Reimagining Indian retail banking: The impact of COVID-19 and way forward

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# Table of contents

1. Impact of COVID-19 on retail banking  
   
2. Key focus areas  
   
3. Recommendations  

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Reimagining Indian retail banking: The impact of COVID-19 and way forward | 2
Impact of COVID-19 on retail banking

The financial institutions worldwide have been constantly evolving their businesses due to regulatory and competitive pressures, stressed interest rate regime and changing customer expectations. The ongoing COVID-19 pandemic further poses a serious challenge for them. Financial institutions are finding it difficult to manage their daily operations while ensuring that their services are not disrupted and there is no decline in their market share. While think tanks of financial institutions are occupied with managing the crisis in the short term, their strategic focus would be on preparing for the future.

Challenges in retail banking

Banks form the backbone of every economy and play a critical role in the lives of citizens by providing them with essential financial services. It is important for banks to remain operational during such a crisis. However, like other organisations affected by COVID-19, banks would also need to undergo certain long-term changes in the way they function. They will need to adhere to the guidelines on social distancing and safety precautions in their branches and offices. This can create challenges such as:

- decline in revenue generation due to lower customer footfalls, lower demand, reduced and remote working of staff
- likely stress on net interest income owing to skewed interest expense
- requirement of additional provisioning owing to an increase in expected stressed assets
- higher costs for ensuring ‘lights on’ operations.

In spite of these challenges, there is a significant opportunity for banks to transform themselves in areas such as cost optimisation, digitalisation and productivity, and become resilient, agile and profitable.

1.3% increase in credit cost ratios for banks in India in 2020 due to the COVID-19 pandemic

Source: S&P Global

10% higher provision to be maintained by Indian banks for all loan accounts which have opted for the moratorium scheme

Source: Reserve Bank of India
Some key questions related to banking in the current context revolve around customers, employees, assets, profitability and sustainability.

**Customers**

- Customers have realised that banking does not stop even if they can’t visit branches. Would this change customer behaviour and how they interact with banks? What are the implications of this on the physical channel design of banks? Will customer sentiment and preferences shift, leading to a shift in loyalty?

**Profitability**

- Is this the right time to cut costs? How can banks optimise their operating expenses as they redesign future retail banking models? Should banks relook at using their physical assets to retain and improve utilisation rates?
- Which costs can banks continue to incur to yield profitability and which costs put additional pressure on the bottom line? How can banks segregate good and bad costs?

**Employees**

- Can banks deploy some innovative compensation models to boost productivity while optimising manpower costs? Do banks have enough tools to monitor and boost productivity, and ensure quality and compliance for remote working conditions for employees and vendors?

**Growth**

- Is it possible to sell more products remotely? Does being at home or any other environment improve or reduce productivity?
- How can banks accelerate an assisted digi-sales model where both the seller and the customer are more comfortable with digital channels?

**Sustainability**

- Are some of the current operational processes of banks redundant in current times? Can they re-engineer themselves to become suitable to the current times and the future?
- Has investment in technology by banks in the past played to their advantage? What should the focus areas for future expenditure be?

To address some of the above questions, we discuss some of the key areas that banks can focus on and step up their efforts to continue operations.
Key focus areas

Banks will need to look at short- and mid-term tactical initiatives during the crisis, along with focusing on long-term strategic initiatives. Early focus on a long-term strategy will be critical for the profitable growth of banks. The key areas for banks to focus on will be:

1. Re-engineering the business continuity process
   Building resilience in processes to ensure smooth services for customers across touchpoints, branches, ATMs, call centres, digital assets and support operations.

2. Cost optimisation
   Ensuring sustainability and protecting the bottom line by reducing costs, without any counter-productive effects on growth.

3. Digital transformation
   Embracing and evolving with digital capabilities to enable contactless sales, services and customer-employee/employee interactions.

4. Asset-lite operating model
   Shifting to an asset-lite model, with a larger focus on digital platforms and remote working, thereby reducing fixed costs without any disruption to services.

5. Productivity
   Keeping employee productivity high amidst the COVID-19 crisis will require innovative efforts beyond the usual crisis-management playbook.

6. Reset outlook, strategy and plan
   Looking at the larger picture and channelising efforts in potential growth areas while withdrawing from cost-inefficient and non-essential segments.

