

# THE POST-COVID OPPORTUNITY FOR BANKS



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With more than 50 percent of the world in lockdown of various forms, a nosedive in global trade, and a forecast 3.8 percent decline in GDP, the COVID-19 pandemic has brought an unprecedented halt to normal life. This has led to fundamental changes in behaviour both externally in terms of customer activity, and internally in how firms are able to engage and operate. These changes are here to stay across three dimensions of activity, and firms need to thoughtfully adapt in order to thrive.

## 1. CUSTOMER BEHAVIOUR

While the trend is not new, the pandemic has acted as an accelerator for digital adoption.

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**“The crisis has amplified trends that were already underway. Clients we wanted to get onto digital channels have now seen the benefits of this. We hope this will continue.”**

*Head of Retail Banking, EU based bank*”

A large spike in digital channel utilization during the COVID-19 pandemic has been observed across banks and markets and many expect increased usage to persist. Following lockdown announcements, one of the leading SEA banks saw 10,000 new customer account applications through the mobile banking app in a period of three days. Another saw more than 100 million more digital banking transactions as compared to the same period in 2019, and a third saw a more than a 200 percent growth in online investment accounts. There has also been a sharp growth in digital payments. In mature Asian markets, over 100 percent growth in digital payment usage has been observed, with e-commerce transaction value rising 40 percent. In emerging Asia, there was 260 percent growth across two real-time electronic payment systems in the Philippines. Conversely cash usage has declined, with ATM transactions falling as much as 60 percent in some markets.

## 2. WAYS OF ENGAGING

**“Amazingly our RMs have been 30 percent more effective, they save travel time between meetings and calls are shorter than in person coffees and meals.”**

*Head of Corporate banking, EM bank*

Engagement between banks and their customers has also changed fundamentally. Previously suggestions of video conference Relationship Manager meetings would have been met with strong resistance on both sides. However, forced to move to digital modes of communication, by lockdowns in many markets, outcomes have been largely positive. Many banks have found that engagement between Relationship Managers, sales teams and clients have increased as compared to pre-COVID with coverage teams’ client servicing load also increasing for some banks. Without lengthy commutes, particularly in some Asian markets, Relationship Manager efficiency has increased by up to 30 to 40 percent. There have also been a couple instances of investor events hosted virtually with more than 5000 attendees, almost double the attendance of a standard in-person event, with even more positive feedback received when compared to prior events. Of course, the challenge is whether the higher levels of engagement would work in a ‘virtual for longer’ environment, with fewer ‘organic’ conversations, and how relationships can be built with new customers through virtual modes.

## 3. WAYS OF WORKING

Pre-crisis, the banking world had a general perception that remote working would lead to lower productivity, unable to hold workers to account using the traditional ‘clocking in/out’ mechanisms. With 40 to 80 percent of bank employees working from home during lockdowns, these strongly held notions have been put to the test. What has emerged is a demonstration that remote working is just as productive, if not more productive, given other savings (time spent commuting, for example) than working from an office. However, a high asymmetry of productivity has been observed. Many are reporting skews where up to 70 percent of the output is coming from as few as 20 or 30 percent of the employees. This may be partially a result of the shift to remote, however it is more likely that the current environment is just exposing the large productivity skews that already existed in the system. Whilst highly dependent on the country and therefore the typical size of homes, many are also valuing the flexibility. A leading Australian bank found, in surveying their employees that had been working from home, that 80 percent of them wanted to maintain the greater flexibility it affords. Many of the leading banks in SEA are also now in the process of surveying their employees.

Another important efficiency gain has come from the decentralization and often short-circuiting of decision making. Many banks have found that the new ways of organizing and managing teams have enabled them to better manage spans of control and layers to improve efficiencies during COVID-19. Others have reported a huge increase in speed of transformations, “tasks that would take six months to do are now getting done in two weeks.” This is a result of several factors, but one key component is the short-circuiting of decision making. For example, a large global bank had 72 different approval gates and committees to sign-off on a new product pre-COVID and this has now been reduced to seven.

Many institutions are seeing these shifts as an opportunity for lasting and profound change.

