



COVID-19: Banking

Perspectives for the Philippine banking industry | April 2020

Surmounting the challenge

The Philippine banking industry is not spared from the adverse impact of this pandemic.

The Bangko Sentral ng Pilipinas (BSP) issued the implementing rules and regulation for the Bayanihan Act RA No. 11469. The law requires all lenders under BSP supervision to grant a 30-day grace period or extension for the payment of loans due within the enhanced community quarantine (ECQ) period, without imposing additional interest, penalties or charges on their borrowers.

Further, the BSP also relaxed the know-your-customer (KYC) requirements for both over the counter and electronic or online transactions. This is to make sure that Filipinos continue to have access to basic government and financial services amid the COVID-19 situation.

To help the banking industry, the BSP lowered its reserve requirement by 200 basis points and policy rate by 75 basis points, on a cumulative basis since February 2020. It also advanced dividends amounting to PHP20bn to the government in order to help fight the pandemic and spur the economy amid this unprecedented crisis.

Moody's Investor Service has downgraded its outlook on Philippine banks to negative because of higher asset risks and increasing pressure on profitability brought about by the significant slowdown of the economy. However, the banks remain well-capitalized because of healthy buffers on their capital adequacy ratios and are more resilient to withstand the impact of this pandemic.

Issues your industry may face

Business concerns are banking concerns. Specific segments of the population are finding themselves in increasingly vulnerable positions. Individual and corporate borrowers may be cash-strapped. There could be an increase in loan defaults or requests for restructuring due to temporary cessation of business operations during ECQ. It is important to be able to tell the difference between a routine payment delay and a significant deterioration in credit quality. How you respond could be critical to future customer relationships, and to your public image.



Steps to consider for customer engagement

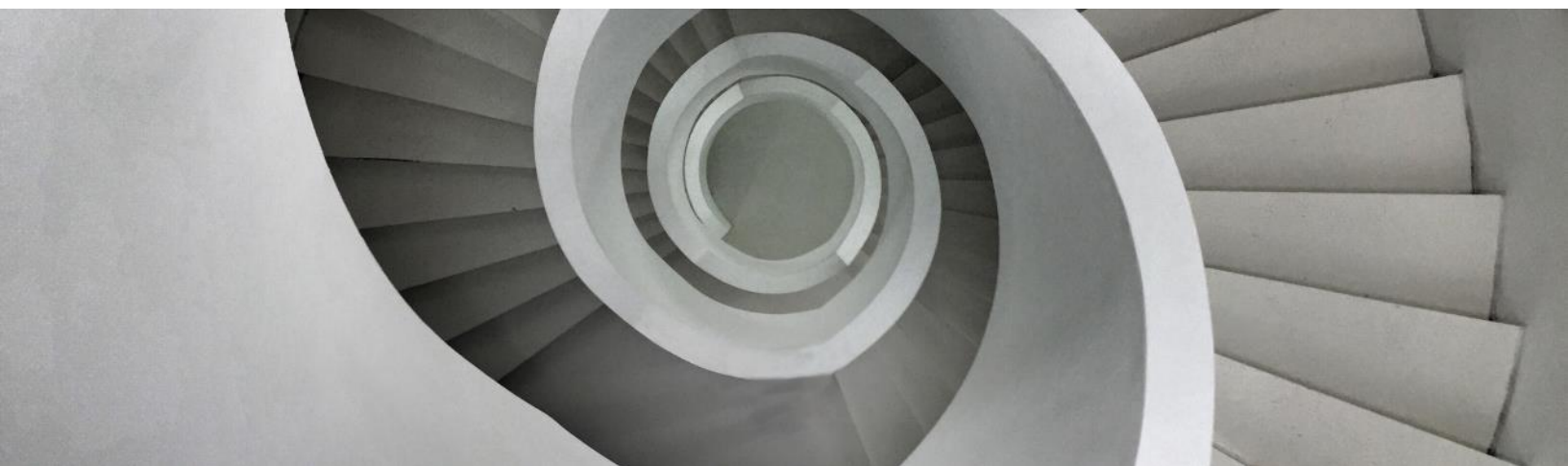
Ensure customer interactions are effective

You will need to expend a substantial effort to understand the problems and needs faced by your customers in these uncertain conditions. The impacts to different customers are varied and so will their needs. The more immediate impacts from COVID-19 on bank customers seem to be access to services (e.g. branches and business centers) and working capital/cash flows to deal with the decline in business volumes until the situation improves.

Assist customers with their urgent liquidity needs

Some customers will have immediate needs for short-term funding, particularly for businesses where there has been a sharp and sudden reduction in demand but they have not been able to reduce their operating costs commensurately. This is a difficult situation and you will need to be able to identify between those customers for which you expect to be able to recover and others which are less likely to do so. Banks can offer a number of temporary relief measures. Such measures to ease credit to borrowers should be on commercial terms and should not compromise prudent risk management principles. Ongoing monitoring and improved forecasting of customers' financial position will better inform a bank's risk management of their risk profiles and facilitate decisions regarding your continued support in this regard.

Independent business reviews can assess the financial capacity and business continuity of enterprises so you are better guided what you should do with your borrowers.





Make sure your banking services are always accessible

Many customers would already be comfortable using online banking services, while others (including some of the more vulnerable) will continue to rely on services through physical branches. Banks can ensure customer needs are met through alternative and contingency measures (e.g. flexibly adjusting the opening hours of branches and business centers to help prevent the virus from spreading while meeting customer service needs at the same time). Timely and clear communication of location and business schedule changes would facilitate customer access. You will also need to ensure that online and phone banking systems and associated processes are resilient and adequately resourced for the increased transaction volumes, and possibly for a prolonged period.

Deal with market volatility

Volatility in financial and commodity markets and the pervasive uncertainty are likely to increase the demand for hedging and insurance products. You will need to come to grips with your customers' concerns quickly to help manage their exposures and risks. You may also need to consider whether alternate forms of collateral can be accepted to help mitigate significant cash outflows that your customers may need for their day to day operational needs.

Taking bank services to the next level

Banks have made significant inroads to accelerate their digital transformation prompted by competition, pressure to reduce, and customer demand.

- Use the opportunity to revamp the face-to-face experience by increasing customer touch points through digital means (e.g. live broadcasts, short videos, artificial intelligence to stimulate customer engagement, and drive transactional details through online/mobile platforms).
- Customers who are spending more time at home or who are working reduced hours may be more inclined to interact with their relationship managers than would otherwise be the case. Focus on ensuring that your staff are trained to engage with your customers to maximize the experience quotient.
- Use your platform to educate customers on financial literacy (e.g. podcasts or mini-modules promoted through apps). These can include guidance on how to access support measures that may be available from the bank or government agencies, and how to make full use of the bank's existing online and mobile services. Equipping customers with knowledge can play a significant role in furthering the level of trust banks currently enjoy from their customers.

Talk the walk as well as you walk the talk

Any decisive policies and measures directed at building customer engagement are only as effective as the channels through which they are communicated to the relevant parties. At a time of public health crisis, lip service is as important as real service. The swift dissemination of accurate information about what you are doing is critical. Banks who are transparent and communicative in handling the crisis should be better positioned to manage stakeholder expectations and to see operations returning to normal with improved reputational value.

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