



Overcoming the impacts of COVID-19 in the Financial Services industry

Prepare for the post-pandemic

As Europe is slowly recovering from the pandemic, the Financial Services industry is going through a remarkable period that will leave its mark for a long time.

On a global scale this unprecedented environment is pushing governments to take steps to mitigate the current economic reality through fiscal stimulus. Central banks around the world are injecting liquidity using conventional and unconventional measures. However, locally, individual key players see the COVID-19 crisis as both a risk and an opportunity.

Impact of COVID-19 on the Financial Services

Banks and Insurers are feeling a huge impact on their business. From business continuity issues and payment deferral plans to client service workloads, financial services will need to adjust to the “new normal” taking into consideration both financial and non-financial levers.

After the global economic crisis in 2008, regulators increased the amount of capital banks hold to overcome significant shocks. This measure helped banks to enter the COVID-19 crisis with strong capital and liquidity buffers. While being able to manage the operational workload activating the contingency plans, banks still stayed vulnerable to borrowers default.

The National Bank of Belgium and Febelfin have agreed to temporarily suspend the payments of bank loans in order to support all types of economic actors to overcome the risk of bankruptcy during the COVID-19 crisis. Despite receiving government support many businesses are experiencing liquidity stress and fall behind in payments. All these affect the financial results, balance sheets, cash flows and liquidity ratios of banks. Under these circumstances some act to make full use of their capital and liquidity buffers together with restrictions on dividends and bonuses after clarifying the process of their replenishment.

With regards to the insurance sector, this sanitary crisis has, more than ever, prompted people and businesses to take a deeper interest in their insurance products, demonstrating both the importance of quality coverage as well as the limitations and opacity of insurance products.

Strongly affected by the crisis like most of the sectors, insurance companies will have to assume multiple costs. While mortality will strongly affect life insurers, insurance companies will also have to cover significant costs related to bankruptcies, cancellation and postponement of events as well as travels. In addition to this, the significant negative impact the crisis will have on the value of insurance companies' assets will affect them even further.

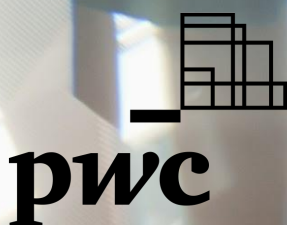
Next to the financial impact, banks and insurance companies also have to deal with operational challenges following the crisis. The lockdown and home working brought many “to do’s” on the companies' digital agendas. Banks and insurance companies have started to adapt their digital roadmaps as many of them were not fully ready to work remotely and in a digital way. We observed higher operational and compliance risks (e.g. data privacy and confidentiality) and an increased difficulty to meet regulatory requirements as technical solutions were not robust enough to support high volume of remote operations. Moreover, digital services were increasingly used by customers of less technological literacy. As a consequence, the volume of interactions with customer service call centers has exploded, causing delays in business activities and frustration amongst employees.

Turning the crisis into opportunities

While Financial Services organisations face significant challenges, these can also be a trigger for positive change, leading to the reshaping of the entire industry.

In this uncertain environment, Financial Services leaders are on the one hand seeking to retain productive capacity but on the other hand looking to turn the situation into a lesson learned. Looking forward, many are thinking how to come out of it a little leaner and to use it as a trigger to eliminate ineffectiveness, chase non-essential spendings, improve their working capital and to invest these efforts in future growth drivers. While seeking answers to these questions they are changing the traditional way of working and implementing new solutions suitable for the “new normal”. PwC Experts support Financial Services organisations to overcome these challenges and identify a path to turn this crisis into opportunities through financial and non-financial levers.

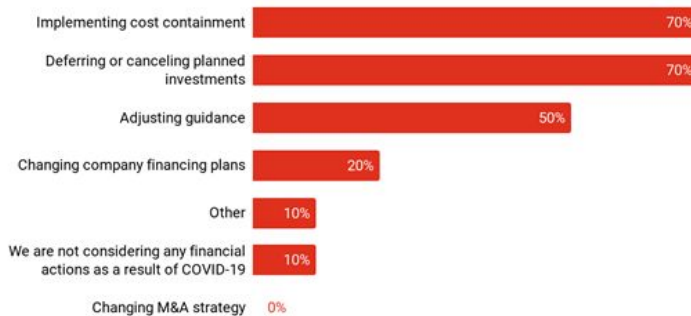




Financial levers

Based on PwC's COVID-19 CFO Pulse Survey, 80% of the CFOs surveyed are worried about the financial impact on operations, liquidity and capital resources. As a result, we observe key financial actions that will be taken by the majority of the players on the market as their post-pandemic agenda:

Which of the following financial actions is your company considering as a result of COVID-19? (Select all that apply).



12 May 2020 - According to PwC's CFO Pulse survey

To support the Financial Services organisations in navigating the uncertainty and be effective in the above mentioned actions, PwC has developed a number of effective solutions. One of them is our new Enterprise Performance Management (EPM) framework.

