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STRATEGY FOR BANKS IN A TIME OF CRISIS

AN APAC VIEW



STRATEGY FOR BANKS IN A TIME OF CRISIS: AN APAC VIEW

Regional and international banks in Asia need to balance making tough near-term choices with their digital and growth strategies.

In recent weeks, banking executives' attention has dramatically shifted to the unprecedented public health and financial crisis resulting from coronavirus. In the immediate term, CEOs and their teams are rightfully prioritizing employee health and safety, business continuity, and protection against extensive downside risks and threats to the broader financial system. Despite the complexity of the Asian economies, and in time of the current crisis, many countries have one common strategy: to continue to do business in Asia.

This crisis is impacting banks of all sizes - but even before the current crisis, both regional and international banks in the Asia Pacific region (APAC) were under immense pressure due to the following challenges:

- Larger competitors making massive investments to improve or launch direct channels capable of competing for customers in smaller markets i.e. via virtual banking
- The continued influx of compelling new fintech entrants across the value chain globally
- Rapidly changing customer demands across all segments, with the expectation of digital-first services
- Financial institutions setting more capital aside for soured and non-performing loans in Asia
- Acceleration of M&A activity, including dramatic 'plays' such as Morgan Stanley's recent acquisition of E-Trade¹ and Hong Kong's AMTD Digital Finance to acquire Singapore insurtech startup, PolicyPal²
- The implementation of regulatory evolutions such as Basel III reforms (due 1 January 2022) and IFRS 17 (due on 1 January 2021). However, in the context of the COVID-19 crisis, the Bank for International Settlements (BIS)³ and the International Accounting Standards Board (IASB)⁴ have deferred the application of both reforms to the 1st January 2023
- The war for talent heating up, with an influx of compelling new fintech entrants across the value chain

While the current crisis will impact the challenges facing regional and international banks in Asia in different ways, overall, the pressure from the above list is only likely to increase. So, what should they do?

We believe that in addition to the urgent crisis management currently underway, banks should not put their growth and digital strategy efforts on hold. This may seem counterintuitive, given the current economic climate. However, as the coronavirus pandemic continues to unfold, with no definitive end date in sight, the fundamental challenges are not going away, and the virus will only exacerbate obstacles. Banks that focus exclusively on crisis mitigation and cost-containment will be left further behind when the crisis ends.

Earlier in 2020, it was our strong view that banks, and smaller banks especially, had less time to launch a compelling digital growth strategy or risk losing substantial market share. That timeframe has likely been compressed further by cost pressures, and accelerated customer expectations for remote service and digital collaboration, resulting from the economic impacts of coronavirus.

While it is difficult to think about strategy in times of crisis, that is exactly what the best organizations do.

They can take tough near-term choices, while also investing through the downturn. Unfortunately, the choices that banks need to make right now are unlikely to help their near-term profitability. But by making some short-term investments, we believe that banks have a unique opportunity to significantly strengthen customer loyalty, improve resilience, and buy time to make some of the broader strategic shifts coming out of the crisis.

In this paper, which is an [adaptation](#) of a US report by Lane Martin and Isaac Halpern, we share the opportunities that we think that all APAC-based banks – and especially regional banks without fully formed growth and digital strategies - must pursue right now.