To continue servicing customers, banks will have to continue operating under continuously changing scenarios
The Government of India (GoI) and the Reserve Bank of India (RBI) have been taking various initiatives to inject liquidity into the banking system and provide some respite to customers during the COVID-19 crisis. One such measure was offering a three-month moratorium on term loans. This has led to a spike in customer queries and service requests. Similar queries are expected from customers about product features, charges, EMIs, etc., once the moratorium period ends. Banks need to have a responsive and scalable service channel to respond to customer queries.
Most Indians continue to use physical channels for their banking needs. While banks are encouraging their clients to use low-touch mediums, they will have to manage their touchpoints while adhering to the guidelines on social distancing. This will require deployment and adoption of technology, and development and implementation of new standard operating procedures (SOPs) for both customer-facing and internal branch operations.¹

<table>
<thead>
<tr>
<th>Customer touchpoints</th>
<th>Challenges</th>
<th>Potential areas of focus</th>
</tr>
</thead>
</table>
| **Branches**         | Ensuring social distancing while servicing customers | • Maintaining flexible office hours to spread customer footfall and rotating staff to maintain social distancing norms  
• Segmenting branches by COVID-19 severity zones and implementing ‘visit by appointment only’ policies in critical areas |
| **ATM operations**   | Managing higher demand due to customers preferring not to visit branches | • Defining ATM operations SOPs for client access to machine and sanitisation for self and partnered ATMs  
• Encouraging higher usage of mobile banking to further reduce branch and ATM footfalls  
• Minimising ATM downtimes with cash management and technology support  
• Promoting digital transactions via focused campaigns |
| **Call centre operations** | Accommodating increased customer queries related to loan moratorium, charges, product features, credit cards and branch appointments | • Encouraging the use of bots while strengthening their capability  
• Tailoring interactive voice response (IVR) systems to align with current needs  
• Aligning contact centre goals to increased volumes and adjusting staffing models  
• Redefining contract service-level agreements (SLAs) for stricter standards and deploying watertight SOPs for smoother operations |
| **Internal operations** | Back office operations – maintaining SLAs and controls as activity increases and supervision depth reduces | • Re-engineering processes for new environments and implementing stricter SOPs and SLAs  
• Mandating the adoption of technology-enabled solutions that may have been underutilised  
• Rebalancing workloads across operational sites |
|                      | Third-party support – managing vendor performance as vendors may also be exercising remote working options | • Reviewing business continuity planning (BCP) and financial health of vendors  
• Removing non-essential vendor services and onboarding additional vendors for essential services |
|                      | Controls and policies – keeping a track of fraud and execution risk | • Setting up cross-functional teams and revising review rhythms to higher frequency  
• Emphasising documentation requirements |
|                      | Employee compensation and benefits – managing staffing levels and compensation models across the organisation during and after the COVID-19 crisis | • Shifting earnings model for employees towards load-based variable pay and implementing a roster system  
• Driving digital adoption via training sessions and incentives  
• Exploring wellness initiatives across the organisation and providing additional compensation for frontline workers |

¹Refer to our recommendations on p. 10.
2. Cost optimisation

Since revenues are under pressure, banks need to optimise costs to ensure that their bottom line is protected. The COVID-19 crisis can be seen as an opportunity for a bold cost transformation.

It is important for banks to differentiate between good costs and bad costs. Good costs will enable smoother functioning and growth, while bad costs can be terminated. Banks can identify initiatives based on the implementation time required and focus on quick wins while they keep working on long-term initiatives. A few areas that banks can focus on for cost optimisation are discussed below.

**Corporate**
Separate must-have costs from nice-to-have costs.
Halt the near take-off of projects that have a low impact on revenue or productivity.
Identify opportunities to reduce real estate expenses.

**Short term**

**Back office**
Identify processes for automation.
Define watertight SOP and SLAs to enable remote-working conditions.

**Mid term**

**Procurement**
Streamline and re-negotiate contracts via a rapid-sourcing process.

**Customer service**
Develop digital processes to resolve maximum queries.
Make a list of frequently answered questions (FAQs) and increase the use of chatbots.

**Information technology**
Monitor the usage of systems and implement processes to remove underutilised assets.

**Long term**

**Marketing**
Take a closer look at spending to acquire customers and reduce the cost of acquisition.
Evaluate the efficacy and capability to bring in-house media and media analytics expenditure.

Most organisations routinely undergo cost-cutting exercises but costs keep coming back into the system, affecting the cost ratios of an organisation and demoralising employees. Although these cost-cutting measures may have shown results in the past, the same methods may not be effective due to complexities arising out of COVID-19.

