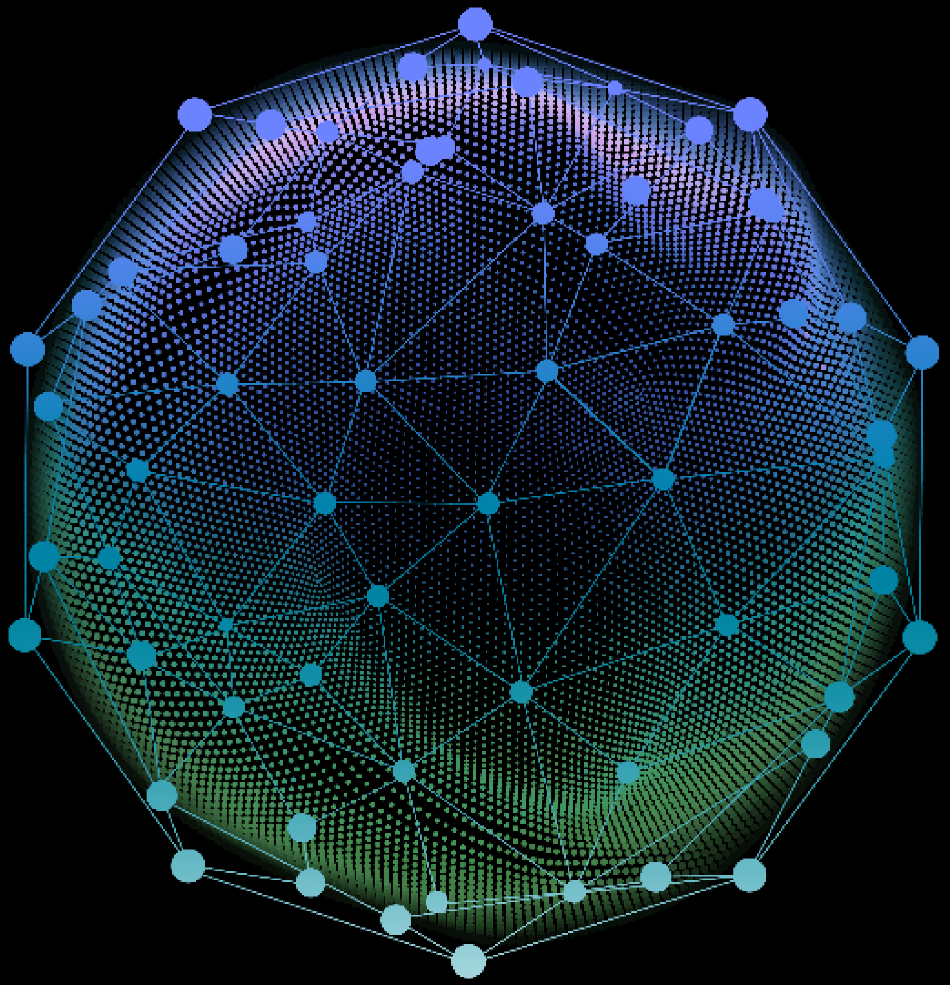


Retail Banking in the Age of COVID-19

Scenarios for Resilient Leaders

May 2020

Deloitte.

People on the front lines are courageously fighting COVID-19, while bank employees are providing essential services throughout the pandemic

This document intends to provide banking leaders with potential medium-term (1 to 3 years) implications of COVID-19 for the retail banking sector

An industry remade

We are in uncharted waters, yet banking leaders need to take decisive action to ensure their organizations are resilient

Deloitte's Resilient Leadership framework defines three timeframes of the crisis

RESPOND	RECOVER	THRIVE
Manage continuity	Learn and emerge stronger	Prepare for the next normal

Focus of this document: *Scenarios for Resilient Leaders with a medium-term view*

This document introduces scenarios of how the global retail banking landscape may develop over the next one to three years, and is intended to help leaders explore some of the potential medium-term implications of COVID-19. The terms "bank" and "retail bank" refer to all retail banking organizations primarily focused on serving individual consumers. This includes regional banks, credit unions, and monoline lenders.

These scenarios outline potential futures, and have been created to spark insight and spot opportunity.

Objectives of this document

Share scenarios about how the global retail banking sector might evolve in one to three years to help leaders:

1. Have productive conversations on the lasting certainties and implications of the crisis
2. Explore how uncertainties during the pandemic could shape global retail banking in the medium term
3. Identify how key dimensions of global banks could be impacted by the rapidly changing landscape
4. Move beyond "responding" to the crisis towards "recovering" in the medium term

Scenario thinking can help better inform how we make decisions in an uncertain future

This document explores various scenarios for how the COVID-19 pandemic could accelerate or redirect the retail banking industry over the next one to three years. Building on several trends already in motion, the scenarios are built on important macro and banking sector uncertainties— those already evident, and others that are potentially plausible based on the severity of the pandemic and government actions.

These scenarios target retail banks, which in many cases serve consumers, small-business owners, and entrepreneurs.

We chose to focus on the next one to three years on the assumption that this timeframe is long enough that change is possible, but short enough that it matters to executives today.

As you read this document, challenge yourself to imagine how the things you were sure were going to happen could now be on a different course. Avoid the temptation to conclude that the crisis will accelerate the changes you already expected or believed were inevitable, or that the scenarios are truths or future forecasts.

This document and its depiction of possible futures should ultimately spark several questions around the implications for your organizations, and next steps for your organization.

What are scenarios?

Scenarios are stories about what the future may be like, created through a structured process to stretch thinking, challenge conventional wisdom, and drive better decisions today. They are not predictions about what *will* happen; they are hypotheses about what *could* happen, designed to open our eyes to new opportunities or hidden risks.

Note that these scenarios stand as of early May 2020. They are based on our best understanding of the health trajectory, economic impacts, and government actions in response to the COVID-19 pandemic globally.