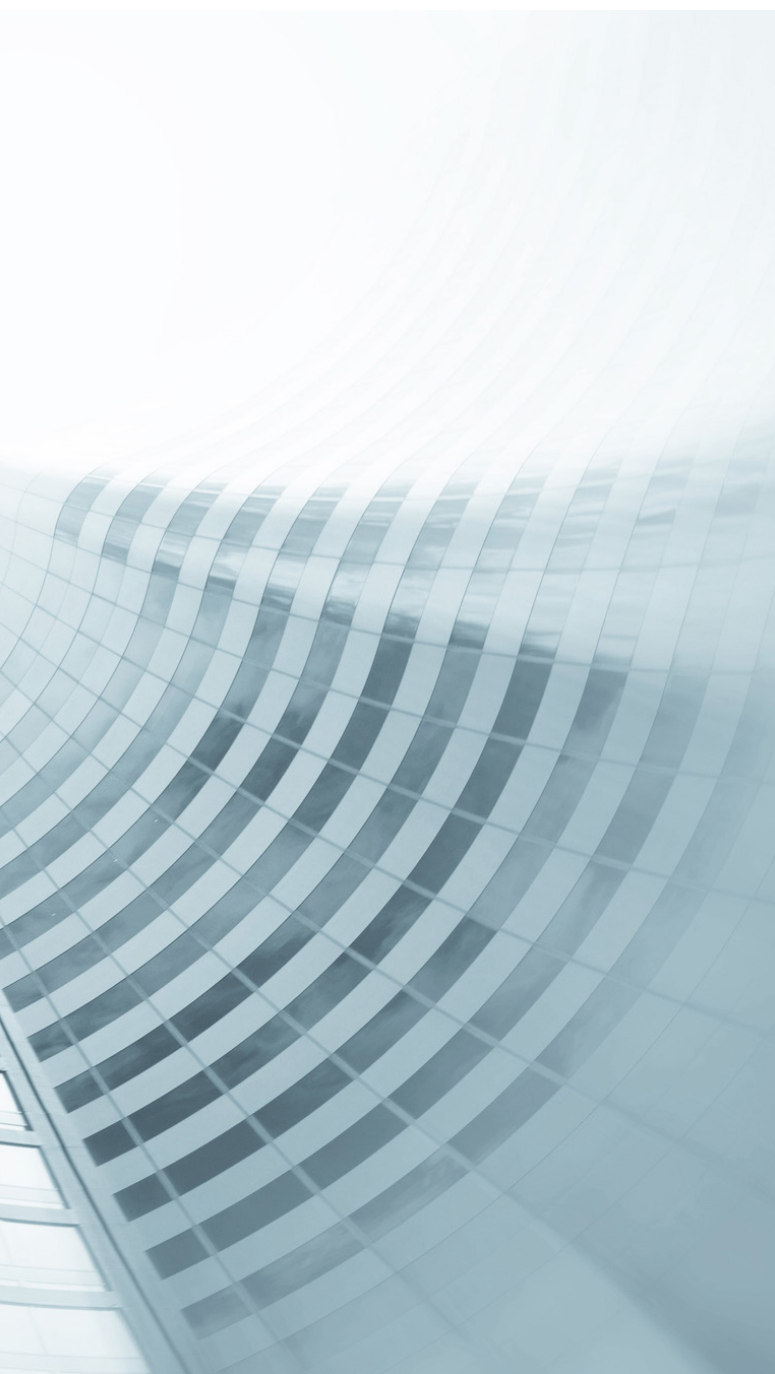
¹ <https://www.americanbanker.com/articles/morgan-stanley-buying-discount-broker-e-trade-for-13-billion>

² <https://www.techinasia.com/amtd-acquire-policypal>

³ <https://www.bis.org/press/p200327.htm>

⁴ <https://www.ifrs.org/news-and-events/2020/03/ifrs-17-effective-date/>

HOW ORGANIZATIONS CAN BETTER SERVE AND DEEPEN THEIR RELATIONSHIPS WITH CUSTOMERS



HOW CAN BANKS BUILD TRUST AND DEEPEN CLIENT RELATIONSHIPS?

