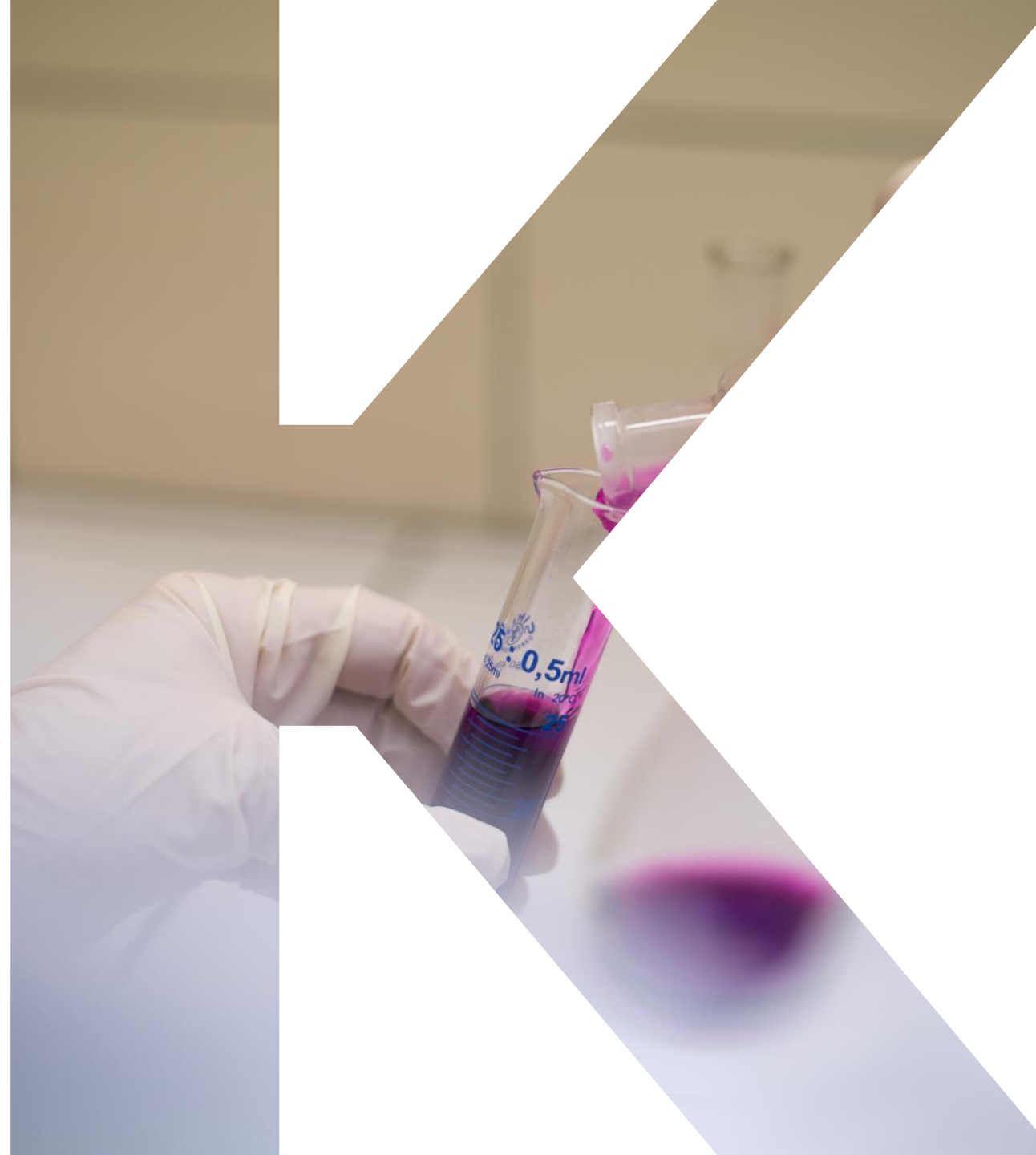


COVID-19 Crisis Response for financial institutions

Key aspects and business implications
March 27, 2020

KEARNEY



Executive Summary

COVID-19 is a black swan event disrupting social and business activities across the world with unknown consequences and duration

FS industry is double-exposed: in own business model and through the risk of **clients' default** (in case of banks) or new **claim patterns** and **investment income challenges** (in case of insurers). Payments industry is impacted by opposite trends (**drop in POS transactions** vs accelerated **shift to non-cash payments**)

In long-term **COVID-19 will drive new opportunities for financial institutions** through changing perspective of clients on insuring risk and preparing for unexpected situations

Safety, productivity and connectivity of employees, giving back control to clients and stabilizing operations is the first and foremost business responsibility, which requires necessary protective measures to be taken, **rigorously and immediately**

In parallel financial institutions should **start working on post-pandemic threats and opportunities already today:**

- Transform your **workforce organization and talent management**
- Accelerate digitalization of customer-facing processes to **enable E2E self-service**
- Lead new **value propositions** and offerings development addressing the new types of need for financial services (i.e. government-supported growth re-establishing credit facilities, new types of insurance products and trade finance solutions)
- **Increase process automation** to make them more immune in the future
- Adapt operating model and its costs and get ready to run a **RESET transformation** in case one of the worst scenarios materializes

Expected disruption for financial services – three impact scenarios

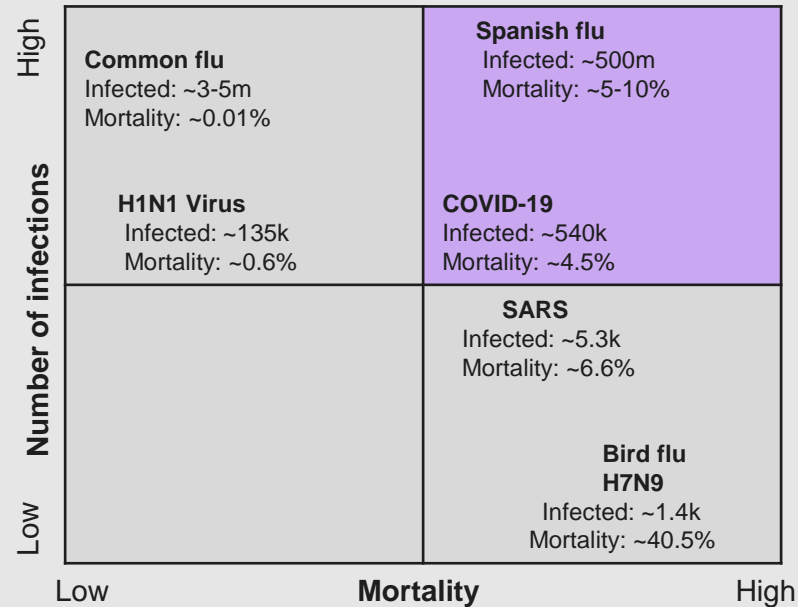
- Spreading at a high rate and with significant mortality
- Driving remote work, social distancing & business disruption
- Financial services (esp. banking & insurance) double-exposed – through own business models disruption and their Clients
- Three plausible scenarios – V-shape, U-shape and L-shape



