

Emerging from the crisis:

Findings from global financial services research

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The events of 2020

marked a year of unparalleled uncertainty and speed of change.

The coronavirus pandemic impacted millions of people across the globe and created an unprecedented decline in the world economy; social unrest in the U.S. brought to light racial inequities that are now being examined across the globe; and uncontrollable wildfires have pushed many to reconsider their individual and collective impact on the environment and climate change. Undoubtedly, 2020 has been a year of significant change.

However, the incredible difficulties of 2020 pushed leaders and organizations to react in extraordinary ways.

Organizations underwent strategic transformation in months rather than years, and leaders who responded to the crisis with curiosity, openness, and a willingness to learn and pivot quickly achieved impressive business results in a poor economy. There is deep insight to be gained from these responses.

Financial services organizations have served as a central shock absorber for countries and economies impacted by the crisis and will continue to bear the brunt of the extended impact of the crisis. **As a result, financial services organizations will continue to experience significant change and transformation over the coming years.**



Research and Methodology

BTS sought to explore this transformation and conducted research interviewing 45 executives across 21 financial services organizations in 15 countries, which included the United States of America, Mexico, Brazil, Argentina, Spain, Portugal, Switzerland, Italy, United Arab Emirates, Bahrain, China, Singapore, Thailand, and Australia. Of the banks included in the study, three were large global banks with significant operations across most of the world, whilst the remainder were more regional in nature servicing more discrete geographies. There was significant variety among the institutions selected, which ranged from full-service banks to retail, private and investment banks.

The research was focused on responding to two critical questions:

1. When banks start emerging from the crisis, what will be their focus?
2. How will financial services have transformed as a result of the crisis?

To examine these questions, the research focused three key areas:

- The impact of the crisis on transformation and strategic initiatives
- The changing world of work for financial services employees and how the process of engaging with customers has changed, especially in the new virtual environment
- Changes in the customer journey, experience and needs brought on by the crisis, as well as doubling down on the changes brought on by shifting to primarily virtual and digital interaction

The research leveraged a multidisciplinary approach, spanning a range of BTS focus areas, including sales and marketing, innovation and digital transformation,

organizational change and transformation, strategy alignment, and leadership, to gain deeper insight from the interview responses.

The goal of this project was to explore how the financial services industry, which was poised for major disruption by fintech organizations and various technologies, would respond to the crisis. Despite financial services institutions traditionally acting as shock absorbers to economic disruption, historically the disruptions have been localized to certain markets and instruments. Never before has the industry been tested in such a widespread and global manner. Institutions' responses to the crisis have the potential to make or break the future of the industry.

At the heart of the financial services industry's transformation is a set of leadership responses and decisions as well as trends and challenges. Another goal of this research was to identify some of the "weak signals" emerging from institutions' recovery efforts. Understanding these weak signals will enable institutions' leaders and their teams to develop the required capabilities to thrive and accelerate results, thus expediting the recovery.

Results

Five key insights

Across all the data collected, there were five major insights that consistently emerged regardless of region, size of bank or type of organization.

