McKinsey & Company

Financial Services Practice

Leading a consumer bank through the coronavirus pandemic

The implications of the COVID-19 crisis are profound for consumer and small-business banks, and the steps they take now will shape operations long into the future. Here is where to start.

by Ashwin Adarkar, Paul Hyde, Marukel Nunez Maxwell, and Abhilash Sridharan

March 2020

How consumer and small-business banks respond to the coronavirus pandemic will have an impact on customers, employees, and, indeed, the economy at large. As deposit gatherers, credit guarantors, and payment facilitators, these banks are among the financial institutions most personally connected to the public.

While the near-term humanitarian challenge looms large, the situation is also likely to accelerate fundamental changes to customer behavior. As we shelter in place, we are all rapidly accelerating our adoption of digital technologies, whether they be videoconferencing, peer-to-peer payments, or online banking. This increasing comfort with digital technologies and decreased reliance on physical branches could accelerate the transformation of the banking landscape, advantaging the banks with stronger digital capabilities. In China and Italy, for example, four weeks after the coronavirus began to spread, the estimated increase in customers' digital engagement is 10 to 20 percent. If these customers have a positive experience, it could shift behavior for the longer term.

Based on our conversations with consumer- and small-business-banking leaders from across the world, there are several top-of-mind questions: How do we get the best out of our operating model as the situation evolves? How do we serve our customers and differentiate ourselves? And how should we both accelerate out of the downturn and redefine? Each of these are momentous challenges in their own right. In this article, we share our perspectives on these issues, along with suggestions for how leaders of consumer and small-business banks can respond to them.

Implementing a dynamic and flexible operating model

Banks across the world are rapidly flexing their operating models to ensure business continuity. While it is clear that all banks will have to adapt capacity as the model adjusts, at least in the interim, the most thoughtful institutions are doing it strategically. As we discuss potential solutions with banking leaders, the initiatives they are most commonly adopting are taking proactive steps to protect the health and boost the morale of their employees, establishing an interim operational model for branches, and developing a support model for remote working.

Implement preventive measures to protect employee health

Consumer and small-business banks in most places are already undertaking the most basic steps to protect employee health. They are reinforcing hygiene and cleaning protocols inside branches, for example, both in commercial areas and around ATMs, which act as transmission vectors. And they are providing to branches care packages that include thermometers, hand sanitizer, and other personal protective equipment. Some are also issuing guidelines to keep branch personnel physically separate, with employees from each shift working in exclusive, delimited areas or at work stations separated by at least five to six feet.

The banks might want to go further, conducting emergency training to prevent coronavirus contamination. All branch personnel should participate in measures to minimize their own, their families', and their customers' health. Although additional actions may go beyond the steps recommended by official agencies, they might include instituting routine temperature checks at the beginning of each shift, assigning a dedicated employee to control facility access, and even wearing gloves and face masks. Chinese banks have gone so far as to disinfect paper currency to avoid infection, a practice followed by a few South Korean banks.

Establish an interim operational model for branches

Banks are monitoring the situation on a day-by-day-basis, dynamically modifying branch hours of operation and closures. For example, in the United States, JPMorgan Chase has temporarily closed about 20 percent of its branches and reduced staffing in the remaining ones. Banks elsewhere are operating branches only in the morning. Canada's Big Six banks[1] have announced that they will be working together to limit operating hours temporarily while maintaining critical services for customers. Banks should be strategic and proactive to protect their employee capacity to support a remote-working network versus losing employees to potential infection and sickness.

The coronavirus pandemic is also requiring changes to employees' ways of working, and the model will need to evolve as the facts on the ground do. Such changes could include steps that reduce the number of employees in branches at any given time. For example, a bank might staff only half of its usual number of employees per shift or develop a rotation schedule, with a third of its employees absent, a third at branches, and a third working from secure sites or home offices.