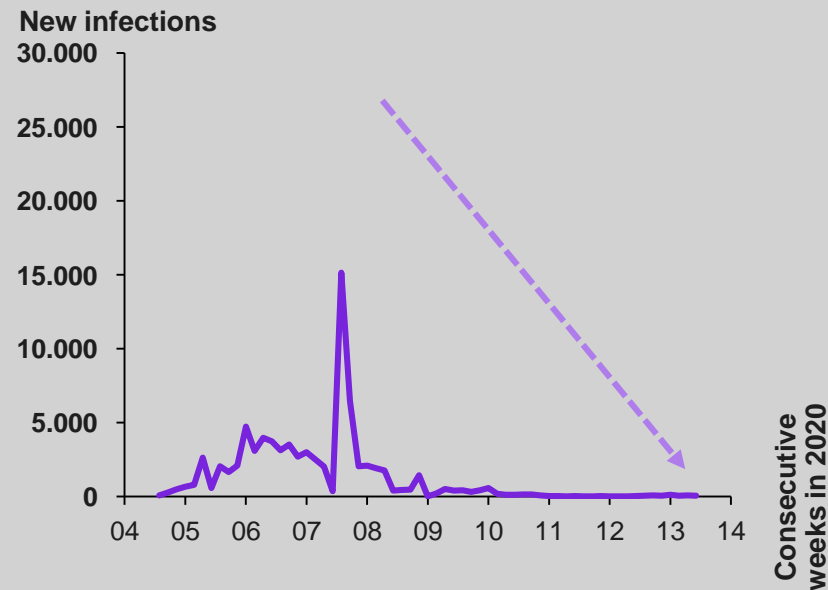
Compared to other pandemics
COVID-19 has been spreading at a high rate around the world, specifically in Europe is accelerating

High rate of COVID-19 spread across the globe

COVID-19 vs other influenzas

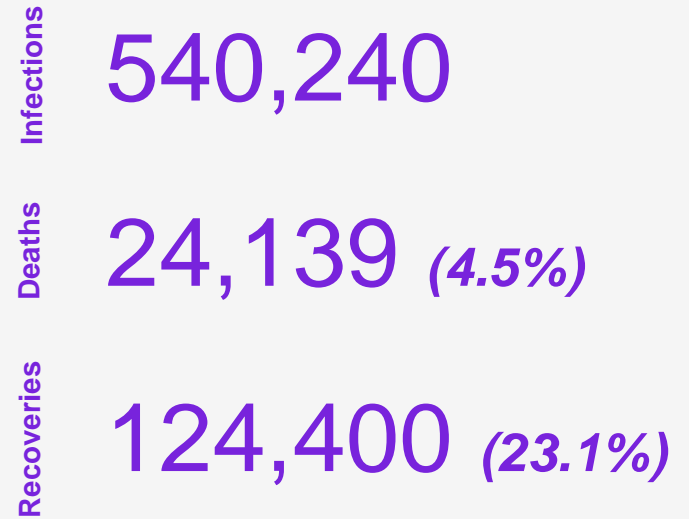


Decreasing growth rate in China

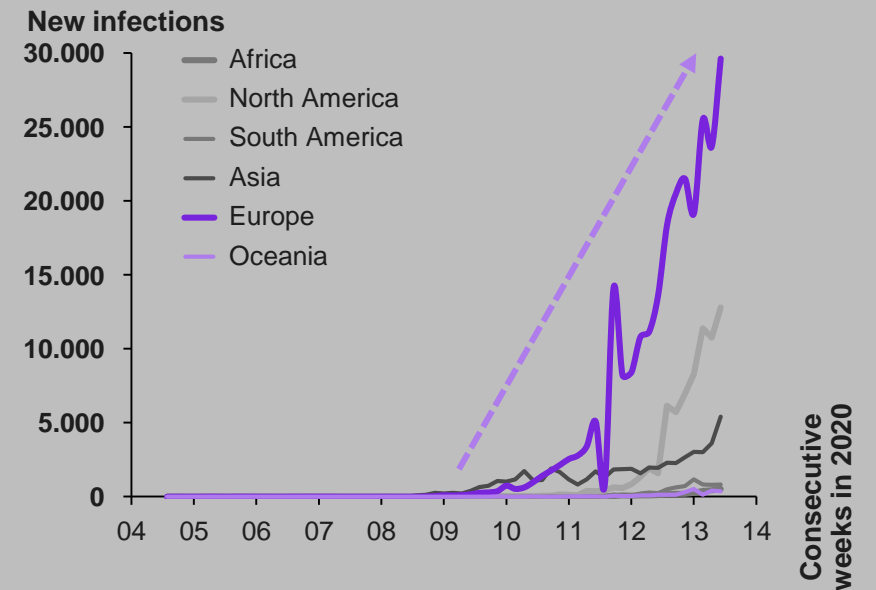


COVID-19 Statistics

As of 27/03/2020



Accelerated growth rate, specifically in Europe



The COVID-19 pandemic has led to major disruptions in people's lives and business operations