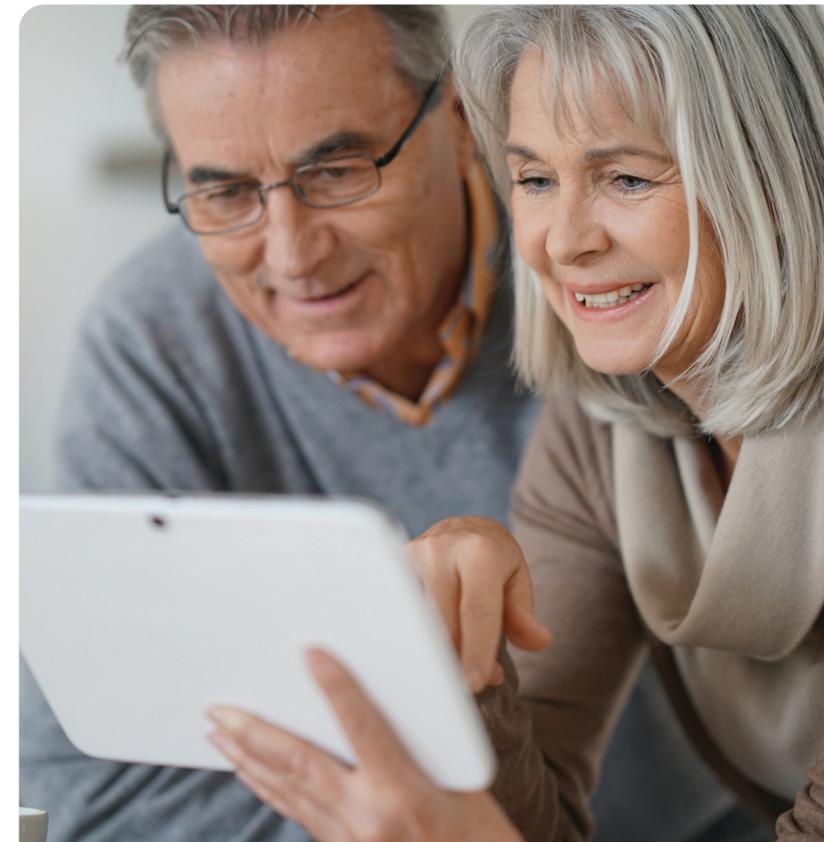
1. Deep focus on the customer and the employee during the crisis

During the crisis, financial institutions developed a hyper focus on customers and employees, and all other functions of the bank became subordinate to ensure the safety and security of customers and employees. Institutions recognized the need to identify both how they could help their employees get through the crisis and how they could maintain customer retention and contact. Institutions also needed to ensure that customers had access to the necessary services and felt supported during this difficult time. Those that had strong guiding principles to help them navigate challenging decision making and tradeoffs – clarity of purpose and proposition to the customer – were better equipped to take on the challenges of the crisis.

2. Simplification of customer and employee “care abouts” enhance the customer experience

Institutions shifted to focus more fully on their core business and value proposition as well as key employee and customer care abouts. Both employees and customers were undergoing a new virtual experience. For many employees,

this was the first time they’d engaged with customers virtually without access to their bank or supervisor. For customers, the virtual environment was also something new to navigate, as they did not have access to the physical channels they were accustomed to. Helping both employees and customers connect through non-physical channels was critical for all banks to be successful in the crisis. Those that identified this as an opportunity to reshape customer journeys experienced higher employee and customer engagement.



Five key insights (continued)

3. Embracing the crisis as an opportunity to accelerate a new digital strategy

Overwhelmingly, institutions described how the crisis was the perfect opportunity to shift or accelerate their digital and business transformation strategy. Institutions that were especially successful understood that this transformation was not simply about shifting employees to “working from home,” but rather a transformation to working from anywhere. Traditionally, financial services organizations have relied heavily on physical infrastructure, but this dependency is quickly coming to an end. Customers were required to use virtual banking amidst the crisis, and it seems this trend will continue to gain momentum as customer behaviors normalize in non-physical channels. Institutions have had to reimagine customer engagement and new customer acquisition, which has begun to reshape the business and financial services channels.

4. Speed and agility trump size

In the new virtual approach to financial services, institutions recognize that they are operating more like software companies than banks in their approach to providing services to customers. In an effort to innovate quickly and meet the emerging needs of customers, existing processes for risk mitigation and compliance in testing and launching

new products or systems were pushed aside. This shift called into question whether the existing processes were actually necessary. Speed and agility were prioritised for decision making , as was the introduction of new products rather than the historical over reliance on compliance considerations and fastidiousness. Technology was the critical enabler of this transformation, and customers will continue to expect this level of responsiveness to changes in their needs moving forward.