Finally, banks are also proactively limiting client flow inside their branches. Measures that banks are taking include requiring client visits by appointment when possible and keeping doors closed to restrict the number of clients inside to no greater than the number of employees. They are also promoting safe spacing by allowing only one customer per a predetermined number of square feet or by marking the floors to delimit positioning in lines to keep clients at a safe distance from each other inside the branch. Many are also moving to protect customers outside the branches, setting up mechanisms to ensure appropriate distancing and hygiene in case lines develop outside the entrances.

Branch facilities are also setting aside dedicated service hours to customers in high-risk groups. For example, Britain's Nationwide Building Society (the world's largest building society, with more than 15 million members) will open around 100 branches an hour early so that elderly and vulnerable customers can be served in a safer environment, compliant with physical-distancing guidance, after facilities have received deep cleaning. Retailers in the United States, including Target Brands and Whole Foods Market, are taking similar steps.

Other banks are providing options for walk-in customers to contact relationship managers, service managers, and tellers remotely—through a phone booth, for example, or videoconference. To do this effectively, banks will want to identify which mass processes can be performed digitally and offer video access to all relevant employees.

Develop a support model for remote employees
Consumer and small-business banks are managing several challenges related to the coronavirus. Customer queries and concerns are surging, without a commensurate increase in staff to handle them. A significant portion of the employees are working from home—where they continue to face operational challenges, such as internet-bandwidth issues, technology glitches, and childcare priorities. Several best practices, such as the following, could help these banks implement a more efficient distributed-work environment over the coming weeks:

— *Get creative in cross-training and repurposing employees.* Demand surges are likely in the next few weeks, especially in service-related calls pertaining to repayment schedules, flexibility via payment holidays, and an increase in fraud-related activity. A surge in demand for mortgage-refinance applications, which began before the US Federal Reserve Board's rate cut on March 15, is likely to continue (Exhibit 1). To manage the surge in mortgage-refinancing applications, leaders like JPMorgan Chase and Quicken have cross-trained and reallocated employees from other products within the bank. Similarly, branch tellers who might be temporarily free because of branch closures could shift to handle demand in other parts of the business.

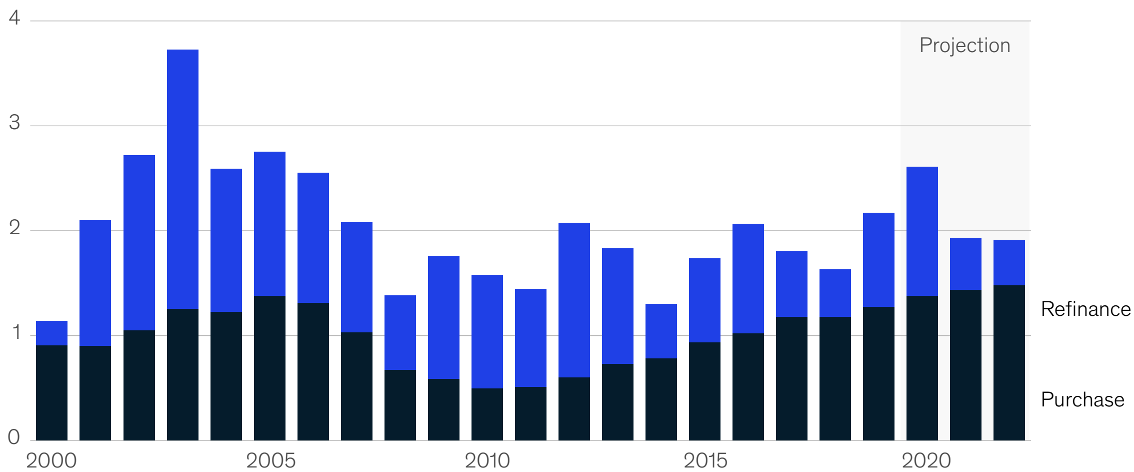
— *Conduct targeted analytics to address changes in call demand and agent supply.* Banks may want to consider rebuilding demand forecasting and

[1] Bank of Montreal, CIBC, National Bank of Canada, Royal Bank of Canada, Scotiabank, and Toronto-Dominion Bank.