We have certainty that COVID-19 will change the face of retail banking globally

Agnostic to the severity of COVID-19, we see 10 forces that will impact retail banks:

1. There will be an increased expectation for banks to **play a societal role** beyond shareholder return.
2. The **collaboration witnessed between banks and government** at the start of this crisis will increase as the economy safely reopens.
3. Households will fundamentally **re-evaluate their willingness to take financial risk**.
4. The crisis is giving **increased latitude to implement cost reductions** that would have been considered too bold before.
5. **New forms of financial supervision** and new responsibilities for banks, including conduct expectations, will emerge.
6. **Systemic stability and infrastructure modernization** initiatives will accelerate to enhance future resilience.
7. Banks will use the context of COVID-19 and the conditioning of digital interactions to **break the inertia of digital adoption**.
8. **Banks' investment horizons will become shorter** as investments yielding more certain returns, operational resiliency, and cost reduction will be prioritized.
9. **Credit risk appetites will shrink** among mainstream lenders, requiring government intervention to secure lending availability for certain segments.
10. **Remote operating models will evolve at an accelerated pace** and will drive both benefits and stresses for employers and employees alike.

Note: The certainties identified are those that will most likely impact the overall global retail banking industry. There may be variations / nuances when considered at the local level.

Ten forces will impact banks, agnostic to COVID’s severity

1 There will be an increased expectation for banks to **play a societal role** beyond shareholder return.

Leading observations

- Government and banks have partnered to deliver an unprecedented volume of financial support to borrowers (e.g. in South Korea, the government provided consumption coupons for low-income households[1]). Likewise, banks have responded to the need of borrowers by implementing mortgage deferral and credit card interest rate relief.[2]
- Each of Canada’s largest banks, which collectively employ around 300,000+ Canadians,[3] have signaled that they will not conduct any layoffs in 2020 in order to support employees and their families throughout the crisis.[4]
- Institutions were already undertaking a shift to stakeholder capitalism, as evidenced by the World Economic Forum’s Annual Meeting 2020 theme,[5] which called attention to the balance required between profits and prosperity across large institutions.

Summary of implications

- As near-term quarterly earnings are released, banks’ financial and societal impacts will be scrutinized by consumers and regulators for their response to the crisis and their contributions during the crisis.
- The degree to which retail banks embody a broader societal purpose and consider a triple-bottom line will define how new regulations are shaped, and how consumer loyalty is impacted.
- Banks will be expected to provide quasi-governmental services as they carry the burden of recovery, such as enhanced workplace leave, counselling, health monitoring, and other “beyond bank” services.
- Banks may deepen their focus on health, safety, and purpose, especially when collaborating with broader stakeholders to support the overall well-being of communities.

2 The **collaboration witnessed between banks and government** at the start of this crisis will increase as the economy safely reopens.

Leading observations

- Governments have been collaborating with banking systems to distribute capital, and ease the burden on borrowers (e.g., CBILS in the U.K., Cura Italia in Italy, CARES Act in the U.S.).[8]
- Canadian bank CEOs are conversing with Finance Minister Bill Morneau regularly, to collaboratively ensure that consumers and businesses receive the right level of support over the course of the pandemic.[6]
- The French bank Société Générale is conversing with its union stakeholders on ensuring the health and safety of staff as a segment begins to return to work; in Hong Kong, Goldman Sachs has implemented a phased return-to-work approach to ensure safety and avoid or mitigate a resurgence of the virus, aiming for 50 percent to return by May 25.[7]

Summary of implications

- Larger entities with national footprints will have to act as an integration point among government policies and approaches (e.g., banks will have to coordinate with governments and commercial real-estate managers on managing a safe return to work).
- The public-private partnerships that have emerged during the pandemic will continue post-pandemic to ensure the necessary levels of testing, tracking, and tracing in coordination with the government and public health bodies.
- Collaboration forums required during the pandemic, such as the cadence of interaction observed between Canadian bank executives and the government, are expected to remain over the longer-term.

[1]Deloitte Report, The Star; [2]Deloitte Report; [3]CBA; [4]Financial Post, The Globe and Mail, TD, BNN Bloomberg; [5]World Economic Forum; [6]Financial Post; [7]New York Post, Reuters; [8]Deloitte Analysis, White & Case, Norton Rose Fulbright, Lexology, Deloitte Report, Yale

Ten forces will impact banks, agnostic to COVID's severity

3 Households will fundamentally **re-evaluate their willingness to take financial risk**.

Leading observations

- Marginalized segments of society are disproportionately feeling the impact. In Canada, 44 percent of households reported lost work[1]; seven million individuals applied for the CERB.[2] The U.S. Chamber of Commerce indicated 25 percent of small businesses shut down.[3]
- Automatic Data Processing Inc. estimates that, in the U.S. private sector in April, there were ~20.2M jobs lost; similarly, over a six-week span, there have been jobless benefits applications from ~30M+ Americans.[4]
- Past financial crises have had lasting impacts on the habits of generations, including on what they buy and what they value (e.g., after the 2008 global financial crisis, consumers focused their spending on real assets and high-value categories such as housing, automobiles, and healthcare, while retail shopping categories were slower to recover[5]).

Summary of implications

- Consumers will increasingly take a more cautious approach to credit, reducing credit card spend and reducing major asset purchases (e.g., homes and automobiles), leading to significant household deleveraging and a reduction in fee-based income for institutions.
- The crisis will have a lasting impact on customer willingness to save, with the persistent effects of the volatility in the capital markets driving customers to products such as High-Interest Savings Accounts (HISAs) and term deposits.
- With a large share of small businesses expected to fail/close doors, there will be a lingering hesitancy to open new business or pursue entrepreneurial ventures.
- Consequently, banks will need to shift the focus of their messaging to prioritizing cash-flow advice ahead of long-term saving and investing.

4 The crisis is giving **increased latitude to implement cost reductions** that would have been considered too bold before.

Leading observations

- Banks were already endeavouring digital transformation with a goal of reducing costs (e.g., digitization, automation, virtualization); these efforts have now been accelerated due to this crisis.
- Banks have had to outlay unplanned costs to pivot quickly in response to the pandemic, and to enable remote working environments; for example, Barclays has indicated that its employees may not all need to work from centralized locations post-crisis.[6]
- On the whole, large scale transformations for core infrastructure projects are planned to continue in FY21; while COVID-19 has caused a slight delay in these transformation initiatives, it has not caused a cancellation.

