

CENTRAL BANK OF EGYPT
Egyptian Banking Institute



البنك المركزي المصري
المعهد المصرفى المصرى

CURRENT TRENDS

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The New Normal
in Banking

**Shaping
theFuture**
Financial Literacy Initiative
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MOVING FORWARD WITH CONFIDENCE...

Background

COVID-19 pandemic is one of the most serious events affecting the economy and the banking sector in the century. However, *unlike the financial crisis of 2008/2009, this time the banks were not the cause of the problem, but they were part of the solution.* During the lockdown, arrangements were rapidly put in place for staff to work from home and branches were reorganized to comply with the new hygiene requirements. Systems and processes were adapted to expand digital solutions and contactless payments. These speed reactions enabled banks to act fast and adopt a practical approach, protecting employees and customers alike and maintaining or even expanding their day-to-day banking operations. So far, banks and financial institutions have therefore been less badly affected by the crisis compared to other industries. In the short term, banks performance has even seen positive and supportive to the societies and the governments.

Almost all professionals in the banking sector while making predictions for 2020 planned to increase spending in the area of technology, innovation and digital solutions. After the pandemic the focus is remaining the same, however the driving forces and the pace of change are different and unexpected. We are currently seeing an openness and a tolerance of innovation from customers, employees and regulatory authorities alike which presents a unique opportunity to explore new avenues much faster, and indeed to see off the kind of resistance that often come up against when doing so. *It's the perfect time to overhaul outdated business models and tackle long-overdue changes and to move to what is called "The New Normal in Banking".*

Importance

The COVID 19 crisis has pushed banks leaders to reconsider their priorities and strategies to reposition now while also recalibrating for the future. They should keep their distribution channels open, despite social distancing advice and supervisory and compliance functions that were never designed for remote work. They have to focus on managing revenue and customer expectations, despite low interest rates and growing pressure on consumers. Additionally, they need to keep an eye on strategy and brand issues that will define their future, to cope with significant market forces and customer behaviors changes coming out of this crisis.

It is not easy to plan for a "Black Swan Event" but there are quite few things that were considered in lower priorities that will take the top most priority: making the customer journey smoother is going to be the most top priority in the banking world. Banks that were planning to adopt "live chat" and advanced customer engagement platforms should consider it as a necessity for survival not only as an innovative optional tool.

Even though it was both right and important to take the short-term measures that were implemented during the lockdown, they alone are not sufficient to successfully address the new normal going forward. All banks will need to review their business and operating models and take all the things that worked during the crisis and embed them in their business, so that they do not fall back into traditional complicated habits. Banks must use this crisis as an opportunity and to move to a new normal, because there is definitely no turning back.

Challenges and New Pressures

- **Risk of rising defaults:**

Banks are facing the risk of rising defaults as all sectors and businesses are adversely affected by the crisis especially in the lockdown periods. Banks are adopting new tolerant measures with the borrowers and are asked to extend new loans to companies and sectors in need of liquidity. The extension of the crisis negative impact could drive industries/businesses down and for banks, this would mean more NPAs, lower transactional revenues, and lower technology budget.

- **Low interest rates environment:**

The persistently low interest rate environment caused by the crisis is forcing banks to increase profitability in other ways – by growing their margins in line with the level of risk, by identifying new business areas or perhaps through increased cross-selling.

- **Increasing customer demand on digital solutions and changing behaviors:**

In the new normal, banks will have to interact digitally with customers across all channels – from the first point of contact to closing a product sale to back-office processing and to further support. Customers expect personalized services, fast processes and an easy way to do their banking – any time, any place. To achieve this goal, banks will need to enter into new collaborations with third-party providers (e.g. via platform solutions) to develop "beyond banking" products (such as liquidity planning or accounting tools) and offer these to their customers as integrated solutions.

- **Data privacy and security concerns:**

In the new normal, customers demand greater security and want to be holistically advised on all of their banking needs. The issue of trust and the role of a bank as a dependable partner, especially in times of crisis is becoming increasingly important.

- **Flexible operating model:**

Customers are showing more acquaintance with digital banking and employees are making use of flexible working models, to facilitate virtual collaboration with customers and coworkers. An increasingly agile way of working has to be established across many functions and to be reflected in the management structure and the culture of the banks. In order to embrace the new developments that have emerged out of the crisis and embed them in their businesses, banks will have to adapt their internal processes, and adapt their (IT) infrastructure to the new conditions on the ground. Particularly with regard to their expanded digital services, activities that add less value should be provided by third parties or industry solutions, with a view to achieving cost reductions. COVID-19 has expanded the scope of operational resiliency beyond preventing threats to being prepared to operate during periods of massive social disruption.