Both individuals and small business owners are extremely concerned about the impact of the crisis on their finances, and many are already beginning to lose work and face tough decisions. In times like these, banks can build trust and deepen relationships by proactively addressing these massive challenges, through:

- **Providing education and advice:** Banks should not wait for customers to call but could use client data and analytics to identify those most likely to be vulnerable, and proactively reach out with education and advice, including understanding some of the other services that the bank is making available to help clients
- **Helping small business owners weather the storm:** Regional banks can play a critical role in maintaining liquidity for small service businesses that have been shuttered, including extending payment terms and reducing short-term rates
- **Promoting public health and social responsibility:** Banks can support the right customer behaviors and market their digital services by encouraging customers to use self-service and digital channels

Waiving fees: During the last financial crisis, public opinion cast banks as villains. In this one, they have a real opportunity to create a lasting connection to the community, regain trust, and strengthen their reputation. Therefore, banks should consider waiving fees (some already are), especially for clients most directly impacted by the pandemic. A small gesture to help clients today could be meaningful in deepening the relationship for the long-term

APAC MEASURES SO FAR

A number of regional and global banks in Hong Kong have implemented measures to cut loan repayments for SMEs and are starting to waive fees for struggling individuals as well. Multinational banks and financial services in Singapore⁵ are helping SMEs with their cashflow, and Thai banks⁶ have given coronavirus-hit borrowers one-year moratorium. Extra funding has been granted to spur loans to hard hit small businesses by Chinese granted banks⁷ in the mainland. In Malaysia,⁸ banks are offering more loan deferrals to blunt the coronavirus impact.

⁵ <https://www.straitstimes.com/business/banking/consistent-cashflow-smes-top-concern-in-riding-out-impact-of-coronavirus-outbreak>

⁶ <https://asia.nikkei.com/Business/Finance/Thai-banks-give-coronavirus-hit-borrowers-one-year-moratorium>

⁷ <https://www.scmp.com/economy/china-economy/article/3052474/coronavirus-china-grants-banks-extra-funding-spur-loans-hard>

⁸ <https://www.straitstimes.com/business/economy/malaysia-offers-more-loan-deferrals-to-blunt-coronavirus-impact>

TALENT: PROTECTING THE ORGANIZATION'S MOST VALUABLE ASSET

Given the financial pressure that banks are under today, many executives' first instinct might be to institute furloughs or layoffs. While this impulse is understandable, given the pressure to protect profitability and shareholder value, we also believe it is shortsighted on both ethical and strategic grounds. A better strategic move would be to encourage all employees to make a shared sacrifice, with those at the top bearing the most significant burden. Over the long term, this will pay enormous dividends in terms of winning the war for talent, and driving employee loyalty, productivity, and a differentiated culture.

Moreover, many financial institutions are continuing to work with consultants to comply with local and international authorities for critical

and key projects in several areas, and particularly in the regulatory, compliance and risk management space. For example, major banks are continuing with their regulatory projects with some changes in timelines by the local and international monetary authorities.

Other banks are preparing plans for an economic rebound in Asia and South-East Asia by hiring more experts in digital and regulatory projects to cope with the current and future challenges. Several banks in Asia⁹ have not reduced their hiring target numbers at this point, even though the hiring process may take longer with interviews conducted through Skype, Zoom, or other video conferencing methods.