“Which of the following financial actions is your company considering, as a result of COVID-19?”
– One of the questions CFOs were asked in PwC’s COVID-19 CFO Pulse Survey

<table>
<thead>
<tr>
<th>Financial Actions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferring or cancelling planned investments</td>
<td>77%</td>
</tr>
<tr>
<td>Changing company financing plans</td>
<td>77%</td>
</tr>
<tr>
<td>Adjusting guidance</td>
<td>77%</td>
</tr>
<tr>
<td>Changing M&amp;A strategy</td>
<td>77%</td>
</tr>
<tr>
<td>We are not considering any financial actions as a result of COVID-19</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: PwC’s COVID-19 CFO Pulse Survey
3. Digital transformation

The Indian banking sector embarked on the digital transformation journey a few years ago. While the initial objective may have been to counter the competition from tech-savvy, new-age players, the COVID-19 crisis could be a game changer, pushing banks to adopt digital technology. It is important not only to handle the COVID-19 crisis, but also prepare for post-crisis recovery. Since both urban and rural India have high mobile penetration and access to data, banks can look to expand digitally. Additionally, the present circumstances have increased familiarity with technology use among both sellers and customers. Banks can work with technology providers or create their own digital solutions to enable digital banking for their customers. Similar digital initiatives are required to empower employees, vendors and other stakeholders. A few initiatives that banks can focus on:

- leveraging artificial intelligence (AI), including natural language processing and emotional recognition capabilities across customer touchpoints
- digitally enabling the salesforce to generate sales within the work from home (WFH) model
- identifying potential partner FinTechs in various categories such as payments, onboarding, credit underwriting and collections, and partnering with them quickly to enable contactless services
- shifting a higher share of the marketing budget to digital acquisition
- developing the corporate ability of remote collaborative working and enhancing employee experience with digital interfaces
- strengthening data and cyber security measures.

4. Asset-lite operating model

In the coming months, key cost ratios of banks are expected to be stressed, which will compel banks to rethink their fixed cost strategy. The key elements of an asset-lite operating model will be:

- digital assets for customers and employees alike
- consolidation of footprint and optimising real estate
- remote workforce support
- outsourcing non-value-add or specialist services.

The key benefits of adopting an asset-lite operating model are lower recurring fixed costs like rentals, lower support and maintenance costs, direct connect with customers, higher utilisation of self-service platforms and easier compliance with standards/regulations.
5. Productivity

FY21 has, thus far, been a stress test for the banking sector. The sector continues to provide services to customers while planning to optimise its delivery models. For the revenue-generating workforce, productivity is under stress owing to the social distancing norms. On the other hand, for the non-revenue generating banking workforce, the systemic challenges of access and connectivity are proving to be restrictive.

The current crisis is different from previous crises due to various factors such as large numbers of people working remotely and challenges related to working space, privacy and technological infrastructure. A few initiatives that banks can take to enhance productivity are:

- developing capabilities to deploy non-human digital labour
- reducing effort leakage with strict monitoring and lead management systems
- boosting productivity with data analytics support
- re-engineering business processes to define workflows by activity and not time, and utilising workflows management tools to cope with current situational demands
- using performance monitoring tools to support clearly defined key result areas (KRAs) and key performance indicators (KPIs) for responsibilities and accountability
- deploying digital tools for enabling sales and services
- reviewing the scope for outsourcing non-essential services to vendors; ring-fencing quality with strict SLAs
- designing training modules for upskilling of employees
- continuing communication with all stakeholders during the COVID-19 crisis.

2Refer to our recommendations on p. 11.

6. Reset outlook, strategy and plan

Banks need to change their revenue outlook due to their reduced ability to lend, low interest income and an increase in stressed assets. They should also be ready to adopt new customer and employee behaviours which might force them to change their business models and strategy. These changes may not be immediately visible, but will eventually have an impact on business.

A few initiatives that banks can focus on are:

- adapting to new customer norms and analysing customer preferences towards channels, products or financial needs, and changing business models accordingly
- ring-fencing profitable customers by providing customised services
- focusing on building a good brand image to earn customer loyalty
- revisiting the strategy for capturing new market segments via new products and channels
- evaluating intra-industry partnerships for sales and services
- reconstructing the resilience plan by incorporating wider exigencies and scenarios.
# Recommendations

## Recommendations on branch operations transformation

### Present situation
With severe restrictions related to social distancing in place, banking operations are expected to change in the future. Banks need to rethink their strategy in order to be more effective and customer friendly. Banking operations in India are primarily centered around bank branches due to the large volumes of cash transactions. Branches are the face of a bank and allow customers to visit and talk to their staff, especially in Tier-II and Tier-III cities in India. Banks should look to educate and help their customers to slowly migrate to digital channels without compromising on their convenience and comfort.

### Continued services to customers
Banks need to keep their branches open to provide vital services to their customers. They would also need to focus on strategy and brand issues that will define their future, as market forces and customer behaviours will be largely driven by how they are addressed during this crisis. Banks need to focus on the following five areas to drive more focused and optimised efforts to tackle the COVID-19 crisis.