5. Balancing and reinventing risk appetite and business model to survive long-term implications

Institutions were required to rethink their risk appetite and model for long-term survival. Traditional mindsets around credit, lending and operational risk were reconsidered. Changes both internally and externally caused institutions to rethink their risk models. Internally , institutions adopted new models not previously contemplated such as shifting entire call centers to ‘work from home’ and standing up new operating models and processes at speed in alternate geographies. Externally, shifts caused by the crisis, like reduced car use and decreases in corporate construction, have forced institutions to reshape their risk appetite models.

These five themes summarize the main points derived from the three focus areas. The following sections will provide a deep dive into the research for each area, highlighting additional points that are specific to each section.

The impact of the crisis on transformation and strategic initiatives:

Accelerating transformation

"The WHAT hasn't changed but the HOW has. It is a better normal."

"We went from 39 transformational priorities to 3."

"...forced us to do these things quick and revisit old paradigms."

"Products being stood up in 72 hours not 15 months."

Increased focus and simplification

Progressive institutions have shifted their strategy to focus more on what customers value most, reducing the number of initiatives they are working on so they are exceptional at the ones they do pursue.

Before the crisis, institutions provided a vast array of services targeted towards a wide audience. Amidst the crisis, institutions could not continue providing all the services they had previously. They needed to gain clarity on their strengths to identify where to focus their efforts. Customer needs provided the solution. Customers helped institutions gain a deeper understanding of their most valuable services, thus allowing institutions to simplify their focus and narrow their purpose.

Risk appetite for innovation has shifted

Shifts in customer behavior as a result of the coronavirus pandemic have created the opportunity for financial services institutions to be more open to innovation and running accelerated experiments.

Historically, financial institutions have been extremely risk averse, and innovation has been slow and limited. However, through the crisis, institutions have been forced to move at the speed required to serve emerging customer and employee needs. This has resulted in rapid-fire innovation. Customer and employee needs have served as a north star, driving institutions to innovate. In turn, banking teams have also learned to work in new ways. Rather than being constrained by siloed lines of business and teams, the shift to center all projects around the customer and customer outcomes has resulted in new processes for innovation and the products produced.

Accelerating transformation (continued)

Sunk cost bias in core banking systems versus cloud and fintech partnerships

The unique drive for urgency in making strategic decisions on cloud and fintech partnerships has resulted in value-added services for consumers.

Historically, big banks have viewed their core banking platforms as a key driver of their value propositions. Given the significant sunk costs associated with core banking systems, institutions have consistently remained committed to their ongoing evolution despite often the prohibitive cost and timeframes associated with enhancements. Frequently, the absence of those enhancements has resulted in sub-optimal customer experiences and inefficient and inflexible processes.

Throughout the crisis, large institutions have increasingly partnered with cloud and fintech companies to offer services and functionality that customers truly care about and value. Core banking systems will continue to remain vital for large banks, but with added benefits that are a result of innovation in partnering with cloud and fintech providers.



The gap has narrowed on fintechs as an alternative to banks

Prior to the crisis there had been a migration of customers to fintechs choosing to opt for solutions and services that more closely met their discrete need over institutions that can offer a 'one stop shop'. The recessionary nature of the crisis has also disadvantaged fintechs with less investment available coupled with consumer sentiment favoring more long-standing institutions.



Accelerating transformation (continued)

Historically, fintechs were successfully gaining market share by offering more specialized and personalized offerings. With their ability to stand-up new products in market, and the flexibility to both go deep and be agile, fintech organisations have been consistently capturing market share in the digital banking space. During the crisis, some institutions without the budget to create platforms of their own turned to fintechs to leverage their platforms. Others have been forced to create platforms quickly throughout the crisis to ensure that they can meet customers' emerging needs.

In summary

Ultimately, the nature of transformation in the financial services space has not changed. However, it has accelerated significantly. Institutions with an aggressive digital transformation strategy prior to the crisis found themselves in an optimal position because they had in place many of the systems needed for digital transformation and rapid innovation. The latest phase in financial services transformation has been crystalized by both their customers and employees. These needs have forced institutions to simplify products and streamline purpose, and they are the core foundation for driving innovation and change.

