What will banking look like after the pandemic?

Recalibrating to Meet the Demands of the Future

Whether it's welcomed and exciting or the result of constant modernization or the effects of a global pandemic, change is certain, inevitable, and constant. Bankers are no strangers to economic adversity, and changes in customer demands, technology and crises.

When COVID-19 first caused the tsunami alarm bells to sound, bankers leapt into forward-looking strategies. Most financial institutions have had their doors closed and only served customers through the drive-through and then by appointment only to promote social distancing. Community banks have been very busy with PPP loans and filing applications. Now that the loans are all booked, banks will now have to service the loans and evaluate the applications for forgiveness and submit them to the SBA.

As the industry looks to recalibrate for an unstable future, they are seeking innovative ways to build resilience and a new business model. Some experts such as S&P and IBAT are predicting the new "normal" and future to include some unpleasant implications:

- The sudden economic stop caused by COVID-19 containment measures will lead to a global recession this year.
- A cash flow slump and much tighter financing conditions as well as the simultaneous oil price shock will hurt creditworthiness.
- These factors will likely result in a surge in defaults, with a default rate on non-financial corporates in the U.S that may rise above 10% and into the high single digits in Europe over the next 12 months.
- The magnitude of the impact will vary significantly by industry and asset class.
- A severe but relatively short-lived economic contraction will mostly affect the weaker credits or those in the most directly exposed sectors.
- A prolonged recession, beyond our base case, would have broader implications.

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It is increasingly clear that the entire banking ecosystem and the way consumers interact with financial institutions has been shaken to the core as a result of COVID-19. But there is a class of resilient banking leaders who are pivoting, emerging and playing to win post-crisis. What should the banking industry do in the days, months and years ahead to be in a better position for the future?

There is hope for a new kind of banking and it includes a reset of how customers are served, digital transformations are upheld, brand building is forged and leadership is retooling operations for future orientation so that when the market winds return, financial institutions will catapult.

CONSIDER THESE FUTURE TRENDS TO EMERGE POST-COVID 19:

1 Innovate new products

Pressure on interest margins, for example, means that alternative and new products could provide new sources of income. For customers forced by branch closings into new interaction models, banks can create innovative experiences that address a wider variety of needs—for example, advice, problem resolution, and loan modification. Banks may see value in shifting their product mix and risk appetite—for example, away from subprime credit cards and toward personal loans, or even layaway products, combined with financial- health advice and budgeting.

2 Focus on speed

For both the financial institution and technology, operating under COVID-19 conditions has proven the importance of being agile and flexible; banks should lock in this approach to operations in the longer term. Many anticipate that banks will accelerate efforts to use data to inform personalized offerings and interactions that take into account each customer's unique financial situation rather than using a segmented view that is likely to miss critical nuances.

3 Align with the changing payments landscape

With record numbers of Americans furloughed and unemployed, a new era of consumer spending austerity was ushered in. Banks should recalibrate their expectations for interchange revenue, combating the shortfall by implementing measures to ensure cards and accounts are selected by customers as their default payment method. The need to move money easily and instantly has bolstered the justification for banks to prioritize faster payments. Banks can no longer afford to wait on the sidelines to add faster payments to their product offerings.

4 Embrace AI and digital transformation

Pre-pandemic, some consumers hesitated to use digital banking solutions because they found them unfamiliar and daunting to use. Sheltering-in-place has accelerated the need for easy and convenient digital financial tools beyond the basic account balance checking. Bankers may be pressed to reimagine the role of physical branches to serve customers. With social distancing as a lingering expectation, branches that doubled as cafes and neighborhood gathering places may need to be reconfigured.

5 Use financial wellness tools

COVID-19 strained many households already challenged with financial insecurity. Over the past few months, more than 13 percent of the workforce have filed for unemployment, with many uncertain if or when they will be able to return to work and enjoy the safety net of employee benefits. Banks should focus on helping their customers find ways to ease cashflow constraints caused from the sudden economic stop and related revenue impact. Many bank customers have been paralyzed by this unexpected economic shift and are unable to survive based on the shortfalls in their working capital and liquidity reserves. Banks should consider options such as permitting deferred payments, interest-only payments, re-amortizing payments, or even waiving select fees.

6 Build a leaner, more cost effective organization

Experts suggest banks should aim for a cost improvement of 25-35% to mitigate any wider economic downturn. Consider the levers that can be strategically pulled to quickly reduce costs. These levers range from identifying and evaluating paper-based processes that must be digitized in remote settings, automating using RPA, and better aligning front-line operations and sales personnel to much revised sales volume estimates. There are significant cost savings available simply by optimizing your credit processes and better use of internal and external data.

7 **Cultivate a remote work program**
During this crisis, Citigroup Inc. has 80% of its employees working from home, while Bank of America had to buy 90,000 laptops to allow staff to work remotely. Many banks also have front-line staff coming into branches, call centers and corporate buildings to perform services that cannot be done from afar. There is a great uncertainty when bank employees will return to operations full time. In the interim, to achieve an effective work-remote program, build trust between leadership and employees. Set reasonable expectations for time management, KPIs, and more. Make sure that your technology infrastructure can support your plan for the long-term.

Finding stability in the storm

Many banks did not have to play defense up until now since there just was not the urgency to take action during prosperous times. Everything changed with COVID-19. If there can be a silver lining to this crisis, it is that community banks continue to shine in supporting their customers and communities in this unprecedented national emergency. Could we say that COVID-19 brought some positive? Perhaps the banks that take this opportunity to pivot, innovate, emerge and serve their customers and communities will celebrate success in the years ahead.

If your community bank is seeking guidance or resources during these challenging times, we are here for you. 21 Century Financial Services (21CFS) is a top provider of data processing solutions , BSA and AML compliance and check imaging exclusively for community banks. Our team consists of former bankers and technology experts, so we know how diligently you work to provide exceptional customer service and to meet regulatory demands all while promoting the well-being of your community. Located in Austin, Texas, 21CFS was created to provide a solution for community banks that want to operate a paperless bank.

Contact us today:

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Resources: The Financial Brand
IBAT: Charting the Path Forward
PWC: How Retail Banks Can Keep The Lights On
McKinsey: Stability in The Storm
Fintech Magazine: After the New Normal of COVID -19