Lockdown of social activities



Work from home as the new normal



Impact of COVID-19 on people's lives

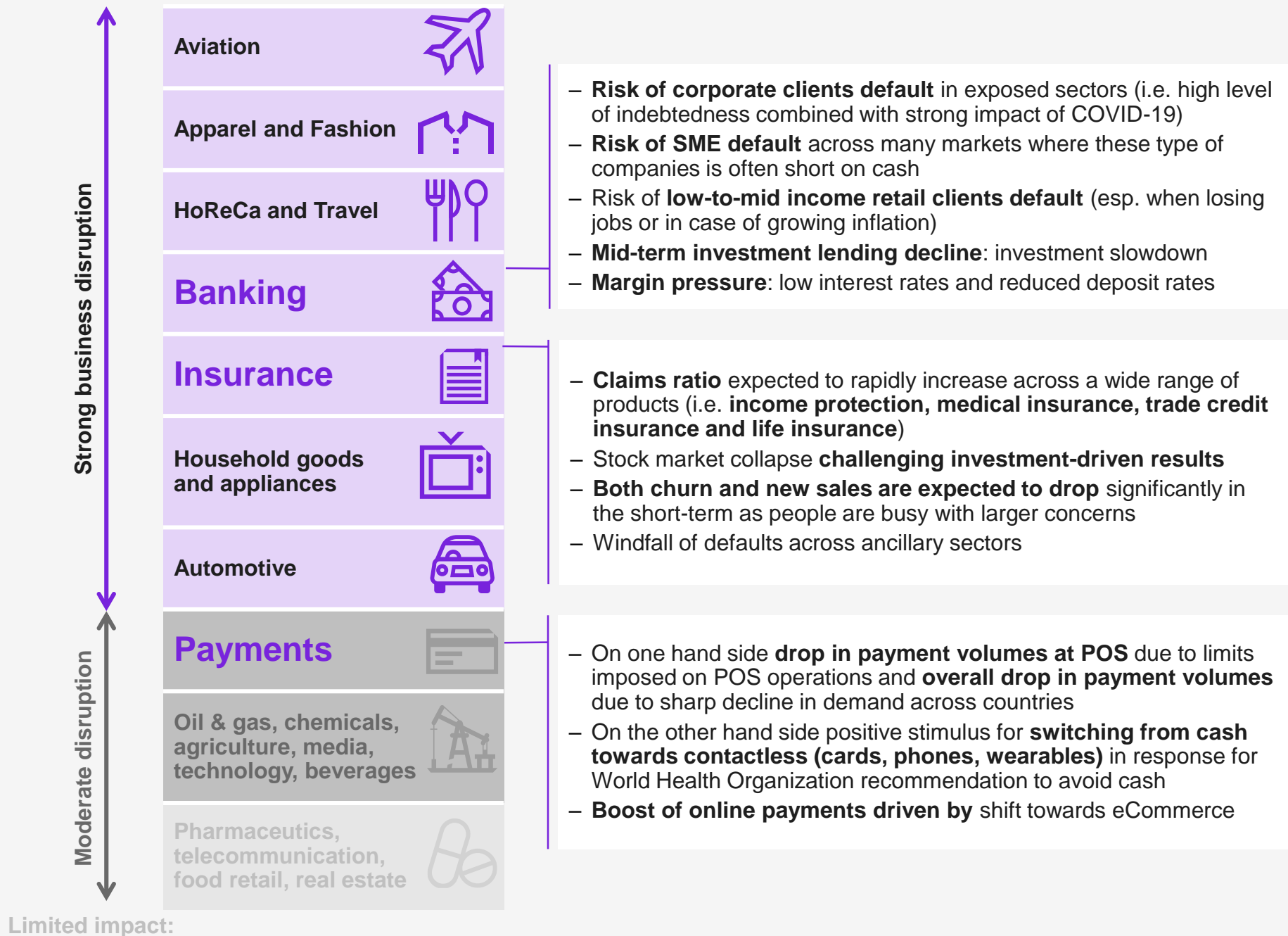


Disruption of business activities



FS industry is double-exposed: in own business model and in the risk of default (in case of banks) or new claim patterns (in case of insurers)

Industries by level of business disruption



3 plausible scenarios could play out in 2020 and beyond



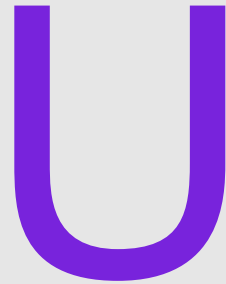
The V-Shape – Quick Recovery

What you believe:

- Firm reaction across countries leads to effective containment
- Seasonality of virus impact
- Peak impact coming soon

What it means:

- Short-term business disturbance until April/May 2020
- Strong recovery thereafter
- Global trade flows picking up quickly



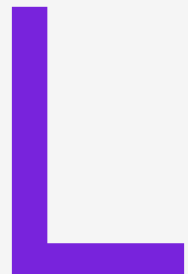
The U-Shape – 2020 is Gone, but it'll be fine

What you believe:

- Global response not effective to stop spreading of the virus
- Seasonality of virus impact longer
- Medical treatment still in 2020 possible

What it means:

- Business disturbance will remain through Q2 and Q3 2020
- Slow recovery as of Q4 2020
- Growth to be expected as of 2021



The L-Shape – 18 Months Downturn / Recession

What you believe:

- There will be a second outbreak
- COVID 19 triggers a sustained global recession
- Volatility and insecurity on capital markets remain

What it means:

- Longer market correction
- Substantially lower investments
- Decline in consumer spending and savings capacity

Regular Scenario Planning

Adjust 2020 Forecast Regularly

As the crisis from COVID-19 further evolves, scenario planning should be continuously updated to account for changes in business or other macroeconomic factors:

- Bi-weekly review and adjustment of scenario parameters and frequent stress tests
- Regular revision of underwriting and early warning signals criteria
- Review of strategic project portfolio against new priorities
- Integration and refinement of mitigation actions respective to relevant scenario

COVID-19 response highlights




The time to act is now: both for short-term and long-term impact

- Two perspectives: SHORT-TERM and LONG-TERM
- Three key pillars of required response:
 - SAFEGUARD employees
 - ENGAGE and SUPPORT clients and business'
 - ADAPT operating models
- Many common actions, yet significant specifics for BANKING, INSURANCE and PAYMENTS



The financial services industry needs to address short-term aspects NOW while proactively preparing for the long-term ones

Framework to combat the Covid-19 crisis

<u>ACTION!</u>	Short-term	Long-term
<p>SAFEGUARD employees</p> 	<ul style="list-style-type: none"> – Ensure safety for your employees – Maintain high level of connectivity and best-in-class communication – Deploy remote working model immediately – Ensure adequate technology infrastructure to ensure productivity – Activate employee relief measures <p style="text-align: right;">①</p>	<ul style="list-style-type: none"> – Transform workforce organization leveraging new learning (i.e. impact of remote work) – Rethink talent management – Refine location specific business continuity plans for functions which require physical premises for operations <p style="text-align: right;">④</p>
<p>ENGAGE and SUPPORT clients and business'</p> 	<ul style="list-style-type: none"> – Give back control to your Clients – Monitor customer service channel availability – Enhance your scenario planning – Review your underwriting and early warning signals models and criteria <p style="text-align: right;">②</p>	<ul style="list-style-type: none"> – Segment customers, develop targeted engagement plans at each recovery stage – Develop new value propositions to address shift in consumer behaviors – Rethink Treasury Strategy in the world of decreasing interests and markets' plunge – Work on E2E digital self-service and support clients adopt new sales / delivery channels <p style="text-align: right;">⑤</p>
<p>Sustain and Revamp operations</p> 	<ul style="list-style-type: none"> – Stabilize your operations – Codify "Minimum viable operating model" and be ready to activate – Accelerate digitization of near complete processes – Identify near-term cost reduction measures <p style="text-align: right;">③</p>	<ul style="list-style-type: none"> – Increase process automation to get more immune to similar situations – Get ready to run a RESET cost transformation <p style="text-align: right;">⑥</p>

Unfolding COVID-19 crisis impacts banks in several ways

Deterioration of credit quality

- Increasing risk of default among corporates and SMEs in sectors exposed to COVID -19
- Increase default / delayed payments from vulnerable retail customers
- Increasing pressure bank's stress testing models

Increasing lending needs in short term

- Lending needs for SMEs / retail consumers to increase due to immediate cash squeeze putting pressure on banks liquidity stress tests

Move to remote working model

- Urgent need to reduce branch footprint and physical workforce
- Pressure on IT infrastructure including cyber security capabilities to support remote working models

Banking – Impact

Declining profitability /margins

- Pressure on fee and trade income from declining banking business activity
- Low savings rate in the long term (in case of protracted spread) due to increasing unemployment and low interest rate environment

Risk from protracted downturn

- Low demand for banking products from reduced investment activity in case of a long term impact

Accelerated shift towards digital

- Shift of clients towards digital channels
- Increasing need to innovate new digital solutions and complete existing initiatives

Banks are taking a variety of actions to support their customers and employees




Banking – Current response

COVID-19 Response as of March 26, 2020

	Action	Details	Examples
Bank Branch Activity	Branch closure, reduced hours, remote teller support	<ul style="list-style-type: none"> – Temporary closure of branches – Reduced staff and additional disinfecting procedures in place – Extended operation hours of Customer Care and remote advisory available – Bankers available after hours and on weekends 	
Employee Relief	Supporting employees with paid leave, bonuses, child-care assistance, access to mental health professionals	<ul style="list-style-type: none"> – Paid leave for work missed due to the virus – Extra pay / bonuses for branch employees working through the crisis – Childcare allowance to employees – Free access to mental health professionals via phone / text 	
Deferral of loan / credit payments	Payment holidays for loans, mortgages and credit cards	<ul style="list-style-type: none"> – Interest free deferral of loan installment payments for retail and SME customers put on unpaid leaves – Interest free installment plans for critical expenditures (school fee, groceries) – Reducing lease payments by 90% for six months and deferring repayment 	
Fee waivers / reimbursements	Waiving fees on retail and SME services and reimbursement of bank charges	<ul style="list-style-type: none"> – Fee waivers on monthly service fees – Penalty free-withdrawals from time deposits and fixed savings accounts – Reimbursement on forex trx fee for clients that had to change their travel international travel – Reduced fee for cash withdrawals on credit cards 	
Neobanks activity	Offering out-of-charge value added services	<ul style="list-style-type: none"> – To confront the COVID-19 inconvenience N26 offered their clients 3-month access to Headspace – world’s leading meditation app – Revolut Poland launched in-app platform to collect coronavirus donations for charities 	