This end-to-end process is designed to help companies manage business performance at each level of their organisation through four main functional pillars: long term planning, budgeting, forecasting and management reporting.

Our EPM framework aims at providing clients with a pre-built and rapidly deployable solution. The tool allows to simulate and quantify COVID-19 related measures on performance and hereby act adequately. By implementing the EPM framework, Financial Services companies will be able to increase predictability in times of uncertainty, enhance the speed of response to the COVID-19 impact and improve ownership on decisions.

To learn more about our EPM framework please refer to our publication

www.pwc.be





Next to the short term cash flow management and forecast activities, finance chiefs explore cost-reduction measures expecting a serious impact on their business from COVID-19. During the crisis many organisations were struggling to choose the right cost measures to go through the difficult time with a correct setup of priorities for a fast and efficient post-crisis recovery.

PwC took significant time to investigate and develop a context-oriented Cost Transformation Program. The program aims to chase inefficient spendings and resource usage as a next step to help in allocating the freed-up funds into profitable investments.

The true essence of this program is about understanding, simplifying, refocusing and strengthening Financial Services organisations allowing to nurture their growth and to focus on what really matters. The cost-cutting methodology is based on resetting the cost base of an organisation. It is therefore crucial to create a culture of ownership of each employee on the budget of their department by implementing the philosophy that each euro spent should be a euro invested back in the strategy.

To learn more about our Cost Transformation Program please refer to our Management Consulting Finance team

www.pwc.be/consulting



Finally, to support Financial Services companies in making efficient decisions during and after the global pandemic, we have brought our Efficient Decision Framework to the market. The framework encourages a cost-conscious behavior to provide a sustainable cost reduction while improving the efficiency, by using 4 levers: Reduce, Organize differently, Outsource and Optimize. This strong framework enables the assessment of the company's activities, aligns them with the corporate strategy perspective and strengthens the transversality. As a result, it empowers the departments to continuously digitize, automate, and align the relevance and impact of their activities to the group purpose.

Furthermore, a market assessment shows that anticipating financial levers will help overcome the crisis by complementing them with non-financial ones.

Nonfinancial levers

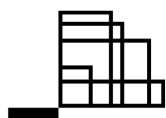
The COVID-19 crisis illustrated the vital importance of digital infrastructure. During the quarantine period we all have noticed a significantly increased reliance on technology which brings an urgency to speed up companies' **Digital Agenda**.

Having the capacity to deploy digital tools fast and efficiently is a substantial competitive advantage considering today's situation. Supplementary, to assess the continuity of operations and improve collaboration while working remotely, a cloud-based planning solution enables companies to be agile. By providing flexible plans and data to key people, organisations are able to respond with speed and agility to all new market conditions and thus unleash the full potential of the business. With the collaboration of all internal departments, a cloud-based planning solution enables to carry out planning, forecasting and simulation analysis.

Financial Services organisations are reconsidering various scenarios to implement digital solutions to make a difference in overcoming the crisis and maintaining their position in the "new normal". After a sudden surge in demand, PwC is supporting clients to move away from a heavy on-premise environment with many processes running on spreadsheets by defining a suitable Digital Agenda and collaborative cloud-based planning solutions in the Insurance and Banking sector.

The next key aspect of business continuity, after defining a Digital Agenda and finding a way to stay connected across teams and systems, is to reduce the business impact through various business continuity pre-built solutions.

PwC aids those affected by COVID-19 to analyse their specific situation and proposes a tailor-made **Robotic Process Automation (RPA) solution** to improve, among other things: management reporting, customers onboarding, account opening, mortgage lending, loan processing or insurance purchasing.



Finally while the pace of the emergence of new technologies is frantic, it is sometimes difficult to keep the knowledge of teams up to date. To face this challenge, PwC has developed the **Digital Fitness app** that allows everyone to stay abreast of the latest technologies that will shape the world of tomorrow.

Boost your resilience with PwC's free Digital Fitness app

[www.pwc.be/services/Digital Digital Fitness App](http://www.pwc.be/services/Digital_Digital_Fitness_App)

The need for financial and non-financial levers reveals the deep cuts the crisis is making in the industry. Latent issues are becoming more exposed. Business performance problems, unpredictable budget costs and misaligned strategic decisions piled up on top of the difficulties to run day-to-day business with the outdated digital technology and employees lacking digital skills. However, after this highly challenging 2020, Financial Services organisations will be able to make a relatively rapid recovery, with the right support and guidance.

At PwC we are working closely with our clients to help them overcome the COVID-19 crisis. Our Financial Services Management Consulting practice has significant experience in helping banks and insurance companies tackle complex financial and non-financial challenges. Starting from the personalized specificities of each business in this uncertain environment, we help companies to prepare for the "new normal" and set them on the right path to turn this crisis into opportunities.

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