantee programs. Quickly train front-line staff to make them aware of these options and broadcast available information to qualified borrowers.
- If you are not set up to participate in these programs, ask regulators how you can help and if there is a way to get accredited and prepared quickly. If that isn’t possible, consider partnering with banks that can utilize these schemes to maximize the flow of credit.
- Understand the ability to create trade credit capacity by allowing suppliers to extend terms to their customers and increase their own working capital needs and borrowing limits. This could entail working with a local plumbing wholesaler or working with Amazon or eBay.
- Get creative about sources of secured credit that can be tapped to increase the flow of capital to consumers and businesses while managing credit risk. Examples include borrowing against retirement plans, life insurance policies, and college funds rather than having to sell securities in a down market.
- Communicate creative credit ideas through trade associations and trusted intermediaries like membership groups e.g. AARP.
- Don’t be 100 percent crisis focused. Understand that for some people, historically low interest rates are an opportunity to refinance even if they are not under financial stress. Create the capacity to deal with what may be one of the few bright spots in an otherwise challenging landscape.
- Try to move to 100 percent digital lending as quickly as possible, taking advantage of digital ID and signature technology to minimize in-person interactions. But also ramp up cyber and anti-fraud efforts to prevent your organization from being adversely selected by criminals.

Credit Management: Planning for Losses

- Build the capacity to handle a spike in delinquencies 90 to 120 days out when payment holidays expire, or in 30 days for any asset class not covered by payment holidays. Train for empathy and engagement as well as for typical credit resolution processes.
- Use AI and RPA to help scale capacity but emphasize human interaction. Call and speak rather than send electronic or printed messages.
- Stand up sector-specific workout and recovery units with a focus on the hardest-hit sectors like travel, entertainment, retail and hospitality. Create specialist asset management pods to develop “hibernation” strategies that can enable bounce-back. One example is temporary ownership of assets with pre-determined credit reactivation terms to transfer ownership back to current business owners.
- Deploy credit analytics expertise to understand chain-reaction effects and proactively get ahead of downstream implications.

Deposits and Transaction Accounts

- Assess your pricing and marketing strategies for deposit funding in a volatile interest rate environment. There will be a flight to safety from the markets, but you also don't want to lock in unnecessarily high funding costs.
- Allow penalty-free access to time deposits to allow consumers and businesses to tap all forms of cash reserves that they have.
- Prevent customers going into overdraft and incurring fees by turning all overdrawn accounts into unsecured lines of credit.
- Increase limits for remote deposits.



Transaction Banking and Customer Service

- Provide online, telephone, video and in-person training on how to use digital and online tools and transaction options. Proactively reach out to those who have the capacity to use these channels but haven't so far. Keep it to the basics, but get customers enabled.
- Consider turning off your IVRs and standing up massive phone banks to ensure that everyone gets to talk to a live human being and have a point of connection. Even if your agents can't solve the problem, they can log, reassure and follow up.
- Highlight and guide customers to online and digital capabilities that are underutilized. Use "tip of the day"-type campaigns and make them funny and engaging if possible.
- Reduce branch capacity, but provide special arrangements for vulnerable groups to transact and ensure that everyone who needs to access a branch can do so.
- Utilize any "mobile banking" capabilities you have to take banking services to communities that can't leave home with appropriate health protections in place.
- Create dedicated call center capacity for customers who would normally transact in-person and use mail and courier services to exchange documents as needed.
- Repurpose cash and coin pickup services to serve a broader set of banking needs to prevent customers having to go to branches, and introduce "kerb-side" pickup protocols.
- Make sure ATMs are well stocked with cash and regularly disinfected or provide disposable gloves in each location. Highlight and encourage cardless transaction capabilities.

Payments

- Raise the limits on contactless payments.
- Remove any fees associated with digital payments.
- Distribute prepaid cards to cash-dependent customers to allow them to transact online.
- Consider raising cashback and rewards to incent consumers to support vulnerable businesses like local restaurants.
- Model daily changes in payments volumes as an input to credit risk analysis.

Advice Provision and New Sales

- Prioritize in-person conversations (phone or video) over chatbots and impersonal interactions. In times of crisis, people need to talk and explain what is happening to them; they don't appreciate being treated as a number. At-scale virtual call centers can be set up in a matter of days to provide basic advice.
- Provide advisors with personalized scripts and guidance that reacts to individuals' circumstances, and arm them with the full range of options.
- Provide commercial RMs with sector-specific resources that show an understanding of how the crisis will impact each type of business. This should include sharing best practices with them on how other clients like them are handling the crisis. Banks can facilitate information sharing between affected businesses.
- Accelerate digital sales programs and be willing to experiment with pure digital processes within acceptable risk limits.
- Change all your incentive plans so that no one thinks your number one priority is to sell.

Broader Business Management

- Adopt an agile approach to crisis management. First get the right messages to customers, then work back through the operational process implications and enablement challenges.
- Establish a full "war room" that coordinates all aspects of your crisis response.
- Make it part of the "war room" mandate to prevent disposable spend. Challenge how short-term spend can generate longer-term benefit for the bank. Try to invest in capabilities that will outlive the virus, but don't let that be an excuse for not acting fast.
- Quickly review all project spend and reprioritize staff and expense towards short-term needs. There will be areas of the bank where activity drops; get under-utilized staff on the field doing something useful and supporting the teams that are going to be overwhelmed.
- Develop a game plan for dealing with your suppliers and vendors and for being a great corporate citizen. Don't transmit economic contagion. Instead, as a well-capitalized institution, try to dampen and absorb it. Also try to redirect your spend towards local business that are going to need it to survive, including those within your own lending portfolios. If your crisis response team is working all night, buy them pizzas from the local Italian restaurant that is doing take-out only.
- Model and communicate to all stakeholders what the likely impact of the crisis will be on the bank's economics. Emphasize social good and banks as stabilizers, while reassuring stakeholders about solvency and risk management.
- Develop scenarios and plans for a quick bounce-back like we are beginning to see in China, Singapore and some other Far East countries.

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