How the process of engaging with customers has changed:

The changing world of work

"Our strategy hasn't changed - it has just bought our purpose to life.."

"We identified the need to increase across the whole workforce an understanding of the importance of digital and data."

"...it looks like half the number of people want to work from home and so we may need half the real estate."

"We also want our people to act responsively to the new normal even before it becomes clear, hence, we also need mindset that opens to accept failure (fail fast, learn fast)."

Work from anywhere will be the new normal

The pandemic has shifted working expectations for employees, so leaders need to evaluate and redefine the leadership skills, metrics and measures necessary for success.

No longer just about "working from home," the pandemic has shifted working expectations for employees, and talent can now be accessed from anywhere. Addressing these shifts, leaders need to evaluate and redefine the leadership skills, metrics and measures necessary for success. Physical activity is now difficult to monitor, so output becomes the key metric for evaluation of productivity. Leaders and managers will need to be able to flex with their teams as they work partly at home and partly in the office.

The changing world of work (continued)

Agility and flexibility are basic survival skills

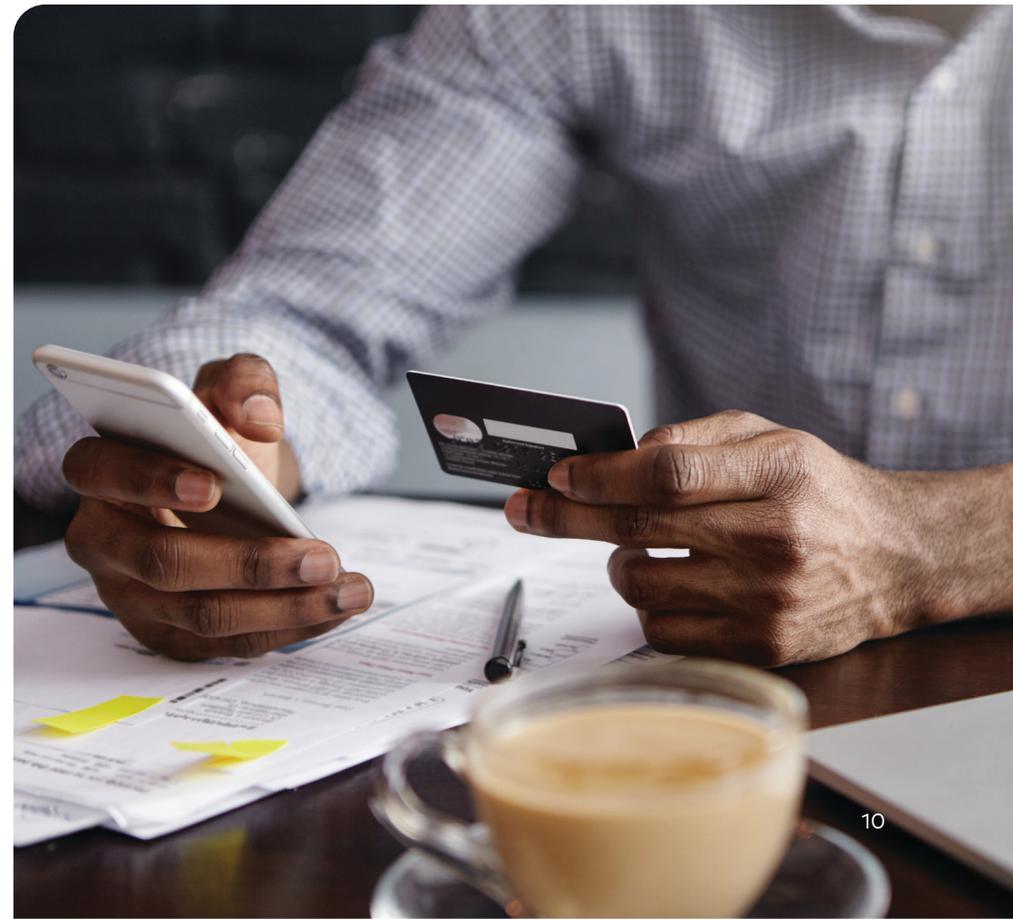
As the crisis continues, a return to "normal" is increasingly unlikely. All people and businesses must become comfortable operating in a state of uncertainty.