<table>
<thead>
<tr>
<th>Branch hour extension</th>
<th>Sales and service planning</th>
<th>Leveraging digital assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusting branch hours, staffing mix and timing (e.g. running five-hour shifts for three slots in a day to give more time to customers and avoid crowding)</td>
<td>Reorganising the workforce, where possible, to maximise infrastructure and minimise travel</td>
<td>Providing online and offline tutorials to walk-in customers</td>
</tr>
<tr>
<td>Switching in-branch visits to appointment-only visits for certain branches</td>
<td>Redeploying higher manpower towards sales</td>
<td>Reviewing appointment/walk-in reasons to see how they might be transferred to virtual, call centre or digital channels</td>
</tr>
<tr>
<td>Defining ‘golden hours’ at the beginning of the day to serve vulnerable segments</td>
<td>Providing customers with an online token system for appointments to reduce crowding</td>
<td>Developing product application end-to-end journeys online for direct and assisted sales</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Optimisation of operational cost</th>
<th>Leveraging existing data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeting for increased hygiene and sanitation costs</td>
<td>Identifying early adopters using analytics and helping them to shift to self-service channels</td>
</tr>
<tr>
<td>Negotiating/renegotiating on rentals/vendor services</td>
<td>Giving staff members access to the data they will need to provide tailored guidance</td>
</tr>
<tr>
<td>Reviewing opportunities to outsource non-value add activities</td>
<td></td>
</tr>
<tr>
<td>Considering intelligent automation tools, if not done already</td>
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</tr>
</tbody>
</table>

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Reimagining Indian retail banking: The impact of COVID-19 and way forward | 10
Recommendations on managing productivity – a checklist

Present situation
The COVID-19 crisis has affected the workforce of banks in an unprecedented manner, and it is unlikely that the financial services industry has dealt with such a workforce crisis. Hence, a series of enablers to help the workforce focus on the critical actions that should be prioritised is necessary. A checklist for such an action plan is given below.

Prepare and monitor the workforce

1. Determine which critical functions must remain on-site and which can be remote
   A bank should determine where it needs to increase or decrease front- and back-office staffing to meet remote work considerations (e.g. increased help desk/support resources, decreased on-site support resources).

2. Refine business continuity plans for critical on-site roles, including:
   • appropriate health and well-being training
   • emergency health response protocols and escalation paths
   • access to healthcare, quarantine sites and evacuation protocols
   • sanitisation protocol.

3. Develop/update remote working policy, including:
   • eligibility
   • remote location confirmation
   • approved tools and practices (e.g. collaboration, virtual access, remote conferencing)
   • security compliance, including physical assets and systems and emergency procedures for workers in remote locations.

4. Refine performance expectations
   Business performance:
   • Set expectations with internal and external stakeholders.
   • Refine business performance measures (e.g. sales, profitability, customer, productivity).
   Individual performance:
   • Anticipate a dip in productivity.
   • Refine goals and incentives (e.g. sales quotas).
   Transition success:
   • Define success metrics for transition to remote working or new work locations under crisis circumstances (e.g. people engagement, readiness for change, security, engaging customers).
   • Demonstrate and exhibit new work practices, i.e. what empathy, incentives, teaming and experience look like.

5. Consider contingent worker and service provider readiness, including:
   • policies
   • capacity and use of contingent workers
   • remote access and technology access/readiness for contingent workers
   • potential liability for contingent workers who may expose other individuals to health risks.
Recommendations on managing productivity – a checklist

Assess technology and tools

6. Determine enterprise IT infrastructure readiness by:
   • enabling secure remote access to business-critical applications
   • arranging bandwidth capacity and load testing to accommodate rich remote working experiences
   • planning for sufficient software licences
   • enhancing cyber security for remote access through virtual private networks (VPNs), multi-device controls, remote identities and virtual desktops, including protection against malware, ransomware, phishing and business email compromises.

7. Review support services, including third-party service provider and vendor readiness.
8. Review the managed device policy, including information technology (IT) provisioning/contingency.
9. Consider end-user experiences.

Lead with purpose

10. Develop communications strategy and plans that consider:
    • internal and external stakeholders
    • communication channels and vehicles
    • cadence and sequencing (e.g. by employee/stakeholder groups)
    • key messages and communications protocols (e.g. media and client responses).

11. Build leadership capabilities for remote working
    • Enable leaders to deliver communication/messaging.
    • Build capabilities in leading through uncertainties, leading virtual teams and new ways of working (e.g. employee engagement, performance, collaboration and well-being).

Execute new ways of working

12. Define ways of working practices (e.g. collaboration, empathy, incentives, teaming virtually, meeting etiquette and inclusive behaviour).
13. Develop and roll out remote working training
    • Include both informational and experiential training as required to demonstrate new and remote ways of working.
    • Blend enterprise-wide training and job-specific training as required.
14. Develop health and well-being considerations specific to a remote workforce.
15. Build leadership capabilities for remote working.
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