Banks immediate priorities should be to support vulnerable clients, safeguarding employees and sustaining operations

Banking – Proposed actions

<u>ACTION!</u>	Short-term	Long-term
<p>SAFEGUARD employees</p> 	<ul style="list-style-type: none"> – Ensure safety for your employees specially in client touch locations (branches, Kiosks) – Segment banking activities and deploy remote working model immediately where possible (e.g. sales, support functions can be remote) – Ensure adequate technology infrastructure to ensure productivity – Activate employee relief measures <p style="text-align: right;">①</p>	<ul style="list-style-type: none"> – Transform workforce organization leveraging new learning (i.e. impact of remote work) – Rethink talent management <p style="text-align: right;">④</p>
<p>ENGAGE and SUPPORT clients and business'</p> 	<ul style="list-style-type: none"> – Review and stress test loan portfolio to detect early warning signals – Monitor and ensure customer service channel availability – Extend short term financing to viable clients facing immediate liquidity squeeze – Reduce client's cost burden through waiver of banking fees and reduced pricing structures <p style="text-align: right;">②</p>	<ul style="list-style-type: none"> – Launch new value propositions to address emerging client needs – Work on E2E digital self-service and support clients adopt new sales / delivery channels – Negotiate loan provisioning rules (for a temporary period) with regulators to minimize financial impact <p style="text-align: right;">⑤</p>
<p>Sustain and Revamp operations</p> 	<ul style="list-style-type: none"> – Stabilize your operations – Codify "Minimum viable operating model" (branch light) and be ready to activate – Accelerate digitization of near complete processes – Identify near-term cost reduction measures <p style="text-align: right;">③</p>	<ul style="list-style-type: none"> – Review treasury strategy to address potential low interest environment – Fundamentally alter cost structure to drive resiliency and competitiveness – Review Fintech partnering approach (launch innovative) <p style="text-align: right;">⑥</p>

Unfolding COVID-19 crisis makes further growth in 2020 unlikely and force insurers to change priorities and to minimize adverse impacts

Insurance – Impact

New sales challenged but lower churn

- Shutting down branches and moving sales agents to work from home mode cut away leading sales channel
- Digital channel in many markets not ready to compensate due to technical limitations and customers preferences
- Lower churn – clients occupied with the crisis

Life claims ratio up

- Covering increased number of claims upon higher mortality and deaths of policyholders due to COVID-19

Sinking demand for travel policies

- Significant drop in sales of travel related products due to pandemic and limited tourism and travel traffic
- Obligation to refund unused travel policies in some markets and situations

Boosted P&C insurance claims

- COVID-19 driving up excessive number of various insurance claims (e.g. income protection, medical insurance, trade credit insurance, workers' compensation protection and life insurance)

Economic repercussions on clients

- Countrywide low-demand scenario caused by recession impacting individuals, household, SME & corporates
- Individuals/households: high unemployment, falling income
- SME/Corporate: radical costs and spending freezes; falling benefit for offering group products / insurance benefits to their employees









Economic & regulatory landscape

- Challenging recession times for market returns on investment activity
- Regulatory landscape (government pressure, new provisions, EU solvency regime)
- Historically low interest rates that make savings products non-functional and discourage customers

Insurance companies do not limit their actions to fee waivers and provide medical consultations




Insurance – Current response

COVID-19 Response as of March 26, 2020

	Action Details	Examples
Medical consult	<ul style="list-style-type: none"> – Offering free medical consultations to policyholders that observe coronavirus symptoms – E-visits available by phone in the form of video or chat seven days a week. – Extending scope of medical consultation by launching a contact center to answer phones from all citizens (not required to be a member) 	
Remote sales of products	<ul style="list-style-type: none"> – Enabling customers to purchase most of types of products remotely, using electronic signature (even for products where it was not previously available) 	 
“Cancel for any reason”	<ul style="list-style-type: none"> – Offering 'cancel for any reason' coverage for travelers over coronavirus 	 
COVID-19 FAQ	<ul style="list-style-type: none"> – Navigating customers by providing a list of answers to Frequently Asked Questions related to COVID-19 on their websites, call center and social media – Extended operations of contact center 	 
Insurance claim indulgence	<ul style="list-style-type: none"> – Several insurers across the Europe declared to accede to government suggestions to be more acceptive towards customer claims that are related to COVID-19 situation 	

Depending on business focus, insurers should consider several specific actions in CLIENTS and OPERATIONS dimension

Insurance – Proposed actions

<u>ACTION!</u>	Short-term	Long-term
SAFEGUARD employees 	<ul style="list-style-type: none"> – Ensure safety for your employees – Maintain high level of connectivity and best-in-class communication – Deploy remote working model immediately – Ensure adequate technology infrastructure to ensure productivity – Activate employee relief measures 	<ul style="list-style-type: none"> – Transform workforce organization leveraging new learning (i.e. impact of remote work) – Rethink talent management
ENGAGE and SUPPORT clients and business' 	<ul style="list-style-type: none"> – Enhance your scenario planning – Engage in communication of COVID-19 response in your country in areas touching health insurance topics – Ensure service channel availability – Enhance claim evaluation processes to secure them against fraud (i.e. for income protection products) 	<ul style="list-style-type: none"> – Review T&C for newly sold policies – Address boosted needs: telehealth, critical illness policies, trade insurance, etc. – Work on E2E digital self-service and support clients adopt new sales / delivery channels
Sustain and Revamp operations 	<ul style="list-style-type: none"> – Stabilize your operations – Stop investment earnings bleeding – Codify "Minimum viable operating model" and be ready to activate – Accelerate digitization of near complete processes – Identify near-term cost reduction measures 	<ul style="list-style-type: none"> – Review reinsurance policies – Define and implement solvency ratio defense strategy – Increase process automation to get more immune to similar situations – Get ready to run a RESET cost transformation

COVID-19 will bring about short-term disruptions to the payments landscape, while providing growth opportunity due to increased digital and ecommerce activity

Fall in POS transactions

- POS terminal transactions will fall as in-store payments are sharply restricted by lock downs and self isolations
- In-store transactions for essentials purchases will move away from cash with the threat of exposure, however, ticket size of such purchases will be low

Economic repercussion across eco-system

- With recession-like conditions triggered, spending across consumers will be limited
- Spending will be on food, drinks and entertainment and non-discretionary spend while subside (e.g. automotive, airline, etc.)