Exhibit 1

Low rates are leading to another spike in refinancing volume.

Annual mortgage-origination volume by purchase/refinance split, $ trillion



Source: March 6, 2020, forecasts, Mortgage Bankers Association

capacity models not only to respond to the present circumstances but also to develop resiliency in the face of future demand shocks. Better data can improve a bank's workforce flexibility, allowing it to focus cross-training into roles dealing with increasing demand, away from roles dealing with declining demand. It could also identify call types that could benefit from better segmentation or routing. For example, there may be queues for which banks could suspend live call support or reduce the average handling time.

— *Enable technology setup and infrastructure for remote work.* Supporting remote-work technology and infrastructure can include assisting employees with home-office setup, ensuring adequate VPN bandwidth, and providing remote application access. It can also include adopting a suite of digital tools that facilitate effective cocreation, communication, and decision making, such as videoconferencing, file sharing, real-time communication, coediting, and task management. Extending work-at-home functionalities to more of the workforce also requires setting clear policies and communicating expectations to all employees. It is critical to ensure that agents have the necessary tools and resources to handle calls from home while maintaining customer-data-confidentiality standards.

Nurture the culture to maintain employee morale

In such challenging times, it is natural for employees to feel frustrated, given the uncertainty around their jobs and the fear of recession. It is important for bank leaders to set the tone and direction. At a minimum, this requires managers to set clear directions for remote teams that are pursuing common goals and to increase the frequency of check-ins to reinforce goal setting. We recommend daily check-ins. Managers should also take the opportunity to delegate and empower their employees for decision making. Both intrinsic and extrinsic motivation through rewards, clear spans of control, and meaningful appreciation can go a long way in supporting employee morale.

In addition to developing tools and practices that help teams work together effectively, managers should also double down on social activities that build a one-team culture, identity, and feeling without compromising physical-distancing protocols. The social aspects of co-located teams often get lost in distributed teams. Helpful activities might include virtual catch-up meetings and happy hours—any virtual event in which employees can share best practices, success stories, and challenging experiences to create a sense of community.

Serving customers in challenging times

Delivering on customer expectations while adapting the operating model to the reality of the current pandemic will be an unprecedented challenge for banks. In our view, it is highly important for banks to make their genuine concern for their customers clear and to make customer interactions with the bank as easy as possible.

Show customers that you care for them

In contrast with 2008, when people widely considered banks to be the source of the financial crisis, banks around the world are today seeking to be part of the solution—and redefining what it means to support their customers. They are taking measures to minimize negative financial effects on customers, provide broader counseling, and lead community-support efforts. The following are some of the actions that leading banks can take to show their concern for customers:

— *Offer payment holidays and temporary relief.* Bank customers are facing extraordinary financial stress. In response, most banks are starting to waive interest charges and suspend late-account fees for customers who request such changes for coronavirus-related relief. For example, Goldman Sachs is allowing Apple Card users to skip March payments.[2] Ally Financial is allowing automobile-loan and mortgage customers to delay payments by 90 to 120 days. We expect to see more of these actions across the industry in the coming days and weeks.

— *Provide financial-fitness tools and help lines.* In the face of so much uncertainty, bank customers will have financial questions or simply need reassurance. Banks should anticipate these and embed more financial-fitness tools and dialogue in their client interactions. They should, in particular, direct individuals to their online financial-fitness tools and make those tools available on their website landing pages—and promote personal engagement and program chatbots accordingly. We believe that banks should start reaching out to clients proactively to discuss financial-fitness tools, starting with the customers most at risk in the current environment. Additionally, bank managers should create opportunities for human interactions for distraught customers who just want to talk through their concerns and establish help lines for customers who need support during remote (mobile or internet) transactions.

