The Banker
MASTERCLASS

Time to rethink: handling demand, optimising cost and getting to growth

Coronavirus has hit the banking sector like no other crisis in memory. It has meant significant changes to how banks serve their customers, and how staff work, many of which can be permanently institutionalised to improve operational resilience.

Michelle Baxter, financial services executive, North America, Avanade

Saurabh Verma, financial services industry lead, Australia and New Zealand, Avanade

Banks have the opportunity to institutionalise practices that were implemented as 'band aids' during the onset of the Coronavirus pandemic, says Michelle Baxter, financial services executive North America at global professional services company Avanade. While banks were able to get funds to customers and small businesses, it was a major challenge. Fintechs such as PayPal and Kabbage were nimbler in their response as they were unburdened by legacy processes and requirements, such as the need for physical signatures.

"Banks went to extremes in March and April to get their businesses back on track," says Ms Baxter. "Now is a good time to reassess areas including contact centres, remote working and approvals to become much more operationally resilient."

RESPOND, RESET AND RENEW

To match the performance of fintechs, banks should take a three-phase approach to reassessing their processes: respond, reset and renew. The respond phase is about coping with customer demand while staff work remotely. A balance in customer service needs to be struck between human touch and automation. Collaboration tools enable staff to work from home while sharing documentation safely.

The reset phase should address digital transformation; it is about more than customer interactions and should be applied end-to-end to drive down costs and protect profits. Ms Baxter's colleague, Saurabh Verma, financial services industry lead, Australia and New Zealand, says digitisation needs to be more than "skin deep" and the banks that had invested end-to-end in digitised processing were able to scale well during the crisis. Local bricks and mortar branches also should be reset as banks consider whether 'micro' or 'robo' branches are the most appropriate.

Finally, the renew phase is all about revenues. Accenture research has identified a potential 5% revenue increase for banks that develop greater customer trust. "Increased personalisation reduces churn. Banks also need to demonstrate greater purpose in their own operations with a much stronger focus on sustainability, especially for millennials," says Ms Baxter.

To date, banks have focused on three key areas as they look to institutionalise the measures they took at the height of the pandemic lockdown. In contact centres, they are automating demand management to respond better to increased volumes. Security is being reassessed as employees work from home while approvals processes – both commercial and consumer – are being digitised.

IMPLEMENTING NEW IDEAS

Already some creative ideas have emerged from banks to help clients. Spain's CaixaBank has enabled retailer clients to manage online purchases via their social media presence and has launched Pay Gold, which enables clients to receive payments online via email or text message. PNC Bank has worked with UK fintech Oak North to develop a Covid-19 vulnerability rating framework for its business loan portfolios. Lenders undertake portfolio diagnostics to rate loans based on the vulnerability of liquidity, debt capacity, funding gap and profitability. National Australia Bank has introduced a voice identification programme that reduced customer identification times from minutes to seconds.

Fundamentally, banks that were advanced in their ability to connect to ecosystems were ready to serve their customers in innovative ways, says Ms Baxter. This open banking model is highly recommended by Avanade as it enables banks to fast-track open API-led innovation of all kinds, to market-test new value propositions, engage with innovative fintechs and partners and, have a marketplace model.

While there are positives that have come out of banks' response to the pandemic, including an increase in contactless and online payments and the shift to remote work as virtual private networks were strengthened, there have been some negatives. Ms Baxter says.

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"Banks have under-invested in digital transformation and those that were behind struggled to meet customer demand in this new environment. A big part of this is that the banks are still shackled by legacy IT and a legacy IT mentality. Also, the absence of a data-driven approach hindered some banks while those that are data driven did much better."

Many banks are now "seriously considering" moving to the cloud, which is "great news", she adds. "Banks have fundamentally recognised the need to be more agile."

Banks should also recognise the unprecedented challenges their business and consumer clients face and the support they need. Mr Verma says banks need to focus on finding "the right balance between the human touch and the efficiencies they can gain from automation".

Many banks have deployed additional frontline staff to speak with customers and give them support. Equally, customers are looking to engage more closely with their banks. Responding rapidly to clients in difficulties is important. "Those who are facing hardship don't want to speak to a robot, they really need to be supported and be able to engage with humans who can understand their challenges."

Bank of America rolled out a programme that enabled clients to defer credit card payments by two clicks of a button; 25,000 people took up the offer within two days, says Mr Verma. "There are a number of processes that could be digitised and I think the key is to make sure that they are digitised end-to-end. Customers don't want to stop halfway through a process because they have to call a contact centre."

In some banks, the employee experience is quite often forgotten or sometimes neglected, says Mr Verma. "Employees are at the front line when it comes to financial services, and banks must enable them to do their jobs well. Communication will be more crucial going forward and collaboration tools, along with new ways of working, while paying attention to the wellbeing of staff, will be important." Whether staff are working in an office, from home or in a hybrid environment that includes multiple locations, banks must review systems and processes to eliminate cumbersome and complex processes that involve manual steps.

Many banks have invested in digitisation and process automation since the financial crisis of 2008 and must "break the ball and chain problem" of legacy systems, Mr Verma adds. "Now is the time to address key areas that have been draining the budget, impacting staff and productivity. Banks also need to address risks around systems that are complex and difficult to change. This is a time when we will see simplification of IT."

Some banks have started down this path with Commonwealth Bank of Australia (CBA) announcing a simplification programme whereby it will reduce its 3500 applications by one quarter and is moving to the public cloud to lower costs and improve scalability.

Low credit growth and low interest rates have put considerable pressure on bank revenues and therefore banks are shifting to a variable cost base. The pandemic has also triggered banks to review their property portfolio and the impact remote working will have on it. "Banks are looking at what an office space might be in the future and also how they can repurpose some of their branches and data centres, particularly as they move to the public cloud."

DATA IS KING

The shift to a digital economy has enabled banks to accumulate huge volumes of data, to which they are applying artificial intelligence technologies to better control processes, risks and cybersecurity. Data is also helping banks to create digital tools that provide "proactive nudges" to customers, says Mr Verma. CBA's Benefits Finder mobile app, for example, uses data to steer customers towards government incentives and offers from other organisations. "We think that's a great way of interacting with customers without increasing call volumes at contact centres; it's a fully digital enabled touchpoint process." Uptake of the app increased by 78% during the past six months.

Banks should be driving customers towards digital channels and supporting them in that transition, says Mr Verma. "Lloyds Banking Group is equipping 2000 customers over the age of 70 with a tablet device to enable them to make digital payments and to engage in the financial ecosystem in a secure and safe manner with a lot of support."

Mr Verma sees an opportunity for banks to support customers and address a "trust deficit" that currently exists. "Banks have been making money from customers for far too long by exploiting bad decisions. Many customers struggle to manage their money, especially now. Accenture found that only 14% of individuals would go to a bank if they were in financial trouble yet that should be the first place that they go for advice."

By addressing this trust deficit, Accenture reckons banks can increase their total income. Trust-based offers, which help customers to manage their daily spending or take advantage of life planning advice can generate an average of 9% revenue increase.