Payments – Impact

Shift to digital payments

- With prolonged isolation being enforced by countries across the world, significant portion of spending will be moved to digital payments forms
- Irrespective of how long the current situation prolongs, it will change buying patterns of consumers











Growth in e-commerce activity

- The pandemic will help accelerate the move to a cashless economy
- New customer segments can be exploited who will be forced to rely on online shopping
- Loyalty amongst consumers can be enhanced by providing seamless experiences and excellent customer service

COVID-19 reliefs are also offered by leading payment providers




Payments – Current response

COVID-19 Response as of March 26, 2020

	Action Details	Examples
Waived fees and charges	<ul style="list-style-type: none"> – Removing late payments fees – Waiving interest charges for a period of time – Temporarily lowering interest rate – Reduced monthly payments – Temporal waivers of interest payments 	 
Deferral of payments	<ul style="list-style-type: none"> – Deferral of credit line and selected payments (reviewed on an individual basis, based on customer needs) 	  
Emergency assistance	<ul style="list-style-type: none"> – Dedicated Customer Center with extended hours of operations for customers who experience hardship as a result of the outbreak 	 
Increased contactless limit	<ul style="list-style-type: none"> – British Retail Consortium and leading payment providers agreed that contactless limit in UK will be increased to £45 in order to reduce the need for cash and physical contact with payment terminals 	 
Anti-coronavirus contributions	<ul style="list-style-type: none"> – Public financial contributions to develop treatments to coronavirus – Encouraging global employees to make further donations 	

Depending on business focus, players should consider several specific actions in the short and long term

Payments – Proposed actions

<u>ACTION!</u>	Short-term	Long-term
<p>SAFEGUARD employees</p> 	<ul style="list-style-type: none"> – Ensure safety for your employees – Maintain high level of connectivity and best-in-class communication – Deploy remote working model immediately – Ensure adequate technology infrastructure to ensure productivity – Activate employee relief measures <p style="text-align: right;">①</p>	<ul style="list-style-type: none"> – Transform workforce organization leveraging new learning (i.e. impact of remote work) – Rethink talent management <p style="text-align: right;">④</p>
<p>ENGAGE and SUPPORT clients and business'</p> 	<ul style="list-style-type: none"> – Provide short-term measures (e.g. increased contactless limit) to support customers – Enhance your scenario planning – Engage in communication of COVID-19 response in your country – Ensure service channel availability <p style="text-align: right;">②</p>	<ul style="list-style-type: none"> – Build new propositions to enhance the digital payments network and infrastructure – Enhance customer experience to harness growth potential and loyalty <p style="text-align: right;">⑤</p>
<p>Sustain and Revamp operations</p> 	<ul style="list-style-type: none"> – Stabilize your operations – Codify “Minimum viable operating model” and be ready to activate – Accelerate digitization of near complete processes – Identify near-term cash protection measure to sustain business operations <p style="text-align: right;">③</p>	

COVID-19 response detailing

We propose a toolkit to address the six action dimensions



Employees should be your first priority today

Safe, productive and connected

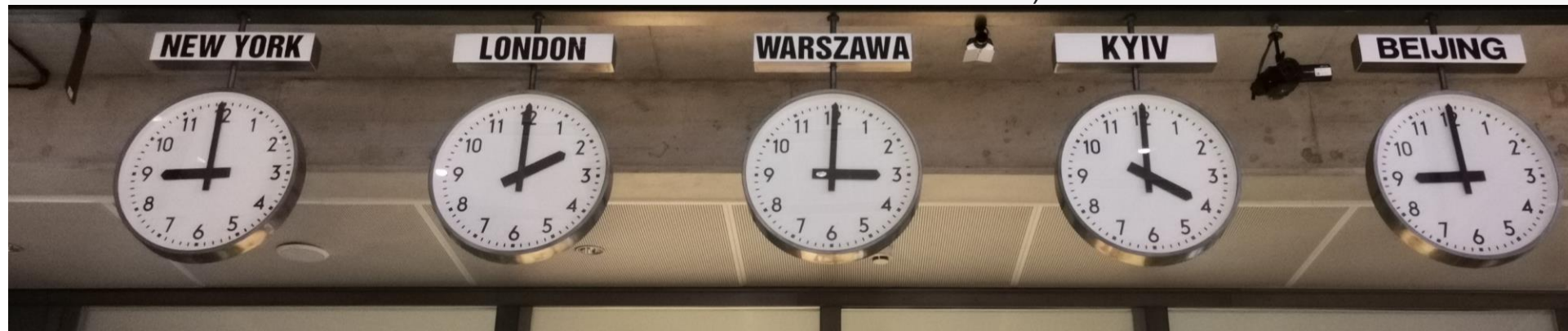
1

Employee safety

- ✓ Monitor and track **employee health status** (consider leveraging online and automated solutions to support this effort)
- ✓ Follow most conservative **disease control protocols**
- ✓ Introduce **highest standards of hygiene** across all branches and client interaction locations
- ✓ Plan for **employee relief measures**
- ✓ Set-up **instant response team**, define & align leaders
- ✓ Define **travel guidelines & quarantine requirements**
- ✓ Establish clear and regular **communication channel** with employees with regards to COVID 19 update and bank's strategies

Employee productivity & motivation

- ✓ **Segment employees**, with specific arrangements (e.g., redundant locations and shifts) for teams that are crucial for business continuity AND require working on bank premises (e.g., Treasury department)
- ✓ Leverage virtual **solutions for your contact center** enabling agents to operate remotely
- ✓ Introduce **flexible work** plans for employees where it is possible (less employees in your premises limit the risk of virus spreading)
- ✓ Ensure technology setup and readiness for **remote working model** (systems access, laptops, VPN access, video-conferencing and online collaboration tools)
- ✓ Deploy **employee relief measures** (paid leaves for work missed due to virus, extra pay for branch employees working through crisis etc.)

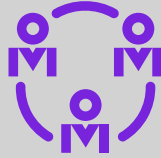


Financial institutions (FIs) can take several steps to serve their trusted customers in the short-term

Give back control to your clients

2

Share Cost



- **Waive fees** – such as monthly retail (consumer and business’) services, ATM withdrawal, penalty free CD withdrawals, etc.
- **Adjust interest rates** – Lower interest rate for businesses on on-demand credit, personal loans, quick loans

Provide Liquidity



- **Provide repayment holidays** – for loans (individuals and SMEs), mortgages and other forms of credit
- **Support individuals and organizations** – by extending low cost lines of credits for short term to loyal individuals and by providing letters of credit, guarantees, factoring facilities, etc. to healthy organizations
- **Cashback offers** - for critical purchases such as grocery and pharmacy purchases
- Adopt collections decision model and procedures

Build Trust



- **Coach customers** – on cash, liquidity and other measures provided by the FI
- **Communicate frequently** – on the health of your FI its long-term commitment to customers

Your clients are under the same or higher stress as you are: **short-term work on giving them back control of their lives**

Give back control to your clients

2

1. Associazione Bancaria Italiana
 2. \$60 administration fee for opening a new loan account
 3. Certificate of Deposit
 Source: press releases, Kearney

Examples of initiatives to support social impact



- **Waiving monthly fees on retail services**
- **Penalty free withdrawals** from time deposits
- **Bankers available after hours** and on weekends to support SME customers
- **Credit line increases** and collection forbearance programs for credit card customers



- **Waiving fees for SME** (e.g. deposit termination, establishment fees², excess interest)
- **Waiving merchant terminal fees** for 90 days
- **Deferring repayments** on personal, vehicle, equipment financing and mortgage loans
- **Reducing rates for loans** (home application)



Italian Banking Association¹

Suspension of mortgage payments during the COVID-19 outbreak

- Suspension eligible for **individuals and SMEs**
- **Additional waivers of household bills**
- **Home banking platforms** offered by selected banks (Intesa Sanpaolo)

Source: Kearney



- **Three-month payment holidays** for loans, mortgages and credit cards
- **Penalty free-withdrawals** from fixed savings accounts
- **Increasing credit card limits**



- **Six-month deferral of loan instalment payments** for retail and SME customers
- **Reducing lease payments by 90%** for six months and deferring repayment