Summary of implications

- Banks will need to revisit the optimal channel mix (e.g., in-person, self-serve, omni) and adjust the size of the workforce accordingly in an effort to find cost savings, while maintaining or improving customer experience.
- The combination of unexpected costs and the impact of the pandemic itself will force banks to double down on discretionary spend and maintain or reduce the size of their workforce.
- The need to fund significant capital expenditure for digitization initiatives will cause banks to experience added pressure to find short-term cost savings.
- Banks will need to accelerate cost reduction efforts to maintain or improve their cost efficiency ratios, as revenue will be challenged due to the pandemic.

[1]Global News; [2]Government of Canada; [3]Forbes, U.S. Chamber of Commerce; [4]ADP, Market Watch; [5]NBC; [6]New York Post, Reuters

Ten forces will impact banks, agnostic to COVID's severity

5 **New forms of financial supervision** and new responsibilities for banks, including conduct expectations, will emerge.

Leading observations

- After the 2008 financial crisis the United States signed into law several major pieces of legislation (e.g., Dodd-Frank Wall Street Reform and Consumer Protection Act) in order to protect against future financial crises.
- China is currently easing regulations to allow 100 percent foreign ownership of life insurers, futures, and mutual-fund companies in the hopes of accelerating economic recovery in the country.[1]
- Canadian banks are already experiencing some regulatory easing to enable digital customer servicing (e.g., simplified authentication to register an account for government benefits).[2]

Summary of implications

- Global banks may be subject to new regulation and responsibilities coming out of the crisis, particularly in business continuity plans, pandemic planning and cyber-resiliency.
- Some regulatory changes will be more permissive, allowing banks to continue serving customers digitally; more comprehensive solutions, such as national digital identity, will be required to fully enable digitization of financial services (e.g., digital signatures replacing all "wet" signatures).
- Other supervisory changes will place new or heightened burdens on banks to mitigate future risks to the system (e.g., stress testing, consumer protection, and conduct).[7]
- The priority of regulators and government coming out of COVID-19 will continue to be foremost on stability, security, and consumer protection; initiatives that are aimed at driving efficiency, competition, or utility will likely be of lower priority for regulatory entities in the short-term, unless they also drive stability.

6 **Systemic stability and infrastructure modernization** initiatives will accelerate to enhance future resilience.

Leading observations

- The crisis has highlighted the need to upgrade payments infrastructure, especially around identification and authentication; government payouts require proof that certain conditions are met, and the advent of enhanced data could address pandemic use cases.[3]
- In April 2020, amidst the COVID-19 pandemic, the People's Bank of China deployed a national digital currency in a few select cities, as it looks for a new alternative to cash.[4]
- Pre-crisis, the Philippines' CIMB Bank had already joined forces with digital-identity provider Jumio in onboarding new consumers digitally[5]; we expect digital programs such as these to become increasingly important over time
- Banks are expected to accelerate investments towards cybersecurity resiliency standards (e.g., VC funding for cybersecurity firms tracking to $1.7 billion year-to-date[6]).

Summary of implications

- The implementation of major financial infrastructure programs currently underway, such as China's push to deploy a "digital yuan"[4], will remain critically important with a renewed focus on balancing innovation, competition and security.
- Government will likely develop a broader special-purpose vehicle framework to support non-performing loan books (even if not used).
- We expect the increased focus on solutions such as national digital identity will need to encompass small businesses and corporations rather than principally being focused on citizens; use cases will be broadened to include emergency communications and tracking.

[1]The Washington Post; [2]Mondaq; [3]Deloitte Analysis; [4]Los Angeles Times; [5]Business Wire, Tech Wire Asia; [6]PitchBook; [7]Financial Conduct Authority

Ten forces will impact banks, agnostic to COVID's severity

7

Banks will use the context of COVID-19 and the conditioning of digital interactions **to break the inertia of digital adoption**.

Leading observations

- The evolution toward direct sales, self service, digital advice, and digital payments has been accelerated over a few short weeks as social distancing have necessitated full scale digital adoption.
- Even customers who were reluctant to adopt digital interactions have done so out of necessity, gaining some level of comfort with these new methods.
- Financial institutions are rapidly adjusting to serving customers almost entirely digitally, with leading players proactively investing in expanding the functionality and efficiency of their digital platforms in the short- and long-term[1]; for example, the UK's TSB Bank is using its "Smart Agent" offering to support customers applying for loan repayment holidays (personal or business loans).[2]

Summary of implications

- Enterprise level investments will likely accelerate to ensure greater reach and consistency of key technologies across lines of business and operating units (e.g. workforce management, digital interfaces, etc.).
- Planned technology investments that were scheduled to deploy over a longer time frame, with more cautious roll-out schedules, will likely be accelerated, particularly when they enable more rapid digitization.
- Consumer adoption of digital channels will be sustained as they build confidence in using these digital tools.
- We will see a significant decline in the use of physical currency and ATMs as adoption of mobile payments channels grows (e.g., increased tap limits), driving a change in physical banking infrastructure; we expect renewed interest in consortia models to combine ATM and cash management infrastructure.

8

Banks' investment horizons will become shorter as investments yielding more certain returns, operational resiliency, and cost reduction will be prioritized.

Leading observations

- All banks have triaged their initiatives portfolio into stop, start, and continue tranches, with a focus on short-term returns or no-regrets initiatives; CIOs have confirmed that ~20 percent of IT deployments and new projects have been put on hold.[4]
- Banks are seeing an uptick in fraud attempts that are driving up costs, including sophisticated kiting, phishing, and cyber attacks, exacerbated by remote work and more improvised processes.[3]
- Discretionary spend is being highly scrutinized, with all new or increased spend requiring higher levels for approval.[5]
- Shorter, more pragmatic planning cycles are expected to continue with greater oversight.

Summary of implications

- Significant pools of project funding are likely to be reallocated to projects that will deliver new revenue quickly (e.g., capital markets) or projects that will minimize cost-to-serve against key products, services, and channels (e.g., automation/digitalization).
- Banks are likely to prioritize operational enhancements that contain fraud, tighten up underwriting, and help manage liquidity; select operating model weaknesses during the crisis will be areas of focused investment to improve operational resilience post-crisis.
- Banks will need to focus on developing more efficient data systems, to combat the difficulty of integrating technologies into existing legacy infrastructure; this creates a broader opportunity for new products and services.
- Banks will look back on the response to COVID-19 to understand how they were able to move quickly and adopt those habits, resisting falling back into old ways of working.

[1]Deloitte Report; [2]Deloitte Report, Mortgage Finance Gazette; [3]CBC; [4]Forbes; [5]Forbes.

