When temporary becomes permanent: The digital revolution

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If there is anything that the current health crisis has shown us it is that digital readiness cannot be understated nor ignored. It is no longer a "nice to have", nor a differentiating strategy, but rather a necessity for many companies hoping to ensure future business and growth. The main value and competitive edge now lie in a firm's ability to quickly identify, and seamlessly roll-out new digital tools, to not only enable business as usual but optimize it for both internal personnel as well as clients.

Over the last couple of months, digitalisation has been at the heart of all financial industry concerns, significantly increasing the value of digital transformation - a reality that is likely to continue into the foreseeable future. From the urgency required in setting up a functioning remote working infrastructure, to ensuring adequate levels of security and legal adherence, the primary "digital" focus has been placed on ensuring business continuity and avoiding/reducing financial losses due to the exceptional circumstances implied by the Covid-19 pandemic.

Among the main challenges facing companies are (1) rapidly assessing the current remote readiness infrastructure and agility (hardware devices and software licenses), (2) infrastructure capabilities (e.g. internet bandwidth, server communication, etc.), and (3) accelerating IT change processes (e.g. procurement, change requests, etc.). Now that most companies have settled into this new way of working, the inevitable begs the question of what's next?

The current crisis has exploited the gravity of inadequate investments into IT infrastructure over the previous years. This delay in digital readiness has created significant hurdles for pursuing day to day activities, forcing financial institutions to carefully reconsider their operational processes and how they will realign with the quickly changing market and client expectations. As lockdown measures begin to loosen, the threat of a potential second wave makes it ever more vital for companies to prepare for the "new norm", and make sure they ask themselves the right questions when setting the post-crisis vision. This, along with collected client feedback and internal lessons learned, will serve as the building block from which the new strategy and operating model can then be defined.

Four focus areas should be considered by financial industry leaders in order to create strong foundations for digitalisation success:

1. Strategy / Vision

Before launching any digital project, companies will have to define their final objectives and ensure that all digital initiatives are going in the same direction under a solid and Agile digital program. Firms should consider how the market will respond and how clients' behaviors and expectations have shifted.

2. Operational Efficiency

The operating model is there to deliver on vision and value to clients. Business and technical considerations must be carefully examined to ensure they are enabling the defined operating model. Many actors will have to revisit their models based on the lessons learned collected over these months. A reshuffling of priorities will inevitably impact the project portfolio and an agile culture will be key to ensuring these changes are quickly and effectively adopted. Again, following these exceptional circumstances, an assessment of previous strategy pros and cons is needed to ensure continuous improvement. Priorities should be set considering the company's current state of digitalisation readiness. The Agile principles of Start/Stop/Continue are one of the easiest ways to support this analysis and prepare the change management process.

3. Digital Channels optimisation

As companies look to their operational efficiency, the tools and mechanisms currently in place will need to be re-evaluated as well, keeping in mind the intended users. Clients should always be the focal point of external digital initiatives. As such, firms can take this cross-roads moment as an opportunity to define their client's end-to-end journey and identify strategies to optimize each touchpoint to improve the client experience. Internal user experience must also be considered as it is fundamental in driving the vision of the company seamlessly and successfully. It is therefore imperative that the digital channels used internally work for the staff and not against them.

Many players were forced to adopt a digital culture "overnight," underlying the significant need for a corporate culture that is flexible and agile in implementing and adopting new tools to re-organize priorities and ensure continued business operations. The value created during this turbulent time should be sustainably carried over into the new reality and companies should take advantage of the momentum and technological appetite Covid-19 response measures have created. This may mean re-assessing the recently quickly implemented technological solutions to ensure they are the best fit going forward and further expanding technological capabilities across the organisation.

4. Data Analytics, Business Intelligence & Reporting

Finally, underpinning the success of all activities is a company's ability to derive useable information and act on the outcome. All initiatives and their related technical designs must allow for meaningful measurement. From ROI analysis, to efficient reporting and forecast, data management is a key element in program success.

Historically, data has often been looked at in a silo mode. With enhanced digitalisation of organizations, we see players revisiting the amount of data and information flows in order to optimize them, create golden records and increase the usage of data in order to respond to new needs. Data strategy definition is therefore becoming a key component of operating models.