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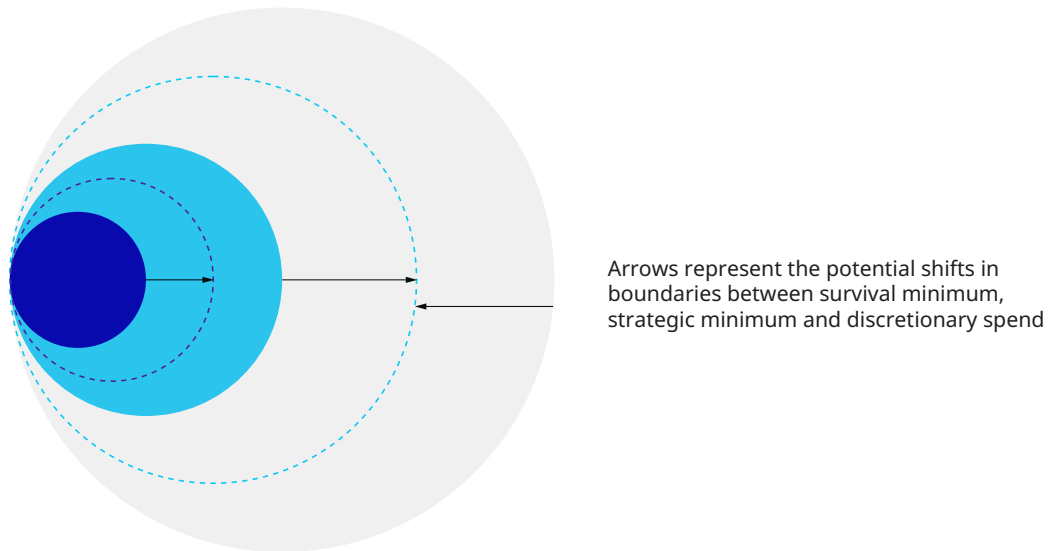
**“We have realized that 75 percent of the output comes from 25 percent of the people, and tasks that would take six months to do are now getting done in two weeks ... This really reinforced to me that this is not about ‘Returning to Work’ and settling back into the comfortable former ways. Radical change is available that may only become possible at times like these.”**

*Chief Operating Officer, Global bank*

A significant change in the balance of activities necessary to survive and differentiate is expected to ensue, providing opportunity to re-establish the survival and strategic minimum. In some sense the real ‘Survival Minimum’ has been practically tested during lockdowns with initiation of Business Continuity Measures, for example, shutting offices and branches, trimming service hours, reducing products and features, and technology constraints such as VPN outages. In other words, a real life Zero Basing exercise has been carried out. A new ‘Strategic Minimum’ is also emerging, challenging many aspects of the organization that were previously considered essential such as large real estate facilities.

### Exhibit 1: Defining a the strategic minimum in the 'New Normal'

Re-establish the strategic minimum using zero-basing methodology in the 'New Normal'

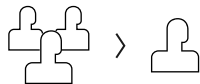


#### Survival Minimum

What is necessary to ensure required functionality?

Has the crisis re-defined what our survival minimum really is?

##### Team size



"Before this, I thought everything my function did was critical. We're running at 30 percent capacity right now and the institution is fine. I need to revisit my views on critical activities once this is over."

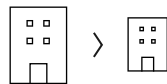
*Chief Risk Officer, UK Financial institution*

#### Strategic Minimum

What is critical to implementing strategic objectives?

Has the crisis re-defined what our strategic minimum really is?

##### Real estate facility



"Putting 7,000 people in a building may be thing of the past ... there will be a long-term adjustment in how we think about our location strategy, and will not revert fully to its pre-January working habits."

*Chief Executive Officer, Global bank*

#### Discretionary

What is unnecessary internal demand/non-value add activities?

Are there additional previously discretionary activities that are now part of the strategic minimum?

##### Cyber risk spend

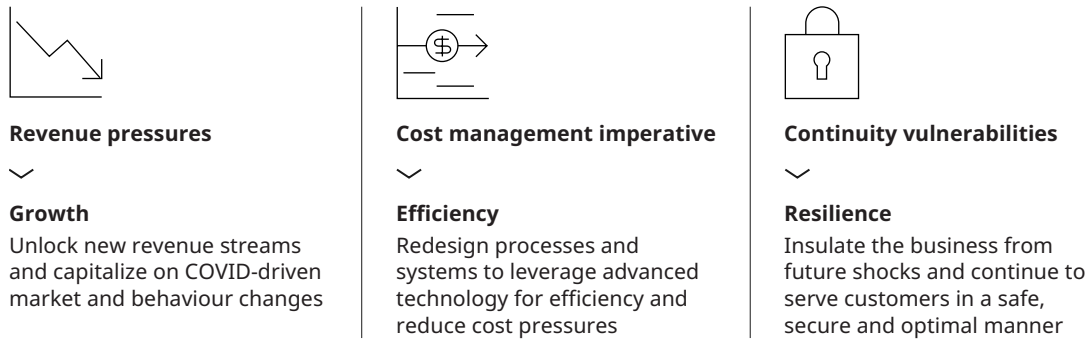


Source: Oliver Wyman analysis

Whilst there are opportunities emerging, the crisis is also making change mandatory. Contracting economic activity, growing loan provisions, and expense increases for additional customer support and resilience requirements are already taking a toll on bottom lines. These headwinds exacerbate the impact of existing commercial challenges for financial institutions, given low interest rates and stiffer competition from market disruptors. The huge pressure placed on profitability is driving both objectives around growth and efficiency. Banks are looking to unlock new revenue streams and capitalize on the COVID-19 driven market and behavioural