Ten forces will impact banks, agnostic to COVID's severity

9

Credit risk appetites will shrink among mainstream lenders, requiring government intervention to secure lending availability for certain segments.

Leading observations

- Delinquencies and missed payments are increasing across several segments of Canadians, and are likely to lead to a prolonged increase in expected credit losses; it is estimated that defaults on consumer loans could increase by approximately 50-70 percent without government support.[1]
- In addition to monetary policy adjustments providing lenders with increased access to low-cost capital, global governments are reducing capital requirements and easing regulatory burden to entice banks' and lenders' credit appetite.[2]
- In China, rules for recognizing non-performing loans have been made more favourable for lenders as loan forbearance programs gain traction in the country, to better support business and community-based borrowers.[3]

Summary of implications

- Banks may seek to increase lending requirements (new agreed-upon standards for debt ratios, stress-test changes, loan-to-value ratio ranges) to limit exposure to credit losses in the medium term and setting realistic Provision for Credit Losses (PCL).
- The private lending market will grow in response to credit tightening, particularly as the prime segment shrinks and more customers are considered near-prime or non-prime.
- Monetary policies by governments focusing on increasing liquidity may not be enough to entice the credit risk appetites of mainstream lenders, requiring governments to intervene through securitization and guarantees to help reduce the credit risk for lenders.

10

Remote operating models will evolve at an accelerated pace and will drive both benefits and stresses for employers and employees alike.

Leading observations

- Global banks have already taken measures to enable most of their workforce to work from home[4]; for instance, ~84 percent of Deutsche Bank's investment banking division has been working remotely[6], while Canadian banks have moved from approximately 20 percent of employees with remote capabilities to at least 85 percent within one week of the start of the crisis.[4]
- Markets globally are transitioning back to work; for example, China has heightened attention to hygiene, leading to changes in the in-office experience.[5] Meanwhile, Wells Fargo has communicated that it expects approximately 180,000 staff to continue working remotely for the foreseeable future.[6]

Summary of implications

- All organizations need to consider the extent to which they will support a more virtual operating model, balancing the sentiment of workers, the cost management opportunity, and the possible tradeoffs to productivity.
- New capabilities are necessary to manage an increasingly mixed workforce (on-premise vs. off-premise), including capabilities around talent management, workforce configuration, corporate real-estate management and deploying tech systems to enable cross-channel consumer interactions.
- Banks will need to deploy long-term support tools and leadership capabilities to ensure that remote employees stay motivated and productive in their roles (e.g., new ways of collaborating, providing guidance and coaching, and managing employee performance and well-being).

[1]Globe and Mail, CIBC; [2]Deloitte Report; [3]S&P Global, Deloitte Report; [4]Deloitte Analysis; [5]Wall Street Journal; [6]New York Post, Reuters

However, the exact shape of the future is uncertain, and two critical sets of uncertainties help us capture that variance

1 | What is the overall **severity of the pandemic** and pattern of disease progression?

Lower impact → Higher impact

Rapid peak
The virus's spread shows a rapid peak before quickly declining.

Self-dampening
Rapid exposure across individuals leads to eventual "herd immunity."

Gradual progression
A gradual and prolonged development of the virus's spread is seen.

Rollercoaster
Seasonal waves of the viral disease are seen, with decreasing degrees of severity.

Second act
A second wave of viral infections emerges stronger than the first.

2 | What is the **level of collaboration** within and between countries?

Significant → Marginal

Coordinated response

- Nations "think big and act fast." Effective collaboration within and between countries to contain the virus's spread through coordinated strategies and best practices (such as mandating quarantines and testing).
- Coordination to reduce mobility of people and slow transmission.
- Proactive measures by public institutions to prevent future widespread viruses.

Weak and divided

- Lack of coordination among governments and institutions to provide supplies and resources required to prevent virus's spread.
- Lack of accountability and breakdown in communications and information-sharing.
- Insufficient and uneven response to effectively address mobility of people carrying the disease.

Making sense of the future

Four distinct scenarios emerge based on current trends and critical uncertainties

The passing storm

The pandemic is managed due to effective responses from governments to contain the virus, but is not without lasting repercussions, which **disproportionately affect SMEs[1] and lower- and middle-income individuals and communities**.

- Relatively constrained disease dynamic
- Effective health system and policy response

Lone wolves

Prolonged pandemic period, spurring governments to **adopt isolationist policies**, shorten supply chains, and increase surveillance.

- Severe, rolling pandemics
- Insufficient global coordination and weak policy response

Good company

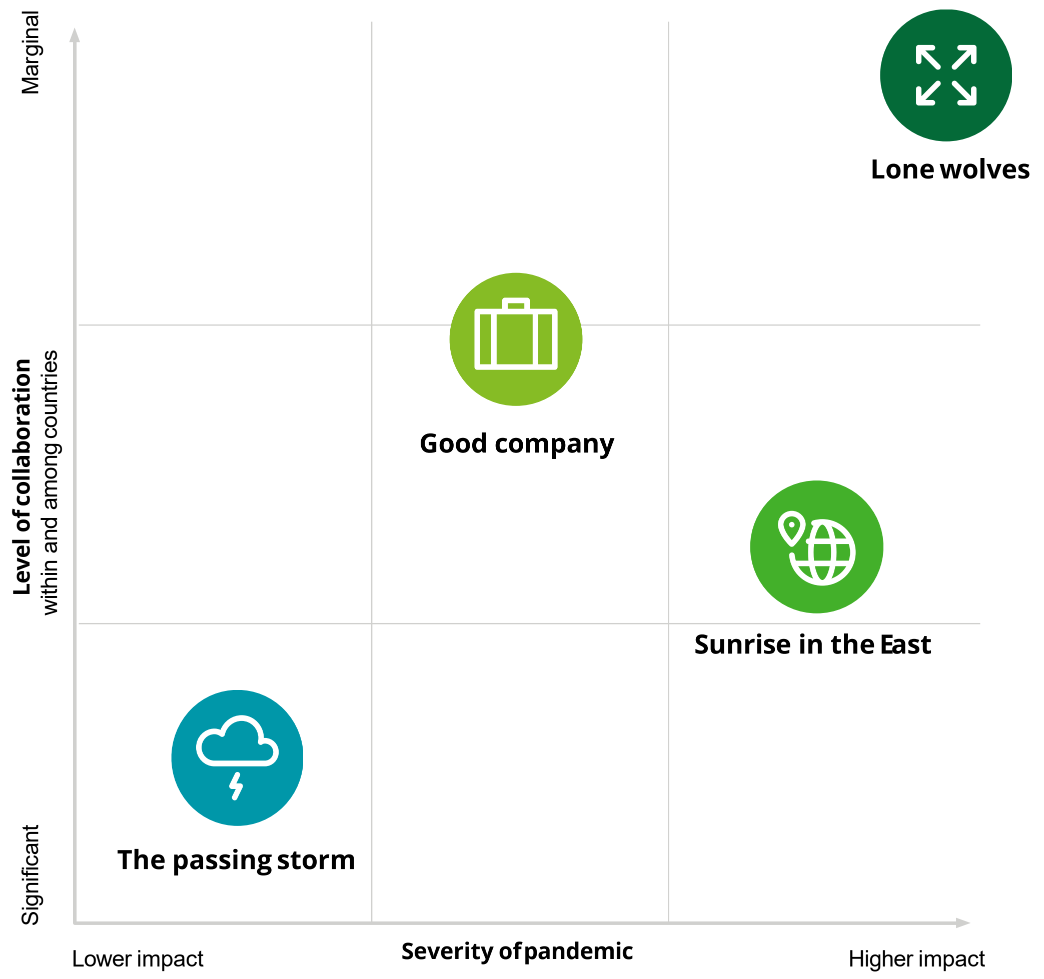
Governments around the world struggle to handle the crisis alone, with **large companies stepping up as a key part of the solution** and an acceleration of trends toward "stakeholder capitalism."