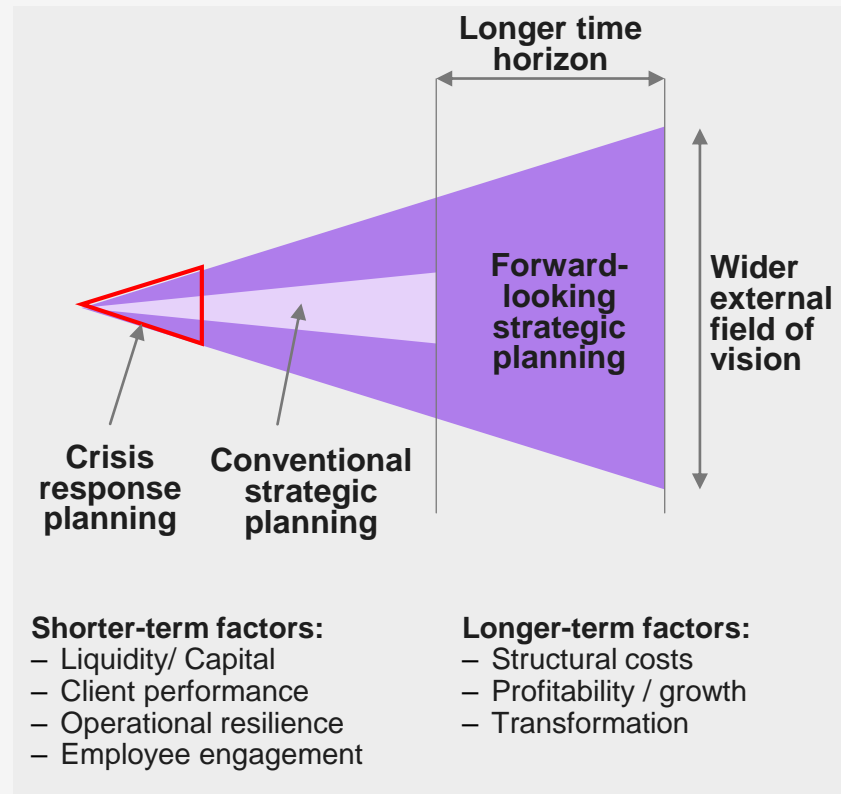
- **Penalty-free withdrawals** from time deposits (CDs³)
- **Reimbursing ATM fees**
- **Extensions and waivers of loans and lines of credit**

Financial Institutions are well positioned in their scenario planning, but need to focus on how to adapt that capability to be useful

Enhance planning

2

Success following the crisis requires a forward-looking approach...



...delivering strategic benefits

- **Broader field of vision** to better evaluate strategic alternatives
- **Enhanced understanding and flexibility** regarding how underlying business models must evolve
- **Non-incremental changes** must be explicitly addressed
- **Greater execution agility** by being able to recognize relevant trends as they occur and adapt accordingly
- **Enhanced strategic view** by looking outside the box and beyond conventional forecasts

The 2008 Financial Crisis highlighted foundational capabilities for navigating disruption

Leverage past learnings

3

Technology is a strategic asset

- Digitized their back-office and consumer-facing operations
- Analytics and artificial intelligence in refining forecasting around risk management, operations, and customer behavior
- Resiliency leads to availability and greater client trust
- Partner ecosystem essential for delivering quickly deployable new capabilities

Stress testing is a risk management and a strategic tool

- Extensive infrastructure to allow discrete, multi-scenario estimation capabilities that lead to agile management actions
- Contemporaneously leveraged for risk mitigation as well as strategic forecasting concerning vulnerabilities or sources of strength in the business model
- Common language to communicate across the organization

Fortress liquidity and capital management are essential

- Monitoring and forecasting capabilities are critical
- Required condition to stabilize client segments and promote market place confidence
- Requires hard choices to be made regarding allocation of marginal resources

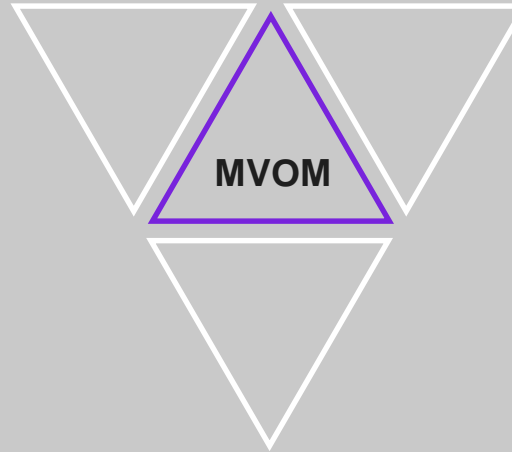
BAU governance mechanisms are insufficient in crisis

- Streamlined decision authorities are required
- Bias for action must win the day
- Perfect information will not be available but agreed standards for decision process with standardized data is required

Minimum Viable Operating Model (MVOM) approach starts from securing key business engines while minimizing base costs

Minimum Viable Operating Model – Concept

Allows a company to meet its **business objectives** given current-day challenges and opportunities



Ensures the company meets all **regulatory and legal requirements**

Has **“no fat”** beyond what’s needed due to the two above

Minimum Viable Operating Model – Approach

Understand your Minimum Viable Operating Model

3

Start with...

Refocusing on key business engines only and identifying key operational process that require 100% uptime to protect trust

...followed by...

- **Effective allocation of internal capabilities:** Cost-agnostic and cross-organization repositioning of resources and assets
- **Eliminating/minimizing external spend:** readjusting external cost base purely to support business engines (*SLAs, demand management, cost governance...*)
- **Optimizing staff needs:** Organization re-sizing to maintain the organization’s competitive advantage and keep going with business engine

...leading to...

- **Optimized location footprint**
- **Accelerated development and use of digital channels**
- **Re-engineered and digitized processes**
- **Enhanced cyber security measures**

... & achieving

Secured liquidity, and margins while ensuring business continuity and regulatory compliance

Source: Kearney

Combined effort is recommended to secure supplier base, evaluate related risks and look for savings

Understand external spend risks and opportunities

3

Category View

Category Strategy

- Assess ‘in-flight’ RFPs to stop, start or modify approach
- Assess category strategies, re-prioritise pipeline and revise savings estimates

Contract Management: Evaluate contracts to ensure flexibility (up or down) based on COVID-19 impact

Commodity Management: Identify opportunities to share gain / loss with suppliers

Supplier View

Supply Risk

- Segment suppliers by COVID-19 risk and monitor financial stability of critical suppliers
- Model supply scenarios and develop contingency plans

Social Responsibility: Partner with strategic suppliers to mitigate impact on employees

Shifting Supply: Identify new supply requirements (e.g. increase in eCommerce, virtual work needs)

Team View (Contractors)

Resource Management

- Confirm safety and working conditions
- Establish command center to address immediate needs and update performance evaluation processes

Tools /Technology: Identify tools needed for effective virtual work (e.g. collaboration, workshops)

Optimisation: Evaluate location of resources and impact on productivity



Outcomes

- Business continuity / risk mitigation
- Cost / cash benefits
- Flexibility to ramp up and down
- Socially responsible behavior

Source: Kearney

In case worse case scenarios are confirmed, a list of no-regret moves for adjusting the cost base in the short-term can be quickly applied

Consider short-term cost cutting moves if required

3

“Stop bleeding”

Halt discretionary spend

- Training, team building, socializing, etc.
- Sponsoring and selective advertising

Freeze hiring and developments

- Non-regulatory IT projects
- Product development and campaigns

Temporarily downsize network

- Shut down branches in proximity of others and capture immediate savings (e.g., cash transport, facility services)
- Consolidate teams in shifts to build redundancy against contingencies

Insource activity

- Staff freed-up network employees to unload outsourced tasks: outbound calls to customers, inbound emails,...