— *Serve in unexpected ways.* Especially during a crisis, customers don't always know what they will need until that need is pressing. Finding that their bank is prepared to help in unexpected ways will go a long way toward reassuring them. Financial institutions could take inspiration from the actions a few banks in China have taken (Exhibit 2). There, many banks went above and beyond their financial commitments to cater to their customers' growing medical needs during the epidemic. For example, China Construction Bank partnered with China's Department of Civil Affairs to launch a digital platform to help local community managers monitor the number of people affected by coronavirus in their specific geographies. The platform also helps residents and employees input basic personal information to apply for return to work. Additionally, it allows them to stay connected with other open-banking platforms, such as those for the rural population, medical services, education, and eldercare.

Enable seamless customer service and support new ways of working

The coronavirus pandemic is already leading to abrupt changes in how customers manage their finances. Customers already under health and financial stresses will need ready access to bank products and services. It is all the more important, then, to reach customers through digital channels, stay connected through innovative communication channels, meet the needs of vulnerable populations, and stabilize critical infrastructure:

— *Encouraging digital migration.* Banks should encourage more customers to use existing remote channels and digital products whenever

[2] Olivia Rockeman, "Goldman Sachs to let customers defer Apple Card, Marcus payments," Bloomberg, March 16, 2020, bloomberg.com.

Exhibit 2

Chinese banks took proactive digital measures in response to COVID-19.

Response measures

Category	Bank	Response	Launch date	Initial impact
No-contact banking	Ping An Bank	Based on Ping An of China's well-established ecosystem, Ping An Bank launched Do It At Home service through which customers can complete series of financial and nonfinancial services on Ping An Pocket Bank app	Feb 3	• >8 million page views • 116.7 million transactions from 3.05 million customers
Live-streaming marketing	Bank of China (BOC)	BOC's Wealth Management (WM) subsidiary set up 3 online live shows, conducted by its leading investment managers, about impact of coronavirus outbreak on capital market and newly issued WM products	Feb 11	• >26,000 viewers for first online live show • >44,000 total viewers for 3 online live shows
Ecosystem building	China Construction Bank (CCB)	CCB launched smart community platform	Feb 14	• Platform covers 738,500 communities, 404,000 companies, 1,337 schools, and 60 senior centers • 101,600 total users in 1 week
	China Merchants Bank (CMB)	CMB launched antiepidemic zone on its app, with real-time epidemic data, online counseling, and designated-hospital searching, by partnering with various third-party suppliers App users can find daily stay-at-home and return-to-work services (eg, food delivery, online videos, shared rides, online courses) and online financial services (eg, lending, WM)	Feb 11	• ~100 million visits to antiepidemic zone • Offered >1.6 million online counseling sessions with >50,000 doctors

Source: Press search; McKinsey analysis

possible. To do so, institutions can launch positive and safety-oriented messaging aimed at reducing reliance on branches for services that are digitally available while also offering discounts, providing online and call-based tutorials, and increasing remote support options. Banks can also enhance their current digital offerings, identifying key functionalities that can be improved quickly—for example, speeding up the procedure to increase limits on online transactions and simplifying password reset.

— *Keeping clients engaged via SMS, mobile apps, and digital media.* Early and proactive communication can help minimize unpleasant surprises to customers (such as potential branch lockdowns), encourage fraud-prevention measures, clarify the availability of solutions on digital channels, and define preventive measures to ensure the health and safety of clients and employees in branches. Banks in China, for example, have built information on branch status and lockdown zones into their mobile apps. Some have instituted frequent nudging mechanisms to notify clients of bill payments, deposits, and spending activity. Such efforts both engage clients and promote their financial fitness.

— *Serving vulnerable populations.* Many of the bank customers considered vulnerable to the coronavirus, especially the elderly, may not have been active online users. Banks can get creative with short-term solutions, such as remote access and delivery of paper communications to customers' doorsteps. Germany's Sparkasse set up mailboxes for direct account transfers with no human interaction.