Emerging from the crisis will require leaders and employees to adapt and respond to emerging opportunities. As the situation is prolonged, with continued waves of infection rates, it is clear that the impact of the current situation will be a protracted one. The more protracted the impacts, the less likely the situation will return to past norms – or even resemble them. Business planning processes and cycles are also impacted. This uncertainty will require teams to be able to pivot initiatives to either shape or respond to new customer insights and market trends. This is true for both employees and managers.

Customer needs and renewed purpose will shape future capabilities

As customers are forced away from direct channel interactions, future capabilities will focus on virtual customer engagement, which needs to be proactive and outbound.

Most banking employees are accustomed to serving customers via face-to-face interactions. For banks to survive in the future, employees need to be comfortable interacting virtually and be proactive about serving customers through outbound outreach rather than relying on customer initiated enquiry. This will be particularly amplified as customers are forced away from direct channel interactions.





The changing world of work (continued)

Key skill sets and capabilities will require being more comfortable with data

Without a predictable model for the future, employees need to be data savvy and mine insights from the customer, rather than relying on past experiences.

Moving into digital and virtual spaces enables a greater collection of customer and market data. Given that there are few pre-existing scenarios to model the coming years, the ability to use data to search for causation and correlation to support business cases and ultimately shape decisions is limited. Instead, employees need to be able to mine customer data to develop unique customer insights, build business cases and make decisions that are data driven. These will be used for new product development and creating the risk models of the future.

Innovation and digital transformation need to be done with customers and employees in mind

Employers who want to retain and attract the best talent as well as retain their customers will need to rethink and reshape the customer experience, services and products.

In the new environment, there isn't time to spend sitting with decisions around digital strategy. Leaders need to pivot so that they are quickly innovating, developing and pushing new products to customers. The new era of banking is one of mass customization, unique services experiences and unique products that effectively have a sample size of one. Banks will need the ability to mine customer data and leverage innovative systems to create products that are easily adaptable and focus on unique customer segments more than ever before. Products need to be customized down to a single customer. While the banking platform or financial services architecture will be the same for everyone, customers will be able to fully customize their experience: with whom they interact, the services they access, to their own exacting needs.

The changing world of work (continued)

In summary

In the foreseeable future, working won't be going back to normal: the current virtual environment is a window into the future of work. In the customer engagement space, this shift may be slower to happen for some institutions, but ultimately the return to work will be significantly different from the past. Branches and contact centers that closed or shifted to working from home may not necessarily reopen. As a result, there will be a shift in the skill sets required to be successful. Banking professionals will need to develop virtual fluency, and organizations will need to reexamine the skills needed for engaging customers virtually and remotely.

Another piece of the changing world of work is the vast amount of data that can be collected in a virtual environment. Once captured, this data can be used to draw insights and then be monetized. In addition, not everyone will be coming back to work, so the physical structures of banks will shift dramatically. In terms of working from home, there will be increased challenges around security, health and safety, and shifts in the risk profile of workers. Moving into the future, leaders need to be responsive and quick to make decisions. They need to take on an innovative mindset and accept the idea of failure, but also fail fast and cheap with the mindset of being able to learn from mistakes.



Changes in the customer journey, experience, and needs brought on by the crisis:

Customer journey transformation

"People have been digitally engaged. We have seen additional engagement from advisors and clients who shied away from it in past. Now had no choice..."

"We were responding to customer issues and now we are responding to customer needs."