- **Adapting workforce development strategies:**

Banks leaders and decisions makers must be alert to the changing environment and adapt their workforce planning and development strategies to ensure alignment with future skills requirements. Human resources professionals might reconsider traditional methods for identifying critical skills, as well as selecting and developing talent especially digital talent.

Post COVID 19 Practices: Steps to accelerate the new normal in banking:

Speeding Digital Transformation:

- Launching innovative product bundles –"beyond banking" products to generate more revenues.
- Interacting with customers in much more digital way during the consultation process (e.g. via video chat or regular chat functions). Physical interaction with the customer can gradually take place at the customer's request or in the case of complex needs.
- Enhancing digital customer sales and servicing and enable remote interactions across end to end processes, facial recognition and voice authentication for customer verification and digital KYC for new sales.
- Gradually switching in-branch visits to appointment-only. In addition to reviewing appointment reasons to see how to transfer physical visits to virtual, call center, or digital channels.
- Assessing real estate capacity after the reduction of branches footprint attempts. All branches should be set up to support "social distancing" guidelines
- Adjusting and minimizing fees for ATM services usage.
- Reconsidering which third-party support services can be labeled "essential". In addition to reviewing the financial health and BCP plans for those providers to make sure they are appropriately robust. It is also important to evaluate additional suppliers as plan B to find alternatives quickly when needed.

Enhancing Customer Experience:

- Better understanding customers in a more digitalized world, while systematically using the internal customer data with externally available data from sources such as social media platforms. The data can be put through data analytics tools to form the foundation of needs-based information, individualized support and problem-solving for customers.
- Moving from broad demographic segmentation to personalized segmentation; relevant messages should be oriented to customers based on their real time situations, locations and behavioral trends.
- Listening properly to customer feedback and handling effectively customer complaints to increase customers' satisfaction.
- Redesigning customer service and advice provision in a way that show customers that their banks care about their current and future financial situation.

Managing the new normal in the workplace:

- Creating or adapting training for bankers to help them work virtually and to respond more effectively to clients' requests.
- Adapting the competencies and skills map of all employees and leaders to cope with the new normal requirements.
- Adopting a comprehensive digital talent strategy that matches both business objectives and the needs and preferences of digital talented experts.
- Consider granting liberal leave or additional PTO days and/or time tracking to empower caring for ill people.
- Exploring wellness initiatives in the workplace to help employees manage stress.

- Depending more on IT development teams to automate routine work.
- Developing a well-trained call center team to be prepared to handle a surge in volume as a response to branches traffic reduction. Some work can be shifted from call center agents to chatbot capabilities to provide quicker response times.
- Rebalancing workloads across operational sites, shifting some employees from non-critical work to essential operations and assigning some junior employees to take on some post-call functions.

Promoting Digital Financial Literacy:

- Including unbanked population and serving existing customers through the increase of advanced banking kiosks that may be able to take on some work that is currently performed by tellers.
- Providing dedicated branch hours “golden hours” to serve vulnerable customers (over 70s and critical workers).
- Encouraging the adoption of digital services by customers who have not recently or ever used debit cards or online banking, and engage them to build their confidence in transacting cashless or online.
- Promoting cashless transactions more prominently on marketing screens at ATMs and on digital sites.
- Educating customers on the availability and benefits of using digital channels and highlighting how changes in financial products and services can help them to better manage their money.

Managing and monitoring risks:

- Identifying and adapting treatment plans for customers who are financially at risk, and work with them to restructure or refinance existing loans payment terms or interest schedules facility or line extensions.

- Reviewing credit policies to ensure credit decisions made to support customers comply with regulations.
- Monitoring early warning signals and increasing the frequency of credit reviews to enable early interventions
- Identifying trends in consumer transaction activity account balances to predict individuals or SMEs in financial difficulty
- Uncovering potential hidden risks in SMEs using personal accounts for businesses

Interested Links

- ING's response to the Coronavirus:

<https://www.ing.com/About-us/Coronavirus.htm>

- Citigroup response to COVID 19:

https://www.citigroup.com/citi/about/data/citi_commitment_full.pdf?ieNocache=145

- KPMG UK: COVID-19: Preparing for a new reality in banking:

<https://home.kpmg/uk/en/home/insights/2020/07/covid-19-preparing-for-a-new-reality-in-banking.html>

- The Asian Banker: Banking will change after COVID-19: Four new standards to meet:

<https://www.youtube.com/watch?v=Lic8ZcUYzdl>



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Headquarters – Nasr City

22 A, Dr. Anwar El Mofty St., Tiba 2000
P.O.Box: 8164 Nasr City, Cairo, Egypt
Tel.: +2 02 24054472
Fax: +2 02 24054471

Working hours: 9:00 am - 5:00 pm
www.ebi.gov.eg

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