How Malaysian banks can keep the lights on — and recalibrate for the future

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The COVID-19 pandemic could be the most serious challenge to financial institutions in nearly a century. As the economic fallout spreads, banks find themselves juggling some big priorities that require concrete steps to reposition now while also recalibrating for the future. They're working to keep their **distribution channels** open, despite social distancing advice and supervisory and compliance functions that were never designed for remote work. They're trying to manage **revenue and customer expectations**, despite growing pressures from regulators to accommodate lending to consumers and businesses.

And, they need to keep an eye on **strategy and brand issues** that will define their future, as market forces and customer behaviours potentially change coming out of this crisis.

It's a tall order. But there are plenty of concrete steps banks can take, right now, to support the communities and customers they serve while balancing medium to long term positioning.

Here's our take on the issues and options facing banks today and some suggested ways to replot the post-COVID-19 strategy.

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Focus business continuity planning (BCP) on issues for survival	Show empathy to your customers while making sound business decisions	Rethink your balance sheet challenges while managing loan stress and customer sensitivity	Find ways to trim your costs quickly	Reset your revenue outlook	Replot the post-COVID-19 strategy

1. Focus business continuity planning on issues for survival

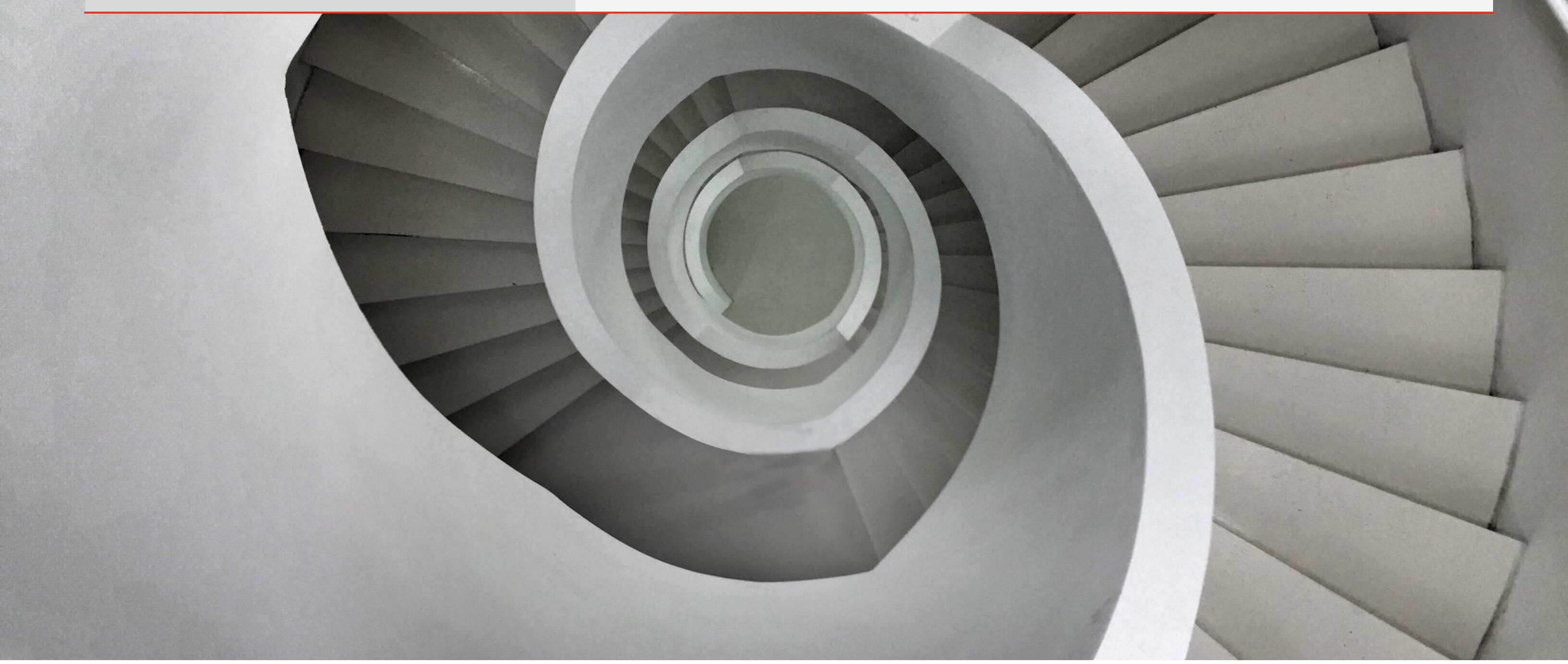
To maintain branch distribution and client service operations without interruption you'll want to manage both branch distribution and internal operations issues. This may require workforce management workarounds such as positioning critical employees for remote work through mass laptop provisioning, enabling secure network access, new bring-your-own-device policies, or even adding an allowance for nominal, related costs. Eventually, it could lead you to revisit the operating model for your branch network.