“Heal the wound”

Revisit vendors’ conditions & contracts

- Request price rebates
- Accelerate launch of tenders, leveraging changes in demand volumes/mix

Rationalize spend

- Enforce strict conditions to unfreeze developments (IT projects, business campaigns, new products,...), including an update to business cases that reflects the new market environment
- Relaunch discretionary spend “from zero”

Accelerate rightsizing of network

- Make permanent some of the temporary branch shutdowns

Raise productivity of employees

- Build upon successful experiences in remote working: pooling of multi-location specialists, redistribution of customer contacts, rationalization of travel,...

In wake of these trends, financial institutions will need to adjust their workforce size, productivity and skillset mix to ensure business continuity

Transform workforce organization and rethink talent management

4

People Management COVID-19 Implications

↓ **Size/cost**
Adjusted workforce dimensioning and related costs with business' needs and changing macro-economic factors

↻ **Mix**
Radical change in the mix of talent, requiring new skills mix and capabilities in line with an updated MVOM

↑ **Productivity**
Significant requirements of productivity improvement at all levels of the organization (HQs, Branches, Factories)

Key success factors

Business-Led scenario planning

Future business and workforce scenarios:

- Based on global and regional trends
- Under different revenue & cost targets
- To support business continuity for location planning for functions which require physical premises for operations

Transformation Levers

Transformation levers need to:

- Be tailored to different business units
- Address identified gaps in people productivity, skills mix and workforce size with the changing needs of the business

A

B

C

D

People Analytics

People analytics to build an 'organisation of the future' by:

- Objectives/future vision for different business areas
- Job groupings based on role, talent and value
- Activity and dedication

Team and Talent Stewardship

- Enhanced HR & organization mandate focussed on driving team and talent stewardship
- Tools and analytical capability increased for enhanced focus on value-added functions

In long-term to make your business and clients less vulnerable, push for E2E digital offering and self-service for all clients

Accelerate shift to digital

5



Accelerate shift to digital across sales & service: *Double-down*

Unprecedented opportunity requiring management to...

- Accelerate ongoing programs
- Focus resources
- Reprioritize & shift budgets



Attune customers to the new way of selling in app & web while offline is challenged

- Deploy E2E digital sales where possible (e.g. provide assistance to customers and SME's to set up their personal / business transactions online)
- Introduce promotions for product origination in digital channels



Self-service: those who uses the app is self-sufficient, no need to pick up the phone!

- Introduce digital tools to clients via email or newsletters
- Create educational tools to drive adoption (videos, webinars, helps desks)
- Proactive push communication of typical network issues in time of increased usage



Finally find the courage to shift media budgets to where customers are now more than ever

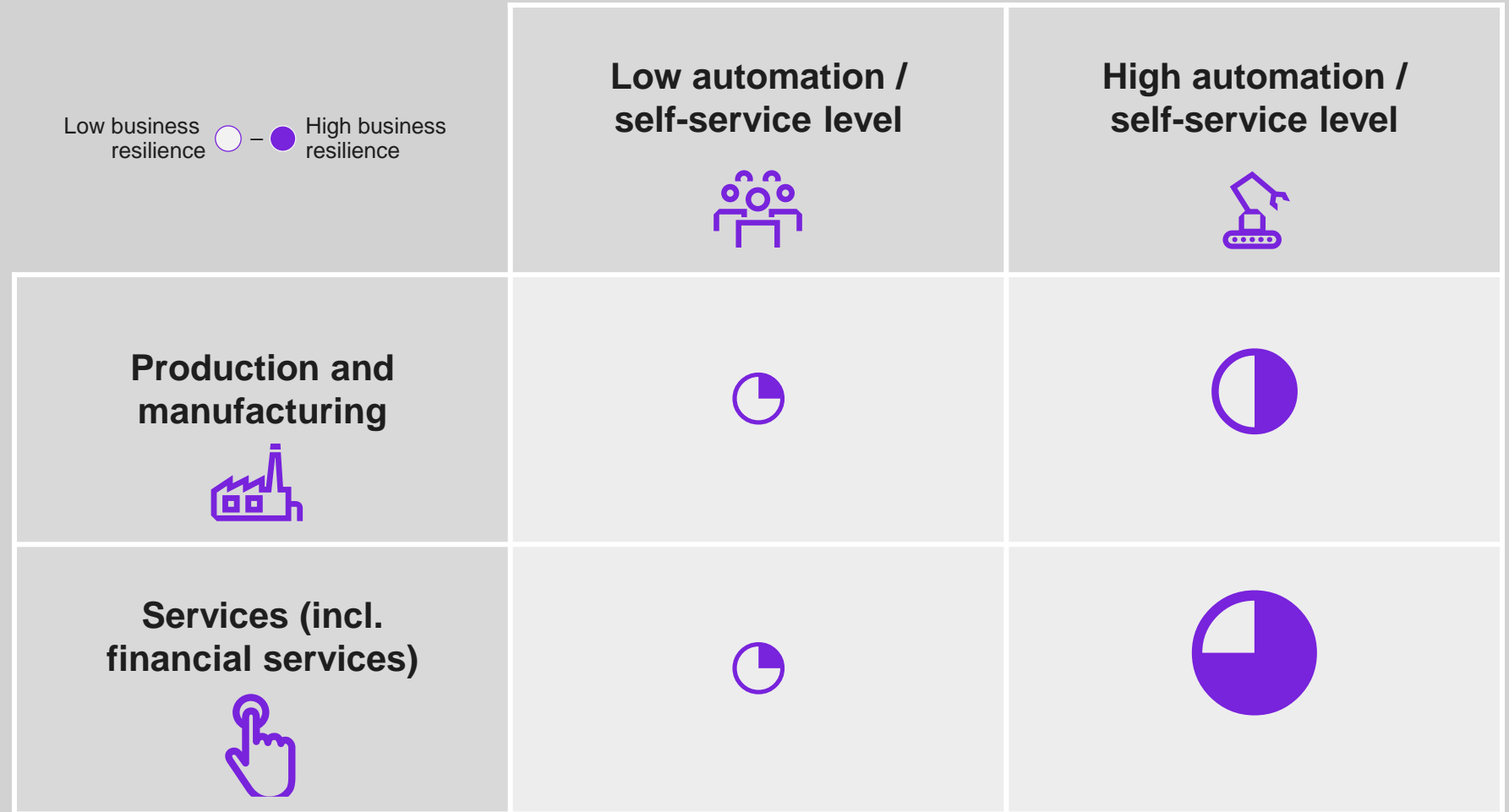
- Focus on empathy-driven, customer oriented communication addressing their immediate needs
- Prioritize organic search optimization over paid traffic through analytics based micro-optimization
- Position original social media content (incl. link to current crisis) to drive traffic

Identification, prioritization and automatization of processes allows to limit negative influence of pandemic effects on businesses in the future

Make processes more resilient to crisis in the future

6

Highly automated processes requiring limited human involvement and based on **state of the art information technology** (e.g. online opening of bank accounts) or **cutting edge industrial robotics technology** (e.g. production of high-tech home appliances) are significantly less effected by a pandemic