Defining and implementing a digital strategy can be a complex challenge, very often underestimated. An easy and effective way to get started on the digital journey is to conduct a Digital Maturity Assessment to understand where the company currently stands and see where the possibilities lie. At the end of the day, as Stanford economist Paul Romer once stated "a crisis is a terrible thing to waste."

75% des Luxembourgeois ont déjà reçu des frais de services bancaires inattendus

Une étude menée par la banque mobile N26 révèle que quatre consommateurs luxembourgeois sur dix sont soit irrités soit contrariés par leur banque actuelle. Pourquoi ? Près d'un tiers (31%) pense que leur banque leur fait payer des frais injustifiés, plus d'une personne sur quatre (44%) pense que leur banque ne prend pas leurs intérêts à cœur et un quart (25%) trouve que leur banque rend cela compliqué de changer de produit ou de service.

Ces inquiétudes sont-elles donc justifiées ? L'étude, publiée par la banque numérique N26, a demandé aux Luxembourgeois s'ils avaient déjà subi des frais inattendus de leur banque. Plus de 7 sur 10 répondent par l'affirmative, confirmant la forte critique sur le manque des transparences dans la politique tarifaire de la majorité des banques traditionnelles. Les frais de compte courant (39%), les frais de guichet automatique (53%) et les frais de transaction à l'étranger (42%) ont été cités comme les trois frais les plus courants. L'étude a montré que les Luxembourgeois ont subi ce type de désagrément en moyenne trois fois au cours des 12 derniers mois, pour un coût moyen par occurrence d'environ 25,00 €. Cela représente 75,00 € par an.

En réponse à ces préoccupations et frustrations bancaires, N26 a lancé une initiative virtuelle : le "Big Banking Chat*". Il s'agit d'une campagne mondiale visant à ouvrir la conversation, à aller au cœur de ce qui inquiète vraiment les consommateurs et à réduire une partie de la complexité et l'opacité inutile qui limite la relation des clients avec leur banque pour continuer de construire la banque de demain. "Si nous ne parlons pas de ce qui nous dérange dans le domaine bancaire, nous ne pouvons pas éviter que ces mêmes problèmes nous nuisent encore et encore à l'avenir. Nous savons déjà que les Luxembourgeois s'inquiètent de leurs finances, mais il est également important de comprendre ce qui détériore leur relation avec leur banque et leur image de l'utilité des banques pour les accompagner dans leur quotidien", analyse Jérémie Rosselli, General Manager de N26 pour la Belgique, la France et le Luxembourg.

"N26 a été construite sur la conviction que chacun doit trouver dans sa banque une expérience aussi simple que transparente et pensée selon les habitudes de chacun. Pour construire une banque que les gens aiment utiliser, le mieux c'est de commencer par écouter ce que les consommateurs ont à nous dire et qu'ils aimeraient qu'on change". Il n'est donc pas surprenant que, lorsqu'on leur a demandé ce que les gens changeraient dans le mode de fonctionnement des banques, presque un quart (22%) ont répondu que la suppression des frais cachés était la meilleure solution.

L'enquête menée auprès des consommateurs dans le cadre du Big Banking Chat a également révélé que les Luxembourgeois ont le sentiment que les opérations bancaires sont trop complexes et pleines de jargon qu'ils ne comprennent pas.

Le résultat ? Près de trois quart (58%) donnent au moins une phrase négative pour décrire leur dernière conversation avec leur banque. Nervosité ou inquiétude (17%) pour certains, le sentiment d'être manipulé (17%) pour d'autres, voilà les mots qui décrivent les cinq principales émotions ressenties par les usagers. Il n'est donc pas surprenant que seulement 6% des personnes aient déclaré qu'elles iraient à leur banque pour obtenir des conseils de manière proactive.

* https://n26.com/en-eu/the-big-banking-chat

ECB Covid-19 Reporting

The European Central Bank (ECB) has mandated a new reporting exercise in light of the COVID-19 crisis in an effort to ensure the timely and consistent monitoring of the risks ignited by the outbreak and to widen the scope beyond the SREP STEs, FINREP and COREP[1], through the inclusion of credit moratoria and state guarantees figures. The reporting shall be submitted to National Competent Authorities on a monthly basis until at least December 2020, and raises several implementation challenges for Significant Institutions (SIs) on the organizational and operational levels (including capacity and data aggregation issues).