Branch distribution

Key issues	These steps may help you prepare
Branch operations: ● Your branches may not be set up to support "social distancing" guidelines ● You may have excess real estate capacity after temporarily reducing your branch footprint.	● Close some branches temporarily, following a hub and spoke model to emphasise flagship branches while closing smaller, less used / retail outlets in a similar vicinity. ● Switch in-branch visits to appointment-only. Review appointment reasons to see how you might transfer future visits to virtual, call center, or digital channels. ● Adjust branch hours and staffing mix and times. For example, establish set teams with alternating staffing days to avoid cross-contamination. Additionally, adopt "golden hours" at the beginning of the day to serve vulnerable populations. ● You may want to consider options for idle real estate, such as dispersing call center employees to unused branches. ● Give branch staff, premier bankers, and financial advisors access to the data they'll need to provide tailored guidance—with respect to current challenges and actionable advice for the long-term.
ATM operations: ● Advanced kiosks may be able to take on some work that is currently performed by tellers ● It may get harder to service ATMs (e.g. reload with cash) as disruption spreads.	Promote cashless transactions (e.g., real-time transfers, remote deposit capture) more prominently on marketing screens at ATMs and on digital sites, especially on "Find a Bank" and "Find an ATM" screens.
Contact centre operations: ● Your contact centre may not be prepared to handle a surge in volume, if your efforts to reduce branch traffic are successful. ● One of your contact centres may become contaminated.	● Let your customers know that service levels may change, and encourage them to consider digital alternatives. Make sure your agent metrics reflect the current environment, to avoid unintended behaviours driven by an unrealistic compensation program. ● Adjust staffing models to avoid "hot seating" of agent spaces; this will let you deep clean workspaces and open up crowded work areas ● Explore cloud-based telecommunications systems to help quickly shift calls to agents and/or bankers in remote sites as needed ● For third-party call agents, validate BCP plans to understand the risk of multi-site closures. Look for additional vendors now so you'll be prepared if you need to transfer work. ● Evaluate how you might use automation more effectively to service routine requests (Tier 1 calls), using back office branch or wealth management operations functions for moderately complex functions (Tier 2 calls) and limiting traditional call centre agents to focus on Tier 3 calls. ● Review contact centre productivity metrics to include the changing nature of off-phone work. You may be able to repurpose junior employees to take on some post-call functions to increase your throughput. ● Take advantage of chatbot capabilities, which have steadily grown more sophisticated and easier to deploy. By building off-ramps into wait time messages, you may be able to shift work from call centre agents and provide quicker response times.

