

## Corona Covid-19 | Challenges and Fixes

### Retail Banking Perspective

#### Background

As the economic fallout spreads due to the COVID-19 pandemic, Retail banks find themselves juggling some big priorities that require concrete steps to reposition now while also recalibrating for the future. A major part of retail banking services including deposits, credits, payments, etc. are part of what governments refer to as 'Essential Services'. So, it's important for banks to continue these services to minimize the adverse effects on people. All this while keeping their distribution channels open despite social distancing advice and supervisory and compliance functions that were never designed for remote work.

The Covid-19 situation has impacted revenues, margins and NPAs. In this difficult economic environment, there is great urgency to reduce costs and improve efficiency. But cutting indiscriminately or too deeply may severely hamper the ability to grow revenues when the economic outlook improves.

#### IMPACT ON RETAIL BOOK | GOVT MEASURES

<p><b>1</b></p>  <p><b>MIN. BANK BALANCE REQUIREMENT</b> Business &amp; Personal acc. Aren't required to have or reduction in minimum bank acc. balance w/o penalties</p>	<p><b>2</b></p>  <p><b>FORECLOSURES ON MORTGAGES</b> Halting of disclosures of mortgages for defaulted customers until a certain extended date</p>	<p><b>3</b></p>  <p><b>WAIVE OFF ATM CHARGES</b> Many countries are waiving of fees while withdrawing from ATMs</p>	<p><b>4</b></p>  <p><b>DEFERRING INSTALLMENTS</b> Deferring installments (principal) on new loans &amp; credit cards for a certain extended period</p>
<p><b>5</b></p>  <p><b>REDUCE BANK CHARGES</b> Reduction of bank charges by as high as 50% on early settlements of loans</p>	<p><b>6</b></p>  <p><b>REDUCE DOWN PAYMENTS</b> Countries are reducing down payments by 5% for first time home buyers</p>	<p><b>7</b></p>  <p><b>MERCHANT SERVICE FEES</b> Reduction in Merchant Service fees by 50% for eligible SMES for an extended period of time</p>	<p><b>8</b></p>  <p><b>REDUCTION IN INTEREST RATES</b> Reducing interest rates for new borrowings are prevailing rates for eligible customers</p>

#### Retail Banking – Key Challenges & Implications

From a Retail Banking standpoint, there are several key challenges due to the Covid-19 pandemic:

##### 1) Sector impact

Clearly, sectors including travel, tourism, aviation, automotive, hospitality that are weathering a larger impact amongst its peer group. Job losses are at an all-time high. Customers who are employed in these sectors are likely to see upheavals like never before. Banks with exposure to individual employed in these sectors would obviously have to bear the non-performance and related provisions, which is more than likely to dent the overall profitability

##### 2) Transactions & Fee Income

A natural consequence of the lockdown across economies is the reduced transaction volume across branches, pay offices and other physical service channels, leading to a corresponding dip in the fee income. Barring e-commerce and digital transaction volumes, the overall reduction in transaction volumes will have an immediate implication from a fee income standpoint

##### 3) Liquidity and Wealth management AUM reduction

The overall reduction in value of investments and AUM will see put a premium on liquidity and the need to ensure adequate management and preservation of the existing liability book

#### 4) Interest rates and margins

The reduced interest rate regime, propounded by almost all central banks would naturally impact the Net Interest Margins, and hence the profitability of the balance sheet assets.