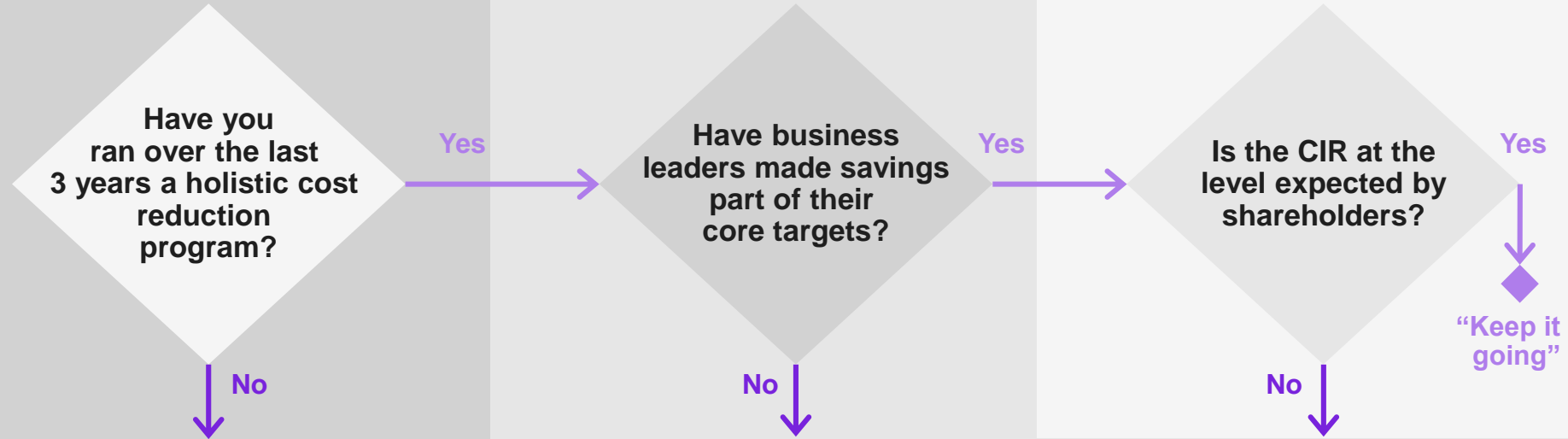
Source: Kearney

COVID-19 crisis will leave financial institutions challenged on costs: considering the right approach now will ease the situation later

Get ready to run a RESET cost transformation

6

Kearney approaches to step up efficiency



Capture FIT opportunities

1

Pursue savings in **specific** elements of the cost base (e.g., HQ personnel, IT vendors, marketing spend) through **tailored initiatives**.

Establish integrated cost management model with new:

- Governance
- Processes
- Management information

Source: Kearney

Implement zero-based discipline

2

Conduct **extraordinary budgeting exercise** applying:

- Planning from zero approach
- Deep cost visibility (PxQ)
- Value targets & benchmarks
- Dual governance
- Proven toolkit of efficiency levers

RESET business model for efficiency

3

Establish a new end-to-end vision of the entire bank costs (“full stack”) that cut across the siloes of established organizational units.

Reset the ambition for efficiency and select key processes driving results.

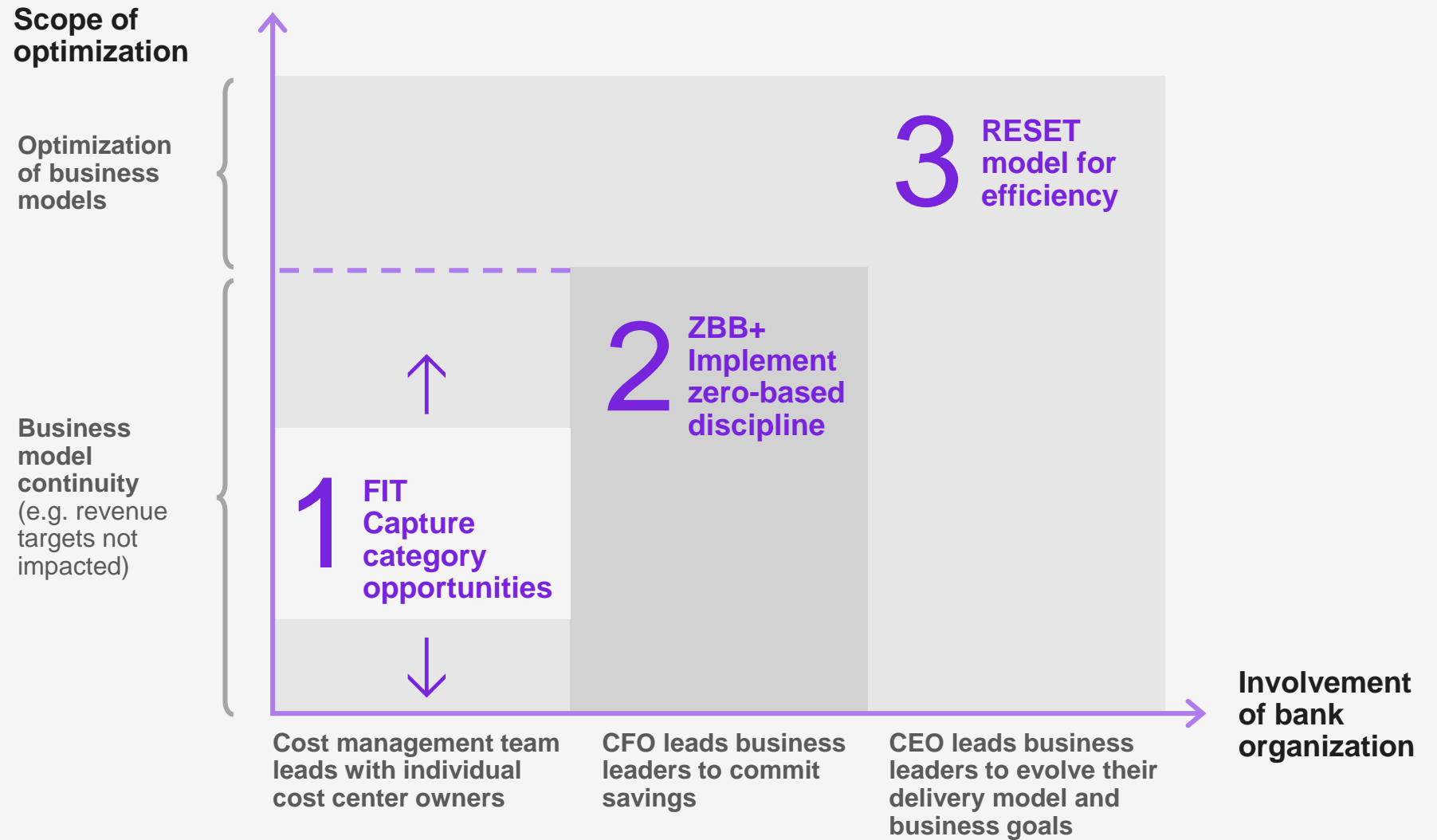
Apply “radical” redesign / rationalization through *LiveFlow* and *Reflex* methodologies.

Given potential magnitude of COVID-19 impact, RESET is a likely scenario that requires close cooperation of business, operations and cost areas

Get ready to run a RESET cost transformation

6

Kearney approaches to step up efficiency



Legal context

The situation surrounding COVID-19 is dynamic and rapidly evolving, on a daily basis. Although we have taken great care prior to producing this document, it represents Kearney's view at a given point in time. This document is not intended to: (i) constitute medical or safety advice; nor (ii) be seen as a formal endorsement or recommendation of a particular response. As such you are advised to make your own assessment as to the appropriate course of action to take. Please carefully consider local laws and guidance in your area, particularly the most recent advice issued by your local (and national) health authorities, before making any decision.

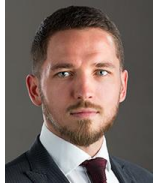
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