- More prolonged pandemic
- Collaboration to control the pandemic led by large companies

Sunrise in the East

China and other East Asian nations are more effective in managing the virus and take the reins as **primary powers on the world stage.**

- Severe pandemic
- Collaborative health response led by East Asian countries



[1] SMEs – Small and Medium Enterprises

What does the world of retail banking look like in these scenarios?

The passing storm

- The banking system emerges in a position of strength; banks attempt to navigate a new normal and support disproportionately affected consumers
- Institutions steadily recover, but with a much stronger focus on rationalization and efficiency
- Barriers to digitization fall as programs piloted during the pandemic prove highly effective

Good company

- Large incumbent banks and the government steward economic recovery and adopt heightened responsibilities post-crisis
- Banks grow digital channels using new technologies, capturing share from weaker players
- Regulators allow institutions flexibility to adapt and more fully digitize operations

Sunrise in the East

- Western recovery is influenced by lessons learned from earlier recovery observed in the East
- Big tech plays a large role in the global economic and epidemiological recovery, driving innovation through partnerships
- Trust in tech firms grows and consumers accelerate switching to digital-only offerings

Lone wolves

- Smaller banks struggle, provoking a wave of consolidation and consumers switching to the perceived safety of larger institutions
- Large banks' ability to expand abroad is heavily constrained
- Mounting credit losses and capital pressures permanently shrink credit availability and risk appetite, though governments try to combat this

We explore how these scenarios vary across the following seven dimensions and produce different realities for retail banking

01 Macroeconomic and financial market shifts

How quickly does the global economy recover?

Large-scale changes in economic conditions (e.g., interest rates) that have implications for banks

02 Shifting consumer attitudes and behaviours

How do consumer preferences and trust evolve?

Change in demand for banking offerings, attitudes towards advice and interaction, and affinity for non-traditional players

03 Regulatory responsiveness

What is the regulatory burden on players?

Degree to which the scenario drives incremental to fundamental changes in financial and relevant non-financial regulation

04 Shifting competitive dynamics

How is the ability of players to grow impacted?

Change in the degree of consolidation, competitiveness levels, and degree of international presence

05 Technology adoption

How does support for technology adoption evolve?

The extent to which the scenario causes shifts in the adoption of digital and technological solutions

06 Operating model evolution

How are work, workforce, and processes configured?

The extent to which the scenario causes shifts in retail banking products, channels, work & workforce configuration, and operations

07 Risk management focus

How does the industry respond to risk exposure?

The extent to which the capital, liquidity, and other risk management strategies of banks change focus

Mapping dimensions and scenarios illustrates potential impacts

	The passing storm	Good company	Sunrise in the East	Lone wolves
Macroeconomic and financial market shifts How quickly does the global economy recover?	…recovers steadily after an initial recession due to an effective government response	…gradual recovery is aided by banks, as they partner with government to deliver aid	…recovers very slowly, with big tech enabling the digital economy and return to work	…is left in turmoil amid trade protectionism, and devastated commodities and real-estate markets
Shifting consumer attitudes and behaviours How do consumer preferences and trust evolve?	…returns to past norms, but with an increased consumer demand and comfort with digital banking	…become more trusting of banks that weather the storm and provide consumer / community support	…become more trusting of big tech as they feel tech has played an outsized role in helping recovery	…shifts to become more risk-averse and savings-oriented as the pandemic persists
Regulatory responsiveness What is the regulatory burden on players?	…reverts to global standards, with some approvals for emergency digital tools enduring	…is eased to imbue banks with greater flexibility for digital engagement	…regulatory environment becomes more permissive to encourage technology adoption	…liquidity is injected and depleted; various programs are under pressure
Shifting competitive dynamics How is the ability of players to grow impacted?	…face initial profit squeeze as costs and losses rise, but slowly position for growth	…focus on share capture for larger players while smaller players face share erosion and consolidation	…significantly increased competition to attract new customers to digital offerings in other global markets	…retrench domestically as balance sheets shrink and parts of the financial system require bailout
Technology adoption How does support for tech adoption evolve?	…stays on course with same investment priorities on an accelerated timeline	…increased momentum toward secure digital transformation and self-service digital advice	…sees increased adoption of innovations driven by big tech and inspired by more advanced markets	…focuses on contactless and remote solutions as enterprise digitization and virtual channels are emphasized
Operating model evolution How are work, workforce, and processes configured?	…focuses on rationalization and efficiency while adjusting to new post-crisis environment	…adapt to enable greater flexibility including partially specialized workforces, onshoring, and remote work	…operations increasingly digitized through deeper partnerships with big tech; real estate footprint is heavily reduced	…are permanently reconfigured, with restructuring, workforce / real-estate reductions, and onshoring
Risk management focus How does the industry respond to risk exposure?	…faces short-lived stresses due to capital/customer defaults, which abide as economy recovers	…takes on greater burden as the role of banks expands to ensuring economic stability	…some FIs struggle to adapt to changes in operating model at the same time as losses increase	…struggles with systemic stability, with trapped capital in foreign jurisdictions and potential failures of small players

Legend: Less disruptive | Moderately disruptive | More disruptive

Note: "Disruptive" is measured between the four scenarios under consideration from the perspective of an incumbent player (large or small; traditional or non-traditional) in terms of perceived benefit; **please see detailed analysis in subsequent scenario deep-dive slides.**

A closer look at the scenarios

How to read the following pages

As you read the scenarios, DO…

…focus on why this scenario might happen and what it would mean if it did.