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The monthly[2] exercise should be submitted by all Sis at the highest level of consolidation and encompasses three main components. An overarching section addresses operational continuity data in addition to financial statement evolution and regulatory ratios. From a credit perspective, emphasis is placed on the corporate and household loans, deposits and the change in valuation methods. In addition to that, the usage of capital and liquidity relief programs along with the impact of EBA-compliant economic support measures enacted by governments are assessed via the input from this exercise. Regarding the market risk impact, additional information for measures of the performance volatility related to bank's activities are required.

An Extra Reporting Exercise

This reporting requirement adds up to the previously existing ITS[3] /STE exercises and reinforces and expands upon the EBA additional FINREP, Pillar 3 Disclosure templates on moratoria and state guarantees under the Credit Risk block. Overall, it encompasses more than 1000 data points, of which more than 20% are currently not reported in COREP, FINREP or STE.

Technical Capabilities Under Pressure

An increase of the reporting workload in a relatively tight timeframe has been imposed for this new reporting. Although quarter-end submissions should not include data points already covered under the ITS/STE, the increased reporting complexity still needs to be addressed through the leveraging of resources and infrastructures already under stress since the COVID-19 outbreak. The fulfilment of the complex reporting framework requires the switch from a quarterly to a monthly view for IFRS9 (stage allocation and provisioning policies), FINREP/COREP and operational cost accounting. This includes significant impact on financial institutions which were, in the best case, still juggling the overall reporting processes. Moreover, the new template scope includes the monitoring of forecast projection on a monthly basis in order to tackle balance sheet and P&L dynamics to represent the evolution of COVID-19 crisis. Therefore, SIs are required to adapt their forecast models to achieve consistency in the monthly elaboration and to ensure the remittance of certified and validated data.

Data Sourcing & Consistency

SI's risk aggregation and reporting capabilities are under the spotlight once again. As new information sources must be tapped in this context, data flows and process efficiency and agility also need to be addressed to answer the contingency requirements and, in some cases, national governmental pronouncements. For example, the sourcing of legal data in the context of governmental economic relief programs and the reconciliation with EBA Guidelines on payment moratoria also requires prompt intervention on lending application systems to properly represent the classification of different type of relief measures (e.g. EBA compliant moratoria vs other forbearance measures COVID-19 related). In this context, SIs are reportedly facing issues in deriving aggregates of the latter measures within their respective templates as specific reporting needs require combining FINREP submission data with ad-hoc-extracted information from different sources to disclose the aforementioned new data points.

On the other side, an extra reconciliation duty is required in cross-checking data across all templates (including ITS/STE) at different reference dates and ensuring its quality and consistency (including period-to-period variance) throughout distinct monthly submission requirements, given the heightened demand in volume.

Organizational Responsibilities

As can be expected, the wider scope of the reporting is creating organizational challenges, as it is entails the involvement of cross-sectional teams within SIs due to the degree of granularity required. Interdependent departments within the organization must fully coordinate their efforts in collecting, processing and communicating data points, as reporting needs range from operational continuity aspects to credit market and liquidity measures. This coordination challenge is, for example, materializing in informational gaps between risk, accounting and control units on one side and operations on the other. While reinforcements may be assigned to lockdown-strained reporting teams on an as-needed basis in the near term, the new wave of reporting requirements is undoubtedly creating difficulties for institutions and may entice longer term considerations, such as from IT transformation and process controls perspective.

1) The Supervisory Review and Evaluation Process (SREP) refers to the continuous assessment of banks' risk measures by the ECB. It includes ad-hoc Short Term Exercises (STEs) targeting specific areas. The Common Reporting Framework (COREP) and Financial Reporting (FINREP) refer to quarterly reporting exercises mandated by the European Banking Authority (EBA) aiming at assessing banks' credit exposures and financial statements, respectively.
2) A full template should be remitted in July, September and December, while a light format should be sent every other month. For June, only the Moratoria & State guarantees template was required under the credit risk block.
3) Implementing Technical Standards are reporting requirements mandated by the EBA that aim at collecting information on institutions' compliance with prudential requirements.