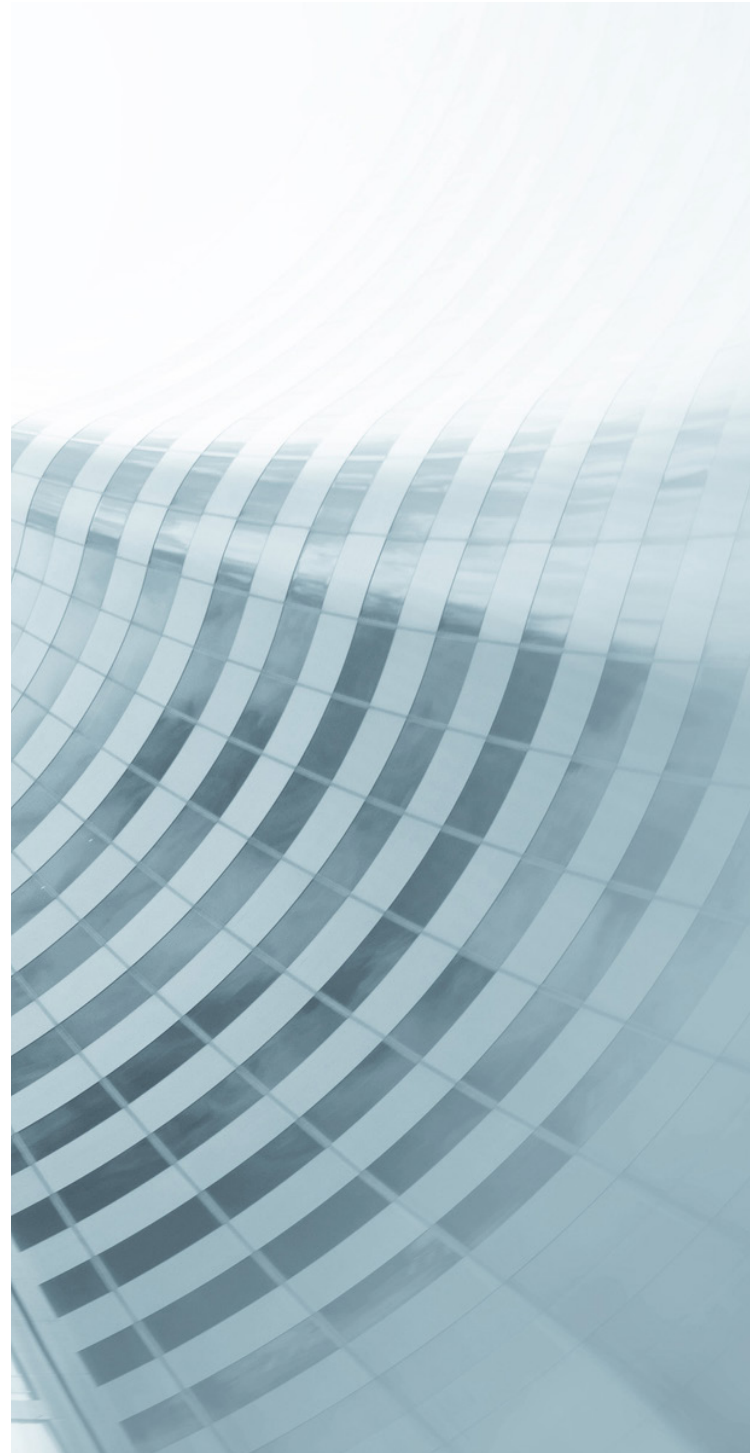


⁹<https://news.efinancialcareers.com/sg-en/3003357/banks-asia-not-cutting-hiring-coronavirus>

STRATEGIC CHOICES TO MAKE DURING A DOWNTURN

Regional and international banks should also consider the near-term choices they are facing in light of the longer-term strategic plays. They should ask themselves the following six questions to:

- **What is the endgame?** Banks need to define a clear vision of what ultimate success looks like to them. Is it about driving growth and playing a dominant role in your region, or playing defense long enough to get acquired and generate an acceptable return for shareholders? There is no universal answer that is right for everyone but the answer to this question matters a lot. And this is where leaders must start, before taking on some of the harder-hitting business questions.
- **Where should we call home?** Smaller banks need to weigh difficult decisions on market expansion or retraction carefully. And what should that expansion look like to them? District or country? To similar demographics (i.e. focus on underserved community), or pivoting to reach new Asian middle classes to grow? These are tough questions, and the answers will depend heavily on the answer to the first question on the endgame, as well as the bank's investment appetite, and opportunities and challenges with the current customer base.
- **Should we redesign operational processes within the organization?** Recently, banks in Southeast Asia are starting with operational efficiencies and cost savings by greater use of Robotic Process Automation (RPA) to optimize processes and provide more focus on current customer's needs via MobileApps.¹⁰ In the current time of crisis, consumers are spending less on non-essential items and more on basic levels of food, water, shelter and medical necessities.
- **Which client segments should we optimize for, the 'today's or 'tomorrows'?** Does the most optimal growth come from maximizing opportunity with existing clients or acquiring new ones (or some of both, and in what proportion)? This is a particularly vexing question for several reasons. In theory, it is much easier to grow with existing clients than acquire new ones, which requires significant marketing investment and client acquisition costs. The challenge is that the current customer base may be saturated. Therefore, new client acquisition may be the only way to drive significant growth that will allow you to meet the vision. This means competing directly with bigger, established competitors and for dramatically different demographics (e.g. the growing middle class in China and India¹¹).