#### 5) Provisions and NPAs

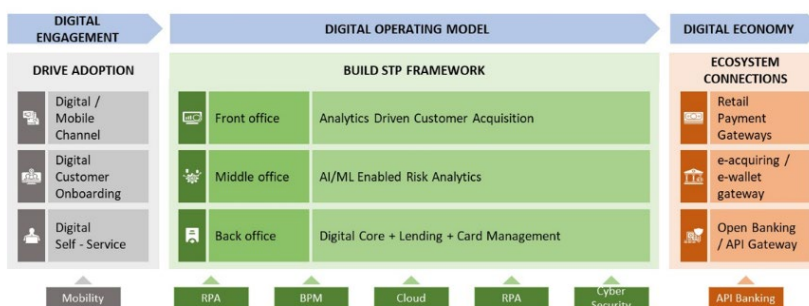
The collective implication of the overall slowdown in the economy, the direct and indirect on various industries as well the cascading impact on the downstream sectors leading to high unemployment

### Retail Banking – Key Fixes

There are 5 key areas in banks that will require fixes and how Cedar Consulting can assist:

#### 1) Go digital

An increase in digital and online usage, digital account and loan origination, coupled with incentives to use mobile and online banking as opposed to branches and call centers can go a long way towards helping retail banks cut service costs along with reducing transaction pressure on branch and call centre staff.



*Cedar Assistance: Fast-track strategy for design of a digital banking model and identification of quick-win areas for improving fee-income. Develop framework for rapid on-boarding of customers and remote model for sales, service and implementation team.*

#### 2) Detailed review of retail asset portfolio and customer segments

The current situation will impact retail asset portfolio adversely as large section of individuals have seen their incomes being severely impacted. Hence, there is great urgency to see ahead and take the corrective actions/ decisions in order to keep related losses and NPAs under relative control.

*Cedar Assistance: Diagnostic review of bank's portfolio and customers to determine customer segments that are highly risk and review the exposure levels across the portfolio. Develop strategy for new business focus and management of risky segments by high-quality workout teams*

#### 3) Cost optimization

Considering the current situation, reduced revenue opportunities and pressure on the asset portfolio, banks need to ways to trim costs quickly. Some of the ways are:

- **Headcount:** Headcount planning and rightsizing requires detailed analysis of the business and long-term impact on the business and future growth. Key considerations and analysis need to focus on external contract staff, non-profitable businesses – their origination and support teams, staff that cannot be upskilled, non-critical functions that can be outsourced/ vendor managed, etc.

- **Branches:** Look to close low volume/ value branches while ensuring there is optimization of coverage and serving requirements
- **Projects and Initiatives:** Review ongoing/ planned list of initiatives and capex projects and optimize based on criticality and future need. Cancel/ put-on-hold all non-critical initiatives

*Cedar Assistance: Quick diagnostic review of the headcount and key cost drivers. Identify quick cost optimization opportunities across the 3 levers of people, process and technology. Recommend short & medium-term cost reduction initiatives that are high impact, low effort for fast-track execution.*

#### 4) Communication plan

It is important that retail banks communicate important messages to customers/ employees:

- Hygiene steps to be taken by customers and employees
- Steps that need to be taken by customers visiting the branch - appointments, maintaining distances in queues, etc.
- Inform customers that service levels will change and encourage digital alternatives
- Special provisions for the old and vulnerable sections
- Possibilities of Covid-related phishing emails, unauthorized KYC requests, etc.

*Cedar Assistance: Fast track development of a highly effective communication plan across the retail network and customer segments. Develop clear roadmap for implementation*

#### 6) Operating model

- Evaluating areas where non-critical processes can be outsourced to specialist organizations
- Use of cloud technology and its use in various environments
- Use of intelligent chatbot capabilities

*Cedar Assistance: Diagnostic review of key operating/ technology areas requiring assessment. Conduct a deep-dive analysis, develop clear and executable strategy and roadmap for implementation*

### Cedar Consulting | Fast Track Programs

In quick programs of 4-6 weeks, Cedar will conduct a deep-dive analysis of any of the identified areas that are critical to the bank. With a 20+ year proven track record of working closely with banks, each program can be of tremendous benefit to banks in these difficult times in order to manage and sustain their cash flows and revenues effectively.

In today's dynamic market and economic environment, the bank that acts prudently and quickly will be able to protect its revenue, manage its portfolio and costs efficiently and stay competitive.

Cedar can also assist in the implementation of the various cost saving opportunities that get identified during the program.

#### BUSINESS REALIGNMENT | 3 PILLARS