…remember that there is no data about the future. There is only data about the past. These are efforts to spark new ideas about the future. If they don't challenge your expectations, they're not doing their job.

…resist the temptation to focus or anchor on the scenario closest to your current expectations.

As you read the scenarios, DON'T…

…focus too much on specific details. Instead, read for the overall direction and conditions each scenario creates.

…expect to see specific forecasts or detailed views on banks according to their characteristics or type (e.g., size in the market, capabilities, regional vs. global bank).

…try to assign probabilities to these scenarios. At this moment, the question should be, what do we need to be ready for, even if we think it's "improbable"?

Structure of the following pages

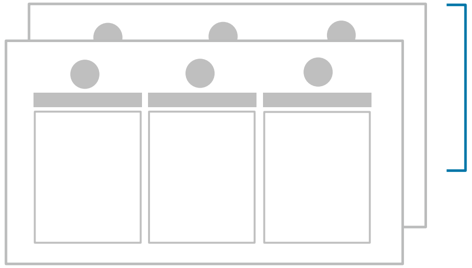
Page 1: Overview

Scenario overview paints a picture of each scenario and how it will unfold

Macroeconomic and financial market shifts provides an analysis of the major economic and financial ecosystem shifts

Critical conditions outline the conditions that must be true for the scenario to occur

Pages 2 and 3: Dimensions overview



Dimensions overview details the future outcomes of each scenario across six of the key dimensions

As you reflect on these scenarios for retail banks, consider…

How are **business initiatives impacted** by these scenarios? Which of your **previous expectations** should you rethink?

What program or opportunity that seemed **unlikely or years away** could be accelerated?

What might consumers **particularly value in these different worlds?** How might that vary across key variables (e.g., region, demographics)?

What are the **biggest threats** to your current business across these scenarios?

What new **companies, business models, and ecosystems** might emerge? Which existing companies are best positioned to succeed?

What **capabilities, relationships, and assets** are important in these worlds?

Scenario 1

The passing storm

Scenario overview

The COVID-19 pandemic shakes the world, but after a slow initial reaction, the pandemic is met with an increasingly effective healthcare system and a strong political response. The virus is eradicated earlier than feared, due to coordinated measures to spread awareness and share best practices. Although short-lived, the pandemic exacerbates socioeconomic inequality, as peoples' uneven ability to weather the storm becomes highly evident. Economic growth takes a hit in the immediate aftermath of the crisis, but government intervention limits the shock and bolsters confidence, returning the economy to positive growth in 2021.

Incumbent banks emerge from the crisis in a position of strength relative to other scenarios, but are faced with a new post-crisis operating environment that leads to lasting change. The response to the pandemic demonstrates to consumers, regulators, and institutions themselves the value of digitization across banking operating models, and many temporary changes are made permanent. This ushers in a new age of banking efficiency and technological innovation.

What critical conditions come to pass?

- There are no indications of a second wave of the virus.
- Governments effectively collaborate to share best practices; resources and mechanisms to combat the virus (e.g., immunization) are mobilized.
- Economic activity and consumer sentiment rebound in the summer through late 2020. Recovery is initially slow, but speeds up in the second half of 2021 as consumers become more confident.
- No major banks suffer significant capital concerns; lasting changes around increased digitization and efficiency remain.

Macroeconomic and financial market shifts

- Energy prices and global trade begin to recover, adding support to the economic recovery. Real-estate activity, currently on pause, also begins to recover.
- Strong policy response prevents structural damage to the banking industry and leads activity to recover to positive growth within one to two years, but margins remain under pressure due to low interest rates.
- Banks keep their promise to borrowers by continuing to provide short-term mortgage deferral options, credit-card rate relief, and avoiding layoffs.

The passing storm: Dimensions overview

Shifting consumer attitudes and behaviours	Regulatory responsiveness	Shifting competitive dynamics
• **Channel mix shifts strongly towards digital,** particularly for simple transactions, as COVID-19 demonstrates the effectiveness of these channels; however, bank customers continue to prefer physical channels for more involved advisory conversations and complex needs. • **Demand for new lending slowly returns** as pent-up customer demand in certain sectors (e.g., real estate, auto) drives increased customer activity. • **The number of secondary deposit accounts and cash reserves grows** post-crisis**,** as customers look to increase cash reserves to protect against future infection waves.	• **Regulatory measures that enabled digital services (e.g., easing of authentication requirements) are made permanent** as institutions demonstrate their credibility and the need for regulatory modernization. • **Scrutiny over conduct increases** as customers demand regulators seek out potential aggressive profit-seeking, unfair selling practices and misleading information from banks during the crisis; negative outcomes may drive further customer switching. • **Governments look to partner with banks on specific new programs to spearhead economic recovery** in certain sectors and geographies (e.g., travel, oil and gas) due to these institutions' successful track record during the crisis. • **Regulatory intervention converges to global standards** (e.g., Basel, IFRS); capital adequacy and liquidity allowances mostly return to pre-crisis levels as programs designed to ensure continued lending are no longer necessary.	• **Large institutions capitalize on the recovery** and capture new customers and assets likely from smaller/regional banks, as the latter group struggles disproportionately. • **Scale requirements to fund accelerated digitization becomes more challenging** for small- to mid-sized traditional banks as consumers view digital as "table stakes" and expectations continue to rise. • **There is limited M&A activity locally** as smaller players may not be sufficiently attractive to acquire, potential acquirers wait for the financial performance of targets to deteriorate further, and available capital to fund acquisitions remains scarce; however, banks continue to look for growth opportunities outside their home markets.

