COVID-19 & BANKS: BALANCING OPERATIONAL RESILIENCE & CUSTOMER EXPERIENCE

Jay Venkateswaran, Business Unit Head,
Banking & Financial Services,
Consulting & Professional Services

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Twelve years after the 2008 financial crisis, banks are finding themselves in another unique market disruption. However, this disruption is not caused by economic or financial exuberance, or over extending credit and taking on too much risks. This time, it is a pandemic over which banks and other industries have no control, and which requires finding solutions to support their diverse customers in a new normal.

Similar to other sectors, digital is driving significant changes in banking operations in line with evolving customer behavior. The challenge for banks is to uphold their standards of customer experience while mitigating operational hurdles.

Here is a look at how banks can respond to this unprecedented crisis and re-shape their operations.

ACCELERATING THE TRANSITION TO DIGITAL

Even before COVID-19, consumer expectations were continuously evolving, compelling banks to leverage digital channels, peer-to-peer payments and online wallets. The outbreak has given further impetus to cashless payments since consumers want to avoid the risk of infection from handling cash.

Consumers who previously shied away from online payments are opting for digital channels for even day-to-day purchases. This shift represents an opportunity for banks to encourage permanent migration to online channels. Digital channels can be quite challenging for certain generations of customers. Through continuous engagement, banks can educate these customers and enhance their digital experience.

Some banks had earlier adopted remote onboarding to target millennials. COVID-19 has made remote onboarding a necessity globally across diverse customer segments. By leveraging Artificial Intelligence (AI)-enabled identity verification tools, virtual Know Your Customer (KYC) programs and digital signatures, banks can completely eliminate the traditional physical onboarding process. Partnerships with technology players and / or investments hold the key to strengthening this crucial aspect.

As cashless payments become the norm, banks will have to fast-track digital innovation efforts, build secure networks and develop a robust infrastructure that can handle increased traffic. This will require transforming legacy operations into new digital initiatives.

Banks will have to leverage cross-channel, customer-centric metrics, and continuously track the success of digital banking initiatives to respond to evolving customer needs. Data and analytics,[1] AI and automation will be crucial in reducing operating costs, re-aligning sales and products, and delivering superior customer experience.

'REMOTE' IS THE NEW NORMAL

When lock-downs and travel restrictions were imposed, facilitating remote work and business continuity were key challenges that had to be tackled. Flexible infrastructure was crucial and continues to be a priority. Banks that lag on the digital transformation curve have to find ways to continue operations in a virtual environment with a remote workforce, without impacting productivity and customer experience.

Banks that had already initiated migration to cloud have been able to accelerate this transition to accommodate a Work-from-Home (WFH) model. The WFH model allows employees to work part-time or for shorter durations, taking turns to connect to enterprise servers remotely. It assists in improved server traffic management, optimized productivity and access to a more diverse workforce. Cloud is also enabling the training needs of this remote workforce.

Cloud-native architecture will be crucial for banks to scale dynamically based on changing customer needs, launch new products and services, and mitigate costs. Even as online transactions increase via third-party applications and wallets, banks still have to do the heavy lifting for processing these transactions as the middle persons.
Cloud-based systems, coupled with Robotic Process Automation (RPA) and the right delivery model, can address these erratic spikes in processing volumes.

[1] https://www.wns.com/winning-with-insights

NEW-AGE CONTACT CENTERS

While digital and mobile banking experienced a huge surge, the voice channel in customer service also saw a sharp rise. One U.S. community bank operates from 15 locations, in addition to its digital operations. In the aftermath of the COVID-19 WFH transition, its call center volumes surged to 100 percent above average while live chat activity dropped to nearly zero.[2] This clearly shows that while people increasingly lean towards digital touchpoints, human interventions remain a necessity.

Banks should meet this need of consumers by merging digital and human capabilities to provide personalized services during such crises. AI-powered conversational analytics platforms[3] can help achieve this goal. These platforms can process conversational data in real-time to reveal the true intent behind customer calls — thus helping agents with a plan of action during an ongoing call. The technology reduces call time, improves the efficiency of contact center agents and enhances customer satisfaction.

PIVOTING TO OPEN BANKING

COVID-19 has compelled consumers to consolidate accounts and gain more insights into their financial health. Banks should capitalize on this opportunity to increase investments in open banking capabilities and pivot to a digital delivery model. Open banking budgets across financial services companies in Europe have already witnessed a spike. According to a recent report, yearly investments in open banking services have risen by 20-29 percent for two thirds of the respondents.[4]

PARTNERING WITH FINTECH

FinTechs have been battling long-standing regulations as governments across the globe try to strike a balance between digital enablement and creating a secure financial system. As COVID-19 continues to weaken economies across the globe, many governments are temporarily easing FinTech regulations to boost innovation and revive the economy. TheCityUK, an industry advocacy and trade group, has been seeking an update on the FinTech regulatory framework in the U.K.[5]

As banks look to speed up digital innovation efforts, partnering with FinTechs can prove to be economical and mutually beneficial. FinTechs are witnessing a dip in investments from venture capitalists due to the pandemic, and increased collaboration with traditional banking entities can help bridge the funding gap.

