COVID-19: LESSONS FROM ASIA AND ITALY

What the financial services industry can learn from other geographies

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The new coronavirus 2019 (COVID-19) pandemic is fast moving, and predicting just how it will develop in any jurisdiction is nearly impossible. That said, the actions taken by governments and the response of financial-services firms in each geography have followed a similar path. We asked our teams in Asia and Italy if there are lessons that can be learned about how the financial services sector responded. Here’s what they said.
BCP GAME PLANS MOSTLY WORKED ...

Financial services firms have detailed business continuity planning (BCP) game plans, with clear playbooks for what to do in a given scenario. While managing the situation live is challenging, placing enormous stress on the teams tasked with delivering on the BCP, the plans allowed for a rapid, well-organized response.

In practice, we’ve seen three distinct BCP models emerge. The majority of banks have divided their workforce into multiple teams, placing them in two or three locations, with some team members working from home. Other financial-services firms, lacking in additional space, have managed to be creative, borrowing space from firms with excess capacity so as to be able to run an A and B team model. And finally, some firms that lack multiple locations (and are unable to borrow space) have alternated teams, with one team working from home one week, and on-site the next week; this is then followed by a deep clean of the workplace during the weekend.

Many firms were pleasantly surprised at how effective the new technologies have been in supporting work remotely, in a way that would not have been possible even five years ago. There were some noticeable watch points, such as employees without laptops, spikes in VPN connectivity, and bandwidth challenges. The most notable issue was with trading floors, which while functional found it challenging to run over VPN and in places without high-speed connectivity (particularly if traders were working from home). There was also a concern around conduct risk as the usual processes and procedures are disrupted due to remote working.

... UNTIL THE SCHOOLS CLOSED DOWN

A bigger issue came up as governments began shutting down schools. For working parents, the school system to a degree serves as daycare for their children. Parents began panicking over how to care for their kids at home now that schools were shut down. It meant working from home was mandatory for at least one family member, whose time, split between watching children and doing work, was less productive. In China and Hongkong, this was less of an issue as many families had help on hand from other family members or nannies. But in Italy, it is proving to be a challenge to work remotely and maintain productivity.

Beyond BCP planning, school closures led to disruption across industries where working from home wasn’t an option, a fact that will have a longer-term impact on the economy.
CLIENT SERVICE HAS NOT SUFFERED TO DATE

While the volume of business has fallen significantly, the ability to serve clients has not been dramatically affected. This is due to a falloff in both the demand and supply sides, which are operating with less capacity.

The three banking channels—branch, telephone, and digital—have each behaved differently. We find in branch banking channel that people are actively avoiding public places such as bank branches. And, while we currently lack data to support this observation, the anecdotal evidence points to a plummet in demand for branch services.

That said, the three geographies differ on the impact COVID-19 has had on bank branches. In China, branch client services is not critical, given that the government has restricted free movement by people and the fact that the market is highly digitalized, with branch usage low. In Hongkong, however, where banking is more heavily branch-based, client services proved a challenge, with some branches shutting, although many remained open. In Italy there's been a massive reduction in demand, and many are operating a system where only one client at a time is allowed in the branch which is working well for now.

In telephone banking, the demand for call centers has held steady. But call centers represent a pressure point: Given their setup, call centers are prone to contagion, as people are in close proximity to one another. In Asia, there have been a few large-scale outbreaks in call centers, which have caused temporary spikes in call times and poor client service. Governments in Asia are considering temporarily shutting down private-sector call centres, but have made no move as of yet. Should they act, however, this will have a huge impact on client service. In Italy some banks have shifted to managing all call centres from remote with employees working from home. Others have adopted a model of splitting the workforce, operating from back up facilities or at reduced capacity to allow greater distance between employees.

In digital banking, client services have held up well and there's been an uptick in customer acceptance; but the resiliency of the digital channel is a concern and will need to be sorted out before digital becomes a major channel for clients to connect with their bank.
BASIC INFORMATION ON TRAVEL HISTORY AND NATIONALITY IS CRITICAL

This was especially true in China, where there was the added challenge of the Chinese New Year. Italy wasn’t helped by the European half-term holidays, which meant many families were travelling during the weeks prior to the outbreak of COVID-19. As a result, firms had to scramble to find out who had been where. Acting early on basic information regarding travel history and nationality will help as the pandemic escalates.

FINANCIAL IMPACTS ARE STILL WORKING THEIR WAY THROUGH THE SYSTEM

Given the suddenness and speed with which COVID-19 struck, we have not yet had enough time to monitor and assess actual credit quality migration. But the financial impact is a big concern for banks across Asia. In the corporate segment, there are obvious pressure points, such as the travel and airlines industries. But it is understood that there will likely be repercussions across the economy, as demand for goods and services has massively reduced. These impacts have yet to show up as non-performing loans (NPLs), as firms are still running down their working capital and accessing overdraft facilities to stay afloat.

The view from Italy is that large parts of the service industry (tourism and retail) are rapidly going to zero revenues (people who do not move, do not buy). These will restart once the worst of the wave of contagion passes, but only if the capacity to spend is maintained through the crisis. If demand takes a permanent hit due to layoffs and business closures—which is likely should the pandemic continue—then a macro demand-driven crisis will likely unfold.
MENTAL HEALTH SHOULD BE TOP OF THE AGENDA

Morale is a major issue, and it is critical for firms to support staff to stay physically and mentally healthy.

Essentially, the office for most of us serves as “our home away from home,” a place not only where we work but also where our network of friends can be found. Not having that informal opportunity to chat has left many feeling isolated. As one of our own colleagues in Hongkong said when she finally was allowed back into the office after 14 days: “I never thought I would miss the office this much. It feels like I’m coming home.” Sadly, we’ve also had a teams trapped for much longer (in Wuhan, in one case, and Taipei in the other), and that constant sense of being trapped is really tough to deal with – especially when all anyone talks about is COVID-19.

Here’s what we have found that helps: Social networks such as WeChat have been useful (we pulled together a comic about working from home, which we released on our Oliver Wyman WeChat site). Obviously, lots of communication over the phone is helpful – especially simple things like project management, which becomes harder working remotely and calls for much more discipline than if in person. Doing that properly has limited the frustration somewhat.

THERE MAY BE SOME POSITIVES

Our colleagues in the most-impacted geographies noted that there are some positives to take away from this experience. This enforced experience is accelerating the transition to digital and smart working. You save a lot of time (commuting) and reduce expenses on travel/food at work, and reduce pollution. It could be conducive to a much better world, where many economic paradigms will change profoundly.