Internal operations

Key issues	These steps may help you prepare
Back office operations: You may have difficulty maintaining SLAs and controls as activity increases.	• Use (or increase the use of) your IT development teams to automate routine work. Intelligent automation tools may let you automate simple to moderate tasks within two to three weeks. • Rebalance workloads across operational sites, given that some areas will be affected more than others. Similarly, you may be able to shift some employees from non-critical work to essential operations. • Develop, document and communicate a plan to process physical mail, given that facility footprints may change.
Third-party support: You could face increased operational risk when using external service providers given the global scope of the pandemic.	• Reconsider which third-party support services you would now label “essential.” • Review the financial health and BCP plans for those providers to make sure they are appropriately robust. You may want to begin evaluating additional suppliers now in case you need to find alternatives quickly.
Controls and policies: As you adjust your work processes, there could be new blind spots for additional fraud and execution risk, especially with regard to supervisory functions and compliance operations.	• Create setting up cross-functional teams (product, operations, customer experience, channel operations, etc.) to assess how you can reinforce essential functions that are seeing new spikes in volume. • Don’t overlook oversight and documentation requirements as you update procedures, particularly where off-site work is involved.
Employee compensation and benefits: our current staffing level and compensation model may not be appropriate given that some fee revenue has declined sharply and some workloads may shift from branches to contact centres.	• Consider changing incentives to drive branch traffic to digital channels. • You may need to create or adapt training for bankers to help them work virtually. • Explore wellness initiatives to help employees manage stress.



2. Show empathy to your customers while making sound business decisions