The passing storm: Dimensions overview (cont'd)

Technology adoption	Operating model evolution	Risk management focus
• **Existing digital transformation programs accelerate** within institutions, as there is renewed excitement around modernizing banking infrastructure; lower priority investments are sidelined, given renewed executive attention behind delivering core technology initiatives. • **Many past objections to delivering technology solutions are overcome** (e.g., robust e-signatures are introduced, higher limits for contactless payments are enabled), allowing faster delivery of programs. • **Digital self-service transactions become a priority** investment for institutions, but advice largely remains human-led; in advice channels, the focus turns to increased use of tools for remote communication versus the replacement of advisors with technology. • **New back-office enterprise optimization work slows** as institutions are unwilling to invest against non-consumer facing initiatives.	• **Banks face some pressure to cut operational costs,** without divesting major products or lines of business. • **Work and workforce largely migrate back to pre-crisis configurations**, but banks pursue strategic opportunities for some categories of work (e.g., call center) to remain remote-based, as they strive to find new sources of efficiency. • **Besides digital self-service, most channel configuration reverts to pre-crisis norms,** including sustained growth in non-branch tethered advice channels. • **Banks invest to address any gaps in digital and remote channels that were exposed** as a result of high user volumes, and invest in flexible programs to enable quick scaling of these channels for seasonal volumes. • **Branch modernization programs shift to focus on rebuilding the branch as an advisory centre,** as less complex services move to digital channels and banks test their branch network for areas to virtualize	• **Capital and risk management activities are reactive** as banks focus on provisioning for, and managing through, the short-term casualties of the crisis (e.g., increase in non-performing loans). • **Margins recover slowly to pre-crisis levels** in a persistently low interest rate environment, with limited principally rate-based competition and normalization of loan losses as the economy recovers. • **Enterprise risk management takes on greater importance** as banks must manage a wide range of cross-functional challenges (e.g., real estate, staffing policies, business continuity, financial crime). • **Enhanced fraud detection activities are successfully implemented** to mitigate new financial crime typologies, as digital transactions increase and remote authentication becomes the norm, and electronic payment growth accelerates.

Scenario 2

Good company

What critical conditions come to pass?

- Incumbent banks and other businesses take the initiative to combat the virus spread and support recovery; they sacrifice near-term earnings and dividends to support employees/community.
- There is a marked shift towards greater corporate responsibility, with greater emphasis on stakeholder capitalism.
- Economic recovery begins in late 2021. Recovery is slow in early 2022 and speeds up by the second half of 2022. Customer sentiment and discretionary spending rise quickly thereafter.

Scenario overview

The COVID-19 pandemic persists past initial projections, placing a growing burden on global governments that struggle to handle the crisis. As the global economy recovers more slowly, established financial institutions (i.e., large incumbent banks, leading regional players) and other large corporations step up to fill the void left by the insufficient and uncoordinated response among global governments, thereby gaining trust and prestige with these governments. These large companies also extend their reach of impact on (and license to engage with) everyday consumers, as they respond quickly and figure out how to configure and restructure their supply chains, observing a rapid growth in output after the crisis.

Building on the trust and prominence they have gained by being at the forefront of the COVID-19 response, established financial institutions see an opening of opportunities in recovery. The most enterprising institutions will be able to leapfrog ahead in their aspirations, leveraging their social capital to align consumers, ecosystem players, and regulators and forge a new path forward for the global banking system.

Macroeconomic and financial market shifts

- Interest rates stay near zero through the end of 2022, helping generate demand for consumer credit in the medium-term, particularly as pent-up real-estate demand looks for a release in late 2020.
- Monetary policies (e.g., interest rate reductions, market intervention via liquidity and capital provisions) and regulations help preserve the economy immediately after the start of the crisis, with fiscal stimulus only helping to a more limited extent; private institutions play a more active role in preserving employment and providing social protections for workers.
- Significant government effort goes to addressing the disproportionate negative impact experienced in more oil-reliant and rural economies.
- As the global economy recovers more slowly, it relies on large corporations and banks to lead investment in recovery as the government struggles to respond with stimulus-at-scale over the longer term.

Good company: Dimensions overview

Shifting consumer attitudes and behaviours	Regulatory responsiveness	Shifting competitive dynamics
• **Trust skyrockets for banks** that demonstrate community support, financial sacrifice, and the ability to safely protect against cyber threats; banks who "stood with the consumer" at the heart of the pandemic will enjoy lower attrition and an advantage in capturing new-to-bank relationships post-crisis. • **Demand for lending and other banking services is higher** post-crisis, and banks find client decision-making is less centred around price and rate. • **Banking products and services become more accessible to previously unbanked consumers,** as banks (with support from regulators) work to reduce the friction and cost of digital origination. • **Consumers prefer digital engagement with a human touch**, to satisfy the desire for non-robotic interactions, maintaining the need for physical channels.	• **Regulation is eased to allow banks greater operational flexibility** in the short term to serve their customers through digital channels with less cost and friction, and to increase the flow of credit to communities. • **Regulators become more permissive towards domestic M&A activity** between regional players, fintechs, and larger players—particularly to shore up distressed lenders. • **Governments may mandate that banks pursue increased risk appetite** for particular sub-sectors to revive them in the mid-term (e.g., oil and gas), supported by government guarantees/forbearance.	• **Leading FIs adopt stakeholder capitalism and trust-first models** that expand both individual and SME customers' confidence (e.g., increasing transparency with customer data usage while maintaining privacy and security concerns). • **Banks opportunistically pursue market share** as they look to capitalize on recovery by growing their asset and customer base; banks will see bottom-line benefits driven by reductions in operating expense. • **Margins remain pressured by low rates,** falling fees and volumes; further stress comes from the credit loss cycle and increased operational costs to manage remote working. • **M&A activity locally and internationally heats up** as prolonged pandemic and economic downturn put poorly capitalized players at some risk; leading players look to acquire smaller players, or mid-sized fintech companies that are central to delivering on the path to digitization (e.g., driving in-house partnerships).

Good company: Dimensions overview (cont'd)

Technology adoption	Operating model evolution	Risk management focus
• **Investment attention turns to frontline consumer-facing solutions** in pursuit of share growth; banks give particular focus to capabilities that drive increased consumer capture, and new product innovations. • **Demand and adoption of digital channels increase**, with banks pairing more extensive self-serve channels with a remote-enabled workforce focused on specialized services (e.g., to manage demand while protecting the supply of skilled resources). As banks are able to keep more options open, the transition to digital for consumers is natural, helping drive their trust. • **Banks develop leading proprietary technology solutions**, and they use this to differentiate the digital consumer experience (e.g., effectively using AI to protect them, helping them make payments, or improving their financial position). • **Players extensively use real-time, quality data to gain an advantage in tailored product development**, particularly as rising trust provides increased access to data—which further accelerates the pace of innovation.	• **Increased direct sales but increased operational costs,** with a reduced reliance on indirect channels, changes the shape of distribution models and resulting margins. • **Retraining and contact centre capacity increases, while onshoring becomes more permanent,** as initiatives piloted as part of organizations' COVID-19 response become business as usual (owing to an extended pandemic). • **Institutions embrace a more remote workforce and optimize their real-estate footprint** (e.g., reducing branch network), changing the cost mix to reduce occupancy costs at the expense of people costs; many of these workers are at least partially specialized to support information-only services. Training and development programs evolve, in response to the new requirements for different skills. • **Leadership evolves both in style and experience**, with a focus on inspirational leadership that fosters innovation and experimentation.	• **The banking industry expands its role in ensuring economic stability** by lending to sectors that are particularly suffering with limited government support, taking on a new, more intentional perspective around their bottom-line that better supports consumers. • **Credit risk, delinquency, and lifetime value profiles** continue to be weakened and volatile, making it difficult for banks to better target the right segments during recovery. • **Banks' asset bases remain relatively strong among large incumbents;** for the most part, they are able to access necessary capital from governments, depositors, and wholesale funders, even as increased credit losses demand higher cash reserves.

Scenario 3

Sunrise in the East

What critical conditions come to pass?

- Asian countries manage to quickly control the spread and severity of the pandemic, and emerge from the recovery period with a less negative economic impact.
- China significantly ramps up foreign direct investment and humanitarian efforts, bolstering its global reputation.
- Economic recovery begins in late 2021, speeding up by the second half of 2022; Asia experiences quicker speeds of recovery.

Scenario overview

The COVID-19 pandemic is severe and unfolds inconsistently across the world. China and other Asian countries manage the disease effectively, whereas Western nations struggle with deep and lasting impacts – human, social, and economic – driven by slower and inconsistent responses. The global centre of power shifts increasingly eastward as Asian countries help the world recover via economic and humanitarian efforts.

The global economy takes significantly longer to return to pre-crisis levels due to declines in global trade flows to and from North America and Europe. Firms look eastward for markets to sell goods to, such as oil and other natural resources. Western governments are forced to lower barriers to foreign entry, as there is domestic consolidation across various regions' financial services sectors, caused by a strong of failures of small, regional players.

Big tech firms jump at the opportunity, quickly gaining market share by providing innovative, customer-centric experiences. Consumers accept the increase in data sharing that these experiences require, driving a leap forward in AI and digital tools across financial services.

Macroeconomic and financial market shifts

- Slow recovery and sustained expansionary monetary policy (e.g., long-term interest rates at or near zero). The real-estate market is hit hard and is very slow to recover.
- Financial pressures on smaller financial institutions force consolidation and challenger financial institutions struggle to remain viable during the crisis.
- Economic recovery starts and moves more quickly in Asia, reducing the need for sustained monetary support. Further, smaller regional players with innovative, with digital offerings are able to more effectively and efficiently weather the storm.
- Dampened global aggregate production suppresses oil prices significantly, creating further pressure for oil-rich regions; what oil these regions can export profitably largely ends up in Asian ports—which may require new pipelines and other infrastructure investments to facilitate.
- Slower recovery and protectionist rhetoric across different jurisdictions re-shape global patterns of trade; for instance, weakening global relationships with the U.S. strengthens many nations' relationships with Asia.

Sunrise in the East: Dimensions overview

Shifting consumer attitudes and behaviours	Regulatory responsiveness	Shifting competitive dynamics
• **Demand for lending falls** as households de-leverage and there are permanent declines in consumer credit balances, especially in auto and credit-card lines. • **Consumers demand simple products and easy digital experiences;** consumer switching increases for better experiences and the most comprehensive digital offerings. Many LTVs are under water and the mortgage market has to be restructured. • **Consumers become more trusting of tech firms**, and digital platforms, causing the trust gap between tech and banks to shrink, and enabling big tech to expand into segments of retail banking (e.g., installment lending for e-commerce purchases); this leads to an acceleration towards “embedded” finance. • **Consumers relinquish greater control over their financial decisions to self-driving algorithms**; data sharing and algorithmic decision-making become more popular as consumers gain familiarity with AI-based tools.	• **Global banks are granted regulatory relief from outdated rules** that impede digitization and remote working (e.g., easing of restrictions on digital signatures); this enables other players to play. • **Competitive restrictions are reduced to allow tech players greater scope to compete** in financial services; this is achieved through various regulatory initiatives (e.g., open banking) with a focus on driving competition and innovation versus preserving a level playing field. • **Regulators in various countries encourage greater foreign capital flows with attractive terms** as lower domestic capital availability creates a need for new funding sources to ensure liquidity and macroprudential stability • **Data privacy regulations allow increased data sharing**, in part to enable state-sponsored efforts to curtail the virus; this shifts the focus of privacy legislation to preserving the collective good versus individual control of data.	• **While institutions in the West focus on preserving operational efficiency** (as low demand, increasing strain on operating models, and reduced capital availability prevent growth), institutions in Asia focus on share growth, due to resilient demand, internal operations and balance sheets. • **Big tech plays a more critical role** and permeates the market by offering critical capabilities (e.g., digital ID, authentication) as well as platform-based offerings that disintermediate banks by offering superior digital interfaces and more value delivered to the consumer (e.g., POS lending, rewards, offers). • **Incumbent Western institutions reconfigure their foreign presence**, while new entrants and global tech firms dictate the direction and pace of innovation, resulting in a call to arms across the industry; well-capitalized incumbent institutions from Asia increasingly look for