MEDIA RELEASE
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SA's financial services sector – A roadmap to recovery post the pandemic

Financial services institutions are well placed when it comes to scenario planning. Their past experiences should assist them in navigating the local and global markets, as the nation comes out of a devastating pandemic.

The global economy is projected to contract sharply by 3.2% this year, according to the United Nations World Economic Situation and Prospects mid-2020 report. It is expected to lose nearly $8.5 trillion in output over the next two years due to the Covid-19 pandemic, wiping out nearly all gains of the previous four years.

The sharp economic contraction, which marks the sharpest contraction since the Great Depression in the 1930s, comes on top of anaemic economic forecasts of only 2.1% at the start of the year.

"Covid-19 is a black swan event disrupting social and business activities across the world with unknown consequences and duration," says Hentus Honiball, a partner at global management consulting firm Kearney.

In response to the pandemic and based on research conducted in the 40 countries in which Kearney operates, the firm released a report on the business implications that the coronavirus pandemic holds for the financial services sector.

"The financial services industry is double-exposed to the pandemic; in their own business model as well as through the risk of clients' default (in case of banks) or new claim patterns and investment income challenges (in case of insurers). In the long-term, Covid-19 will drive new opportunities for financial institutions through changing perspective of clients on ensuring risk and preparing for unexpected situations," Honiball points out.

He explains that safety, productivity, and connectivity of employees, as well as giving back control to clients and stabilizing operations are the most important business responsibilities that companies need to take into account.

"The time to act is now, both in response to the long- and short-term impact of the pandemic," Honiball adds. "The three key pillars of the response should rest on safeguarding employees, engaging, and supporting clients and business, and adapting a company's operating models."

Kearney's research, Honiball explains, points to three plausible scenarios playing out for the financial services sector:

- The V-shape – pointing to a quick recovery.
- The U-shape – 2020 is gone, but it will be fine; and
- The L-shape – indicating 18 months of downturn and recession.

"The necessary protective measures need to be taken, rigorously and immediately. Financial institutions should urgently start working on post-pandemic threats and opportunities. Lessons learned from the 2008 Financial Crisis should be used to guide these measures," Honiball says.

The measures that should be implemented to prepare for the three plausible scenarios include:

- Transform the organization workforce and talent management processes

- Accelerate digitalisation of customer-facing processes to enable E2E (exchange to exchange) self-service
- Lead new value propositions and development of new products and services, addressing the new types of need for financial services, such as; government-supported growth, re-establishing credit facilities, new types of insurance products and trade finance solutions
- Increase process automation to make companies more immune in the future
- Adapt operating model and its costs, getting ready to run a reset transformation in case one of the worst scenarios materialises.

Honiball recommends regular scenario planning as well as adjustments to business forecasts and objectives.

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

"Further actions involve bi-weekly reviews of scenario parameters and frequent stress tests, regular revision of performance ratios and early warning signals criteria, a regular review of the strategic project portfolio against new priorities, and the integration and refinement of mitigation actions respective to the relevant scenario that is playing itself out," he says.

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