How you respond to your customers could be pivotal to how your brand is seen for years to come. Many banks already have mountains of customer segmentation data that can play a critical role in determining — and meeting — customer needs. For instance, you can use this data to identify which customers are better positioned to ride out the crisis and those who will need more active management and outreach. From here, you may need to develop specific, defined, customer service suggestions.

We recommend three core strategies that focus on near-term remedies that help preserve long-term customer relationships while balancing the needs of the community.

1. **Customer relief and remediation:** Bank Negara Malaysia (BNM) has provided automatic payment moratorium for Retail and SME customers from 1 April 2020 until 30 September 2020. Depending on how long the COVID-19 pandemic plays out, banks need to start thinking about managing customers' concerns beyond the payment moratorium period. Banks should use all tools made available to it, including relief funds provided by BNM and the Government in actively managing and assisting its customers' financial difficulties.

2. **Manage customer perception, brand image, and commitment to the community:** You have an opportunity to use social listening and voice-of-customer tools to identify issues related to how your brand is perceived. Work with your communications staff to create targeted messages rather than waves of mass emails. You'll want to make sure customers are aware of the role that your bank is playing to support the community during this difficult period. Create a dedicated team to respond quickly and empathetically to social media issues.

3. **Proactive outreach and growing share of wallet**: As much as you can, tailor your efforts based on specific customer characteristics. Focus on addressing evolving needs as well as servicing and containment. For example, you might want to identify customers who:

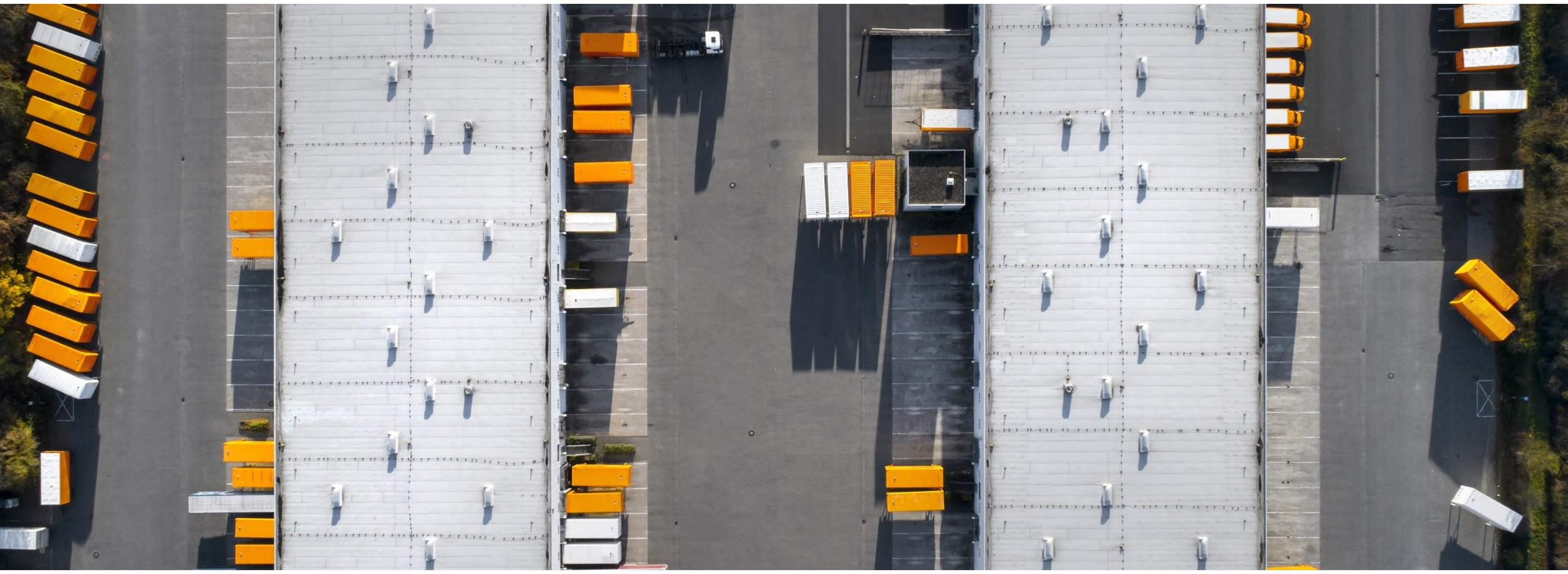
    a) are likely to face *temporary* financial strain and reaching out with customised solutions such as interest deferrals, new credit lines, and fee waivers