For banks that are in the early stages of digital transformation, developing platforms for financial inclusion, analyzing transactions and other data for deep insights and capability development, and deploying automation for compliance[6] can be a herculean task. FinTech companies can ease this pressure through their niche technological expertise.

RE-VISITING MORTGAGE RE-FINANCING & PAYMENT DEFERRALS

COVID-19 has been leading to an increase in demand for mortgage re-financing as a result of historically low interest rates. In the U.S., re-financing activities witnessed a record-breaking spike in April and May 2020,

[2] https://thefinancialbrand.com/95598/digital-bank-covid-mobile-call-center-videoconference/?internal-link
[3] https://www.wns.com/solutions/functional-solutions/customer-experience-services
[4] https://www.fnlondon.com/articles/european-banks-bump-up-open-banking-investment-20200527
[5] https://www.bloomberg.com/news/articles/2020-03-30/insurers-worry-virus-linked-costs-may-reach-383-billion-a-month
[6] https://www.cnbc.com/2020/03/13/sp-estimates-the-new-coronavirus-could-cost-us-insurers-90-billion-in-medical-expenses.html

resulting in huge loan volumes for lenders.[7] At the same time, the crisis has left many homeowners wondering how to pay their installments as they struggle with job loss, pay cuts and reduced work hours. Banks are now seeing an increased number of customers seeking mortgage deferrals.

Some banks are already waiving fees, increasing credit card limits and granting mortgage payment holidays. However, customers are likely to need a lot more. Banks should take steps to help customers address short- and long-term financial changes that may impact their ability to keep up with their monthly mortgage payments. Banks should understand when and how to reach out to the right customers at the right time to offer the right solution. A deep understanding of each customer, leveraging machine learning, AI and analytics can help banks offer customized solutions and drive improved engagement.

RISK MODELING FOR THE UNEXPECTED

Globally, banks are preparing for an exponential rise in defaults and bad loans as the pandemic debilitates the financial health of consumers and businesses. Customers are looking at banks to provide additional credit facilities to support them during this crisis. Bad debts will raise credit costs which will exacerbate the situation. Strong analytical capabilities are key as banks seek to achieve portfolio optimization and develop robust fraud and risk management. Analytics[8] will also generate greater insights that can be leveraged across the organization for operational excellence and aid in swift decision-making. In addition, banks will have to review their stress testing models to assess the impact of COVID-19. This is a critical lever that is closely monitored by regulators. Eventually, all this will lead to reviewing the norms for counter-cyclical capital buffers as well.

[7] https://www.kennedyslaw.com/thought-leadership/reports/coronavirus-impact-on-uk-and-ireland-injury-claims/
[8] https://www.wnsdecisionpoint.com/our-insights/reports/detail/94/covid-19-the-highs--lows-for-the-insurance-industry

Fraud detection and risk modeling is underpinned by efficient software and algorithms to calculate pricing, valuation and measure the credit risk of borrowers. However, the sudden economic impact has made a large amount of historic data unreliable. Banks will therefore need real-time data, along with advanced risk calculators, that can work around traditional rating systems and score businesses on their capacity to generate revenue.
This will require advanced analytical capabilities to accurately filter data and spot anomalies quickly.

Banks will also have to strengthen their KYC[9] and Anti-money Laundering (AML)[10] programs to manage risks and keep pace with changing regulatory scenarios. Considering the socio-economic impact of the COVID-19 crisis, there is likely to be a surge in criminal activities, leading to increased money laundering threats. There is already an increase in cyber-criminal activities as a result of the outbreak.

THE JOURNEY FORWARD

As the uncertainty from the pandemic continues, customers will require the extended support and flexibility from banks to get back on their feet. For banks, the new normal will demand:

- Accelerated digitalization efforts
- Cloud migration
- Intelligent workflow management
- Partnerships with Hi-techs and FinTechs
- Embedding security and governance across operations
- Advanced risk modeling

By strengthening their operations and leveraging emerging technologies for a digital-only future, banks can change the game for the industry, and also be an example for industries that are lagging in their digital efforts.

[9] https://www.wns.com/solutions/industries-we-serve/banking-and-financial-services/anti-money-laundering-and-know-your-customer
[10] https://www.wns.com/Portals/0/Documents/Whitepapers/PDFFiles/651/46/WNS_Whitepaper_Can-the-Digital-Revolution-Help-Banks-Counter-Money-Laundering-&-Terrorist-Financing.pdf

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