changes. Profitability pressures are also bringing about inevitable cost management imperative. Whilst banks in Europe and North America have been undertaking large cost management programs since the Global Financial Crisis (GFC), the banks in SEA have been still enjoying double digit Returns on Equity (RoEs). However, they too were starting to face Net Interest Margin (NIM) and RoE contraction and beginning major cost management and branch reduction exercises. Whilst banks are currently facing substantial pressure to preserve jobs, given the observations around productivity and profitability pressures, a wave of cost programs is inevitable. The crisis has also revealed several vulnerabilities in the operating model, ranging from increased cyber-attacks, stability of technical architecture and increased transactions volumes, to operational constraints from off-shore centres ill-equipped to shift to remote working. Taking all these factors into consideration, objectives around growth, efficiency and resilience will be at the heart of rethinking a ‘New Normal.’







**Exhibit 2: Critical post-COVID business objectives**



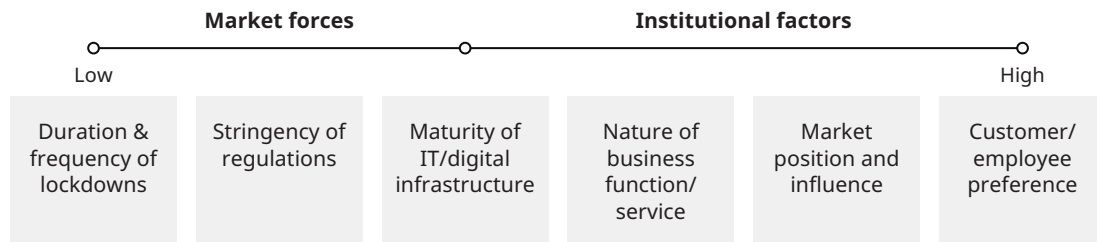
Source: Oliver Wyman analysis

It is unclear how permanent all the changes will be. However most believe that returning to the ‘old normal’ is no longer an option. Furthermore, for many of the changes there will be a window of opportunity that will close upon return to offices, unless leaders take a proactive stance to ensure permanency. Examples include many of the productivity gains, improved speed of delivery and decentralized decision making. We urge organizations to first start thinking through a set of plausible scenarios to feed into their strategic planning, and then proactively start to examine the changes required to thrive in an environment of persistently lower rates, growth and margins.

### Exhibit 3: Continuum of post-COVID behavioral scenario

	The Old Normal	The New Normal
Customer behavior	 <p>Digitally-active customers bank <b>online</b>, relying on physical channels only for more complex transactions. <b>Others still visit branches for most transactions</b></p>	 <p>More customer segments adopt <b>digital channels</b> for basic transactions. Digitally-active customers are <b>able to carry out complex transactions online</b></p>
Ways of engaging	 <p><b>Broad branch network</b>; Relationship management transitioning to online but is done primarily via <b>high-touch interactions for HNWI/UHNWIs, SME &amp; corporate segment</b></p>	 <p>Significant <b>reduction in branch capacity</b>. More <b>digitally-led meetings</b> across segments. Greater use of digital tools and analytics to empower RMs in personalising recommendations</p>
Ways of working	 <p>Most staff <b>work on premises</b>, hosting in-person events and <b>travelling for meetings</b></p>	 <p>Significant increase in <b>remote working arrangements</b> and use of VC/other remote collaboration tools; <b>reduced international travel</b></p>

Magnitude and permanency of “in-crisis” changes dependent on:



Source: Oliver Wyman analysis

### The New Normal

Defining a ‘New Normal’ for business operations has implications across strategy, operating model and organizational design. Whilst many responses are not new (see Exhibit 4 for full list of initiatives), for example in technology around process digitization, or adoption of more scalable, front-to-back architecture, the level of management attention and pace at which institutions are looking to achieve the transformations has changed significantly. For example, banks are looking to convert 3-year digital roadmaps to 12-month roadmaps, and similarly for branch optimization programs. However, while we are seeing organizations focussing on specific initiatives, we have not observed many taking a holistic front-to-back review. There is a high degree of synergy and linkage between initiatives. For example, branch strategy must be paired with the advancements in digital servicing and creation of interactive digital channels; HR cannot review talent requirements in isolation from understanding proposed new business models; technical architecture must be designed around considerations of remote working and associated access, security and redundancy. Large strategic programs also cut across these initiatives (see Exhibit 5), including cost management programs, digital acceleration, resiliency programs, etc. Cost programs will be a derivative of many of the initiatives around digital acceleration, change of business model, productivity and so forth; digital acceleration work will run front to back and resilience will be at the heart of many infrastructure and operating model considerations.