    b) have special servicing needs (such as the elderly who are accustomed to branch banking) and developing solutions to continue serving them

    c) could be more financially hurt by this crisis and create thoughtful procedures to support containment plans

    d) where refinancing and expansion of the product set may be appropriate given the changing market conditions.

You'll want your overarching message to focus on preserving client relationships over near-term revenue risk. To the extent that you can offer unique solutions to individual customers, be sure that the operations team can deliver the offerings seamlessly. You may find that you'll need to develop workarounds for operational bottlenecks, as many bank systems can't handle payment deferrals or fee waivers, especially at scale.



3. Rethink your balance sheet challenges while managing loan stress and customer sensitivity

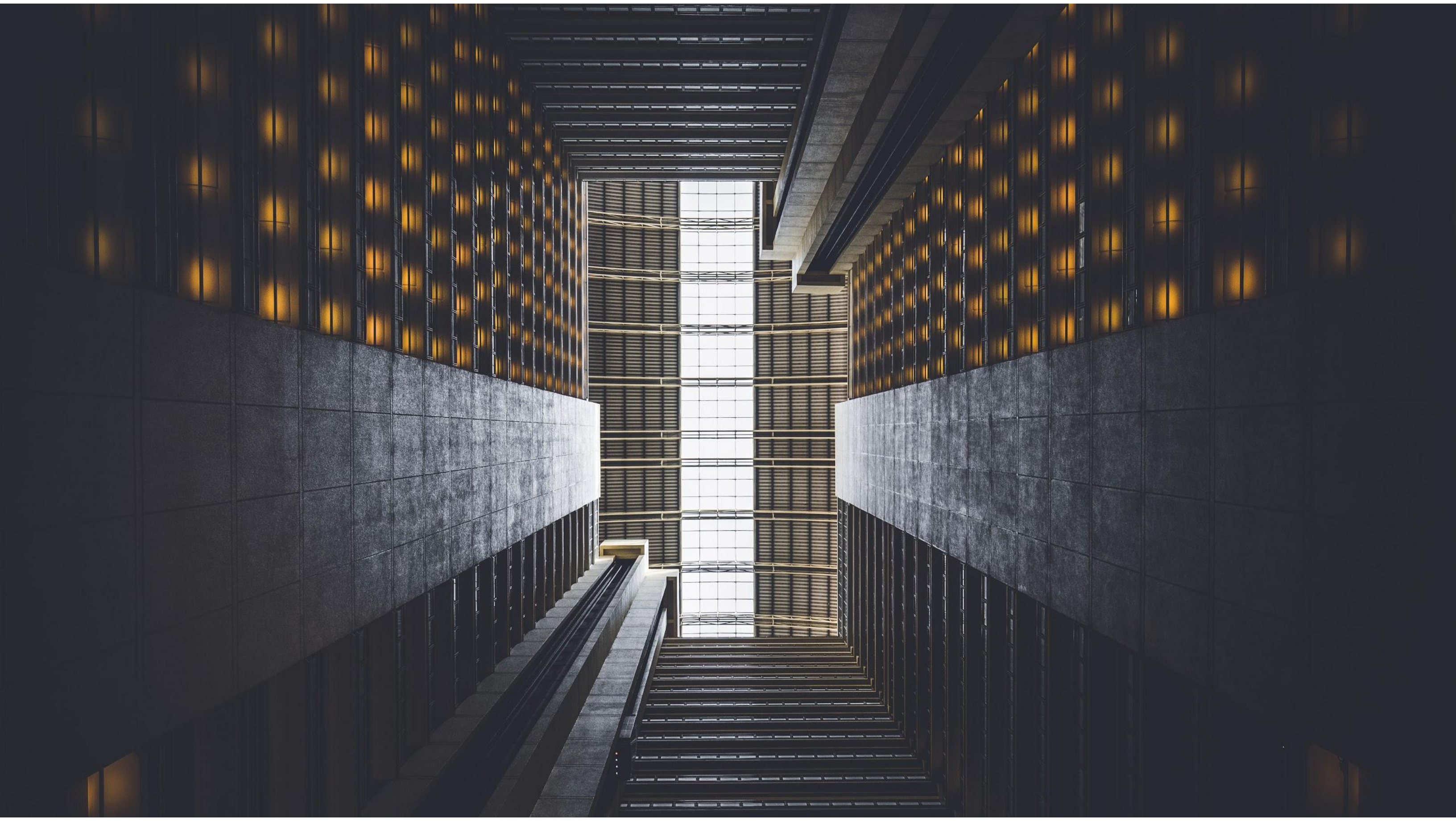
In the coming weeks and months, most banks will likely see their liquidity buffers come under pressure. That could prompt some difficult balance sheet decisions about how you'll use the liquidity you have to fund renewals of revolving credit lines and new extensions of credit. There is much positive guidance from BNM on using capital and liquidity buffers to support lending. However, each bank will need to determine its own appetite for risk, but most will likely be very hesitant to go below a minimum unless there is a coordinated industry response to a severe need.