"...Before COVID 19 only 5% of our interactions were digital, whereas more than 25% interactions are now. Resetting will happen and this will slip back but it has accelerated our experience hugely."

"The relationship with the customer and customer journey needs to be redesigned."

"We need to not only switch to digital/ technological tools, but also rethink the business itself."

Clients have shifted to digital channels, but their requirements remain constant

As more customers adopt digital and virtual channels for banking, their basic service needs remain the same but the way they access those services has shifted.

Customers have shifted to digital channels, but are missing some of the emotional connection they felt before the switch. As a result, bankers need to develop new strategies to cultivate relationships that ensure customers continue to feel connected. In the virtual environment, customers are also demanding a new level of security not required in the past. Account information and personal information are now fully accessible at anytime, anywhere, and institutions need to make sure their customers know it is safe.

Customer journey transformation (continued)

Client expectations regarding decision making have shifted

Faster, more agile decision making is the expectation. Institutions are now more virtual and customer-centric, changing how institutions connect with their customers.

Throughout the crisis, institutions pivoted quickly to meet customers' emerging needs. This level of responsiveness is now the expectation. Customers will only continue to demand more sophisticated personalized services and offerings at speed in the future.

Traditional sales approaches will need to evolve quickly

Customers have adapted to new approaches more quickly than anticipated, including the elderly.

Customer acquisition models need to evolve to embrace contactless engagement, transactions and interactions that have enhanced security and ensure customers feel that their personal information and property is safe. The hybrid model of selling will be a common approach. Bankers need to evolve the way they engage with clients and ensure they have both virtual and face-to-face fluency to make sales happen. In addition, a new method of measuring the efficacy of this approach is critical.

Rising needs for artificial intelligence

Institutions targeting deep specialization in customer needs are looking to AI and machine learning to surprise and delight their customers.

While AI and machine learning are useful tools for data collection and serving up targeted offerings, financial services employees must have a deep understanding of the tools to maximize their value. Data alone is not useful without insights, so employees need to be able to interpret the information in a way that serves the business. In addition, AI and machine learning are not yet sophisticated enough to serve the emotional connection clients desire, so employees will need to continue managing relationships for institutions to grow.

In summary

As a result of the crisis, institutions have largely shifted their interactions with clients to the virtual environment, which represents an increase in virtual connection between 5 and 25 percent, sometimes more. This shift has marked an incredible change for most institutions, which are accustomed to face-to-face engagement. The virtual environment does not provide the same emotional connection that customers are accustomed to and as a result, customer-centricity is being redefined. Institutions must reexamine how they establish an emotional connection with their clients in this new environment and the skills their people need to navigate this transition. A new way of measuring performance will be necessary. This will be done by measuring process metrics linked to new behaviors that accelerate the customer's purchase decision process.

Conclusion

The events of 2020 have caused massive transformation for financial services institutions. By responding to the immediate needs of customers and employees, they sparked innovation, a simplification of services and streamlined organizational purpose. Old institutions sought new partnerships or innovation within the cloud and fintech spaces, and many were able to catch up to some of their smaller, more agile competitors. To sell in the hybrid virtual and face-to-face environment, institutions are recognizing the need to shift bankers' skills and how they measure success.

On the horizon, AI and machine learning offer new possibilities that require not only sophisticated platforms, but also capable employees who can translate data into insights that can be leveraged to grow the business. 2020 has been an incredible year, both devastating and awe inspiring, and the trends that have emerged will undoubtedly change the way financial services organizations operate forever.

About BTS

BTS is a global professional services firm headquartered in Stockholm, Sweden, with over 1,000 professionals in 32 offices located on six continents. We focus on the people side of strategy, working with leaders at all levels to help them make better decisions, convert those decisions to actions and deliver results. At our core, we believe people learn best by doing. For over 30 years, we've been designing fun, powerful experiences that have a profound and lasting impact on people and their careers. We inspire new ways of thinking, build critical capabilities and unleash business success.

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