COVID-19 has accelerated many trends that were already underway and it has proven technologies and approaches which were under-utilised. Ways of working will not return to the status quo ante; underlying profit and its drivers cannot. Businesses have to remodel and those who take time to review the myriad design options and their ramifications as a single, strategic review of the connected whole, will be those who emerge strongest from the crisis.

**Exhibit 4: Initiatives for a re-envisioning a ‘New Normal’ business strategy, operating model and organizational structure**

1. Business Model	2. Operating Model	3. People & Organisation
<p><b>1.1 Launch new digital business models</b></p> <ul style="list-style-type: none"> <li>• Build in configurability &amp; customer centricity in products &amp; services</li> <li>• Enhance interactive digital channels to manage complex transactions through self-service</li> <li>• Refine your long term digital business model strategies, considering adjacent models and propositions to create new revenue sources</li> </ul> <p><b>1.2 Redefine customer relationship model</b></p> <ul style="list-style-type: none"> <li>• Accelerate streamlining of branch network</li> <li>• Equip relationship management and sales for digital first services</li> <li>• Enable effective customer service through digital</li> </ul> <p><b>1.3 Explore eco-system plays</b></p> <ul style="list-style-type: none"> <li>• Accelerate partnerships with ecosystems &amp; marketplaces to increase breadth of offerings</li> </ul> <p><b>1.4 Modify the business mix</b></p> <ul style="list-style-type: none"> <li>• Redefine geography strategy</li> <li>• Explore inorganic opportunities</li> </ul>	<p><b>2.1 Champion a digital first foundation</b></p> <ul style="list-style-type: none"> <li>• Accelerate end-to-end digitization via automation, AI &amp; workflow across the value chain</li> <li>• Embed data-led digital decision making at all levels of the organization</li> <li>• Create a low cost, digital, scalable and robust foundational architecture by migrating to cloud &amp; SaaS</li> </ul> <p><b>2.2 Rebalance resourcing and location strategy</b></p> <ul style="list-style-type: none"> <li>• Re-evaluate location strategy: onshore vs offshore and inhouse vs. outsource, to optimise cost variability and concentration risk; consider dynamic workload allocation capabilities</li> <li>• Analyse need for fixed vs. contractor workforce</li> </ul> <p><b>2.3 Drive further efficiency and productivity</b></p> <ul style="list-style-type: none"> <li>• Reprioritise project portfolio to fully address accelerated trends</li> <li>• Re-evaluate corporate real estate strategy to align with changes to remote working</li> </ul> <p><b>2.4 Resilience by design</b></p> <ul style="list-style-type: none"> <li>• Build on-demand sourcing and workload allocation, to shift demand-supply with ease within an established network</li> <li>• Improve third-party resilience analysis, controls environment, reporting and monitoring in light of crisis learnings</li> <li>• Understand the impact of ‘New Normal’ on vulnerabilities landscape and re-evaluate cyber controls to enhance resilience</li> <li>• Prioritise &amp; enhance critical infrastructure for improved technical resilience</li> </ul>	<p><b>3.1 Upgrade workforce for the future</b></p> <ul style="list-style-type: none"> <li>• Identify new roles and responsibilities to drive new business model</li> <li>• Hire and redirect talent for evolving R&amp;Rs</li> <li>• Reconfigure training &amp; upskilling for existing workforce</li> </ul> <p><b>3.2 Build an agile, resilient organisation</b></p> <ul style="list-style-type: none"> <li>• Institutionalize organizational agility &amp; speed to response to build a customer-first culture</li> <li>• Shift to a digital &amp; remote working model to maximize effectiveness and minimize future business disruption</li> </ul> <p><b>3.3 Take a new lens on business culture</b></p> <ul style="list-style-type: none"> <li>• Shift to culture of productivity by empowering employees and aligning incentives</li> <li>• Develop internal and external communication to suit new working arrangements</li> <li>• Initiate employee health and wellness programs for changing environment</li> </ul>

Source: Oliver Wyman analysis



**Exhibit 5: Framework for considering impact of COVID, critical objectives, changes to the business and strategic areas of focus**



Source: Oliver Wyman analysis

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