FINANCIAL SERVICES SECTOR TRENDS

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Key Market Trends

KEY THEMES

- WORKFORCE MEASURES
- FINANCIAL STABILITY
- CLIENT ENGAGEMENT
- DIGITIZATION

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WORKFORCE MEASURES

Some of the change in the work environment that the FS companies are adopting are …

Working Style

- Need to be flexible with work operations, for instance more work from home
- Deploy the required technology to enable the changing work style
- Having efficient risk management mechanism for employees who may still need to work on-site

Employee Engagement

- FS companies realize that the pandemic could be extremely unsettling for its employees. Some employees may become less engaged or abandon their work responsibilities, reducing productivity and quality, and harming customer experiences
- It is very critical for companies to lay emphasis on this issue and adopt steps to keep their employees engaged
- Companies need to communicate clearly and concisely with employees about steps the company is taking

Modifying HR policies

- FS companies are making changes to their HR policies to align with local regulations and to be more employee friendly (e.g., entitlement to continued pay during quarantine, covering costs of medical tests, expanding back-up child care services for employees etc.
- Companies are also changing the performance expectations and related incentives based on the current market scenario

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FINANCIAL STABILITY

It is likely that FS companies will be hit across all dimensions—fees, interest revenue, losses, and expenses:

- **Decline in Fee Income:** lower consumer spending in retail businesses, decreased AuM in asset-management divisions, as well as slowdown in investment-banking activity
- **Fall in Net Interest Margins:** as rates remain low or fall slightly further. Any increase in borrowing volumes, for example, may be offset by losses in credit portfolios
- **Surge in Credit Losses:** Most of the sectors are likely to be impacted negatively due to the impact of Covid-19 leading to surge in credit losses
- **Cost increase due to remote work:** cost would increase due to initial setup, and may cascade to lost wages normally paid to hourly workers and contingent staff. Operational losses due to fraud are also likely to increase

KEY INITIATIVES

- Banks are applying **testing tools**, complemented by close continued monitoring
- FS companies are also maintaining an **up-to-date and scenario-based view** of expected financial impact across businesses.
- The companies are also undertaking **cost cutting initiatives** across geographies, business units and functional areas to sustain

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CLIENT ENGAGEMENT

As Covid-19 cases grow, there is a range of actions emerging across banks to protect and communicate with clients

Engage Clients

Proactively reaching out to clients encouraging proactive exchange on upcoming financial challenges and other advice on how to weather negative impact. This will require training bankers to engage clients and coach them through the crisis

Identify Risks

Review and sharpen risk identification, motoring and measurement to identify clients with higher vulnerability to primary and secondary effects of the outbreak, and anticipate, as much as possible, detection of creditworthiness deteriotion

Support Vulnerable Clients

Clients that may need more support are small within affected sectors, individuals who are self-employed or working in affected industries, especially those with higher debt levels

Mitigate Risk

Adjust potential credit-risk mitigating actions for pre-delinquency, early delinquency, and non-performing exposures, in light of specific implications of Covid-19 on clients, e.g. temporary vs long-term nature of business disruption, value-chain considerations

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DIGITIZATION

When the Covid-19 virus hit, there was a massive surge in customer demand for digital channels. **China's financial services sector experienced 100-900 percent traffic spikes in key digital channels** during the outbreak.

To cater to the growing digitization demand, FS players are resorting to:

- **Plan** around spikes in digital channel usage to ensure that the systems will remain online if they experience a 100-900 percent increase in traffic
- **Empower less tech-savvy clients** as they transition to digital channels by developing and rolling out an awareness/education campaign around digital capabilities and ramp up call-center support
- Companies would need to **develop leaders** who know how to lead in this new working environment, promoting the organization's revamped digital DNA
- **Expanding scope of services** that can be delivered through online channels, for example large transfers, changing of names etc.
- **Changes to physical branch infrastructure** if required to support customers who have no choice but to visit branch
- Increasing fraud and information security **risk management initiatives**. Threat actors may exploit confusion and vulnerabilities stemming from changes in ways of working and serving customers. Banks intend to include risk professionals on agile-product-development teams and run controls tests in parallel

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Thank You!

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