— *Stabilizing critical infrastructure, systems, and processes.* The current situation is likely to expose technology glitches. Some financial institutions will need to address such technology gaps in order to offer a seamless digital customer experience. This will require planning ahead by scaling infrastructure capacity and network bandwidth, stress testing and scenario planning, managing near-term patches, and identifying urgent weaknesses in architecture.

We have developed a checklist of key tasks for banks in the areas of customer engagement, infrastructure setup, and digital engagement (Exhibit 3).

Exhibit 3

Banking leaders should develop a checklist of key tasks around customer engagement, infrastructure reinforcement, and digital engagement.

Customer engagement

Educate on bank capabilities

- ☐ Digital content development
- ☐ Targeted digital education across all channels
- ☐ Social-media activation and constant communication
- ☐ Call-center messages
- ☐ Migration to alternative channels
- ☐ In-branch hygiene standards

Respond to government measures

- ☐ Crisis center
- ☐ Expert-panel response team
- ☐ Marketing response team
- ☐ Corporate-social-responsibility campaigns

Disseminate postlockdown awareness

- ☐ Fraud-prevention webinars
- ☐ Wealth-planning webinars
- ☐ Cash-and-liquidity webinars
- ☐ Financial-literacy webinars

Create specialized offerings

- ☐ Credit availability
- ☐ Debt-relief plan/flexible payments
- ☐ Credit-limit review
- ☐ Terms-and-conditions review

Infrastructure reinforcement

Ensure bankability

- ☐ Virtual/digital and physical cards for everyone
- ☐ Limited adjustment
- ☐ Mass online/mobile-activation capability
- ☐ Specialized services for high-risk segments
- ☐ Point-of-sale and e-commerce expansion

Enable infrastructure

- ☐ Channel-capacity-change plan
- ☐ Cash availability
- ☐ Mobile-infrastructure-system stability
- ☐ Hygiene standards in branches
- ☐ Call-center-capacity increase
- ☐ Decentralized call center
- ☐ ATM reallocation

Develop fast enhancements/work-arounds

- ☐ Work-arounds/fast enhancements for ATMs/CDMs
- ☐ Work-arounds/fast enhancements for online/mobile functionalities
- ☐ Technology integration

Operationalize remote services

- ☐ Remote infrastructure
- ☐ Remote tools
- ☐ Remote standards
- ☐ Employee equipment for remote work
- ☐ Network reorganization

Digital engagement

Motivate customers to use remote and digital services

- ☐ Fee waivers
- ☐ Tutorials and how-to sessions
- ☐ Transaction rationalization
- ☐ Call-center support
- ☐ Mass activation of debit/credit cards
- ☐ Direct sales-force and telecom sales
- ☐ Targeted migration campaign
- ☐ Revised staff incentives

Reinforce remote advisory capabilities

- ☐ Evaluation of excess capacity
- ☐ Redeployment of excess branch capacity into virtual units
- ☐ Scripts and guidelines
- ☐ Employee training

Support new/enhanced digital capabilities

- ☐ Dedicated digital squads
- ☐ Prioritized list of functionalities
- ☐ Search-engine optimization
- ☐ Budget reallocation toward digital
- ☐ Digital marketing platforms

Recalibrate capacity across channels

- ☐ Capacity-need adjustment
- ☐ Reskilling
- ☐ Special incentives/motivation
- ☐ Idle-capacity rationalization

Accelerating out of the downturn: Redefining consumer and small-business banking

As the human cost of the coronavirus pandemic unfolds, we are only just beginning to come to grips with its impact on the economy and on the banking landscape. It seems likely that the forced abrupt shift to remote working will have profound long-term implications on key banking operating-model dimensions, such as location strategy, outsourcing, offshoring, and employee value proposition—for example, flexible hours, job sharing, and accessing new talent pools.