As the economic slowdown continues, banks could see a huge number of SME businesses arrive all at once seeking loans and financing. Banks will need to ramp up very quickly to meet demand, perhaps with reallocated employees.

As your bank's balance sheet faces stress, you may want to take these steps:

- Monitor deposit fluctuations, particularly as your clients try to remove risk from their portfolios and draw on credit lines to increase their cash positions.
- Evaluate client refinancing deals against your balance sheet strategy. You'll want to consider how government stimulus may create lending opportunities and change profitability measurements.
- Engage your credit risk and accounting teams to determine how increases in expected losses will affect earnings.
- Look for opportunities to refinance existing debt or raise new funding at attractive rates.
- Revise any planned capital actions, given changes to buyback strategies, dividends, and new balance sheet forecasts.

For a more detailed look at the bank treasurer's response, see Managing through uncertainty: recommendations for bank treasurers.



4. Find ways to trim your costs quickly

It's always a good idea to minimise spending on activity that doesn't build your core capabilities. But the current situation makes triage more important than ever. In many industries, companies are already freezing hiring for non-essential employees, among other "quick hits." Some of these will be particularly useful in banking operations:

Functional area	Steps you might take	Time to achieve
Corporate	Review all inflight projects and recent proposal selections. Set up a control tower process to evaluate which costs can be trimmed or eliminated. Use a similar process to review all new costs to separate the "must haves" from the "nice to haves."	2 weeks to set up
	Look at everything in the physical locations.Some buildings or campuses may be shut down completely while workers are remote.	1 month
	Consider using intelligent automation tools, if you haven't done so already. They are improving rapidly in sophistication and ease-of-use, and returns can often be achieved in a matter of months.	1-3 months
Corporate	Triage the product/investment portfolio. If you still have active development programs and projects that are low or slow impact, stop them.	1 month
Procurement	Streamline procurement with a rapid-sourcing process to support your control tower decisions. Once you've decided that a given expense is appropriate, use this process to reduce costs quickly through competitive bids or direct negotiations.	3-6 months
Back office functions	Run a one-week assessment to identify quick wins for process automation. Procurement is one often overlooked area.	1-3 months
IT	Don't forget to establish a regular process to wind down unused software licenses. Monitor usage strictly so you'll know if new or renewed license purchases are appropriate.	3-12 months
Marketing	Where possible, bring media and media analytics spend in-house and benchmark its use. This will help you scale responsibly as the business recovers. You may be able to move creative development spending in-house as well.	1 to 6 months
Marketing	Take a closer look at how you spend resources to build brand and acquire customers. If you see ways to pull back from lower priority or lower margin efforts, do so.	1 to 6 months
Customer service	To handle the surge in call volume from offset branch traffic, develop a digital process to address as many requests as possible without live intervention. This can start with a refined interface and better FAQs, but bots and process automation will also be key tools in serving call volume more cost-effectively.	3 months

5. Reset your revenue outlook

We see three areas that warrant special attention from the immediate financial stress: forecasting lost interest income, preparing for the potential of a long-drawn low interest rate environment, and managing the deposit portfolio.

- Banks will almost certainly need to manage the earnings impact from recent emergency interest rate cuts, and that need is urgent. Before the outbreak of the COVID-19 pandemic, Malaysian banks were already dealing with declining net interest margins. Recent interest rate cuts by BNM and potential subdued loan growth in 2020 on account of slowdown in economic activity will impact banks' revenue outlook further.
- You may need to stratify your deposit portfolio to accept attrition, if you can't find a way to enhance customer profitability. In parallel, as your bank sheds higher cost deposits such as fixed deposits, consider how you might retain or increase your share of your existing customers' wallet. Take steps now to prepare individual customer offers for savings and wealth products as necessary. In every recession for at least seven decades, globally, deposits have seen positive growth, so it's a safe bet that you'll need to manage an expanding deposit portfolio. You'll face tradeoffs between deposit margin contributions, growth, and the costs of managing deposit products. Particularly if loan growth slows, the new deposit funding could feed growth of low-duration, low-return cash.

6. Replot the post-Covid-19 strategy

It may seem early to be imagining a post-COVID-19 world, but it's important to take the long view. We believe that the following factors will be especially important for banking success after the emergency passes. These may not seem like priorities today, but understanding how consumers are acting may help shape future product and distribution preferences.

- **Adapt to a new customer norm with new business models**. Banks will need to respond to lasting social changes, including how consumers select channel preferences, products, and banks for their individual financial needs, that are likely to result from the current crisis. Behavioural changes may accelerate the shift of the branch concept away from transactions toward a more complex, high-value operation. Decisions across distribution and product relevance will likely be key to this transition. Until now, most banks have marketed products using broad demographic segmentation. But customers are increasingly expecting individualised offerings, and leaders will need to use data to fine-tune their customer, product and pricing strategy to deliver on those expectations.

  Read more about opportunities and challenges for digital banks in Malaysia.

  Also find out how consumers in Asia Pacific — across Malaysia, Singapore, and Hong Kong — have told PwC they are ready to make the switch to digital banking services in our study of banking consumers.

- **Reconstruct the resiliency plan**. In the post-COVID-19 norm, an effective resiliency plan will look very different than it does today. COVID-19 has expanded the scope of operational resiliency beyond preventing threats to being prepared to operate during periods of massive social disruption.
- **Validate long-standing business assumptions**. Long-held assumptions that have underpinned the business model may change. For example, will retail investors that have seen significant declines in net worth still consolidate financial accounts? Will governments and society demand a cashless future? Line of business leaders will need to reexamine where value and profit accrues and how they can differentiate. Ultimately, every institution will need to justify why customers trust a particular institution to increase individual customer asset growth.
- **Continue to build upon strong societal relevance**. A crisis often brings out the best in us, and the banking industry is in a unique position to play a vital role in restoring our communities. Whether providing mortgages to growing families or loans to growing businesses, banks have a long history of promoting social and economic success. Keep in mind that the decisions you make today will likely define your brand tomorrow.

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