¹⁰ <https://ibsintelligence.com/ibsjournal/robotic-process-automation/southeast-asian-banks-rush-to-adopt-rpa-in-digital-bank-boom/>

¹¹ <https://www.ft.com/content/e3fa475c-c2e9-11e8-95b1-d36dfe1b89a>

STRATEGIC CHOICES TO MAKE DURING A DOWNTURN CONT.

- **Which products and services do clients need most (aligned with profitability), and how can we create a world-class digital experience?** Many clients would like a digital-first experience for most products, services and transactions. Banks can also look to create new revenue streams by offering new products and services to customers through API (application programming interface)-enabled partnerships. Coronavirus has further moved the world towards a more cashless society, and specifically to mobile app payments¹² and e-wallets, which many countries are already adapting on a large scale. For example, China mostly use WeChat and Alipay, Hong Kong use PayMe and Grab, Touch n' Go, Boost, Malaysia mostly use Fave, and Singapore, DBS PayLah! and DashPay. Banks will additionally need to identify ways to differentiate the digital experience; especially forming emotional connections with their customer base that align with their core competencies, and that are true to their brand.
- **Now decide how to execute the strategy.** Many banks make the mistake of starting at the end – focusing on shiny objects, acquisition targets, or core platforms – before they've thought through the strategy. After answering the prior questions, leaders can look at different options to execute, including buying capabilities through acquisition, partnering with digital-first-minded consultants that specialize in accelerating innovation for financial institutions, and/or launching a new direct-banking channel unencumbered by legacy architecture. Banks can also look to reduce their cost-to-serve, increase agility, accelerate time to market and facilitate personalization and innovation by making

investments to modernize their core platform, which is already happening in many areas around the world, and particularly in Asia. Some Asia-Pacific banks¹³ have experienced business benefits of such transformation. In addition, one of the largest employers in Hong Kong¹⁴ had spent billions upgrading their core banking and digital services to prepare for the next few years.

CONCLUDING THOUGHTS

Naturally, some broader strategic choices have been pushed aside by the current crisis. However, it is possible to take decisive action on near-term priorities to protect clients, employees, and the business. Doing so can help banks avoid shortsighted and costly mistakes in a crisis, such as excessive cost-cutting, or creating long-term damage to talent, culture, and reputation - while positioning for growth coming out of it. Therefore, we will remain steadfast in our commitment to work with our clients, to help them to continue to thrive, while also protecting the health and well-being of each other. Together working as a team, we are confident that organizations can come out of this crisis with stronger and more resilient strategies than before. Please contact Neil.C.Ramchandran@capco.com and Karen.Willans@capco.com if you wish to discuss this report further.

¹² <https://www.straitstimes.com/asia/east-asia/chinas-march-to-be-the-worlds-first-cashless-society-china-daily-contributor>

¹³ <https://www.spqlobal.com/marketintelligence/en/news-insights/research/apac-banks-look-for-rewards-of-core-system-modernization>

¹⁴ <https://ibsintelligence.com/ibs-journal/ibs-news/hsbc-to-spend-2-1bn-upgrading-its-core-banking-and-digital-services-over-the-next-few-years/>

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ABOUT CAPCO

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