While keeping the needs and well-being of both customers and employees at the forefront, banks can use this moment to experiment with radical redesigns of their operating models to achieve better efficiency. Although the timing and shape of recovery is still unclear, we expect far-sighted organizations to begin both taking actions to mitigate the impact of the situation and positioning themselves to build momentum rapidly in the postrecovery phase. Such actions include the following:

— *Increasing the use of digital abilities to boost customer engagement.* We believe the pandemic will be a catalyst for the use of digital banking tools and will also change the way customers interact with their banks. For example, China's Ping An Bank launched the Do It At Home service as part of an initiative to help customers during the pandemic. The Ping An Pocket Bank App enables customers to complete a variety of financial-service transactions across basic banking services, insurance, foreign exchange, and wealth investment. Banks that encourage and support customers now will be well positioned to increase the use of digital channels in the future. Banks should continue to invest in boosting digital engagement and sales. Additionally, as branches perform fewer service transactions, banks may need to migrate paper documents and marketing materials to digital channels aggressively, with in-branch coaching to support the customer shift. This will pave the way for banks to reorient branches away from services and toward relationship management and business development.

— *Promoting capabilities for supporting financial advice.* The current environment will increase the pressure on banks to grow. Banks will need to think through how to differentiate themselves in delivering value to clients. This might include, for example, the emergence of bankers who can cover both investments and banking; delivery of advice to clients in a cost-effective way, via financial-fitness tools and remote advice; and enhancing solutions as ecosystems with other services, such as accounting and tax services.

— *Encouraging relationship-based banking.* We are a long way from understanding the full financial impact of the coronavirus pandemic—and some banks will fare better than others. But overall, we anticipate that consumer-banking economics will likely be depressed as a result of net-interest-margin compression and decreased fee income. In the event of a flight to quality deposits, traditional banks can deploy relationship rewards and relationship pricing to encourage customers who have shifted to non-FDIC vehicles to come back. They can emphasize their broader suites of products and the value of relationships to underscore their value proposition to these customers.

— *Rethinking the portfolio strategy for small business.* Small-business-banking leaders may consider reevaluating their portfolio and credit strategies to develop industry-segment-specific insights. This will allow them to focus on core sectors and clients—which is not only the right thing to do during such a situation but also will cement long-lasting client relationships. Banks may also need to implement new programs to disburse funding to the most hard-hit industries and segments, such as the US Small Business Administration has done with its lending package for small businesses affected by COVID-19. Banks will need to scale the capability building of bankers and underwriters to deliver these loans to clients in their time of need.

- *Setting up capabilities for supporting clients in a postpandemic environment.* Banks can invest now to build client-support and workout capabilities, such as improving sensitivity to early-warning systems, developing short-term forbearance solutions and loan modifications, and providing guidance on alternative products. If call-center employees are severely affected, banks can also build contingency strategies to run collection programs through digital channels.

Prior to the advent of the coronavirus pandemic, consumer and small-business banking was facing a difficult array of challenges: the threat from new digital-attacker models, changing customer expectations, low customer affinity, and depressed economics. Today, workplace dynamics, talent management, governance, bank culture, and customer routines and expectations are all in flux, and the consumer and small-business bank of tomorrow is likely to look very different than it did yesterday. To make the transition successfully, banks can begin by rearticulating the benefits of relationship banking and shifting to a more efficient and customer-centric multichannel engagement model.

Ashwin Adarkar is a senior partner in McKinsey's Southern California office; **Paul Hyde** is a senior partner in the New York office, where **Marukel Nunez Maxwell** is a partner and **Abhilash Sridharan** is an associate partner.

The authors wish to thank Mateo Dahik, Vito Giudici, Joy Long, Sameer Kumar, Ayush Madan, Lorenzo Serino, Rohit Singh, Adele Taylor, Marco Vettori, and Laura Webanck for their contributions to this article.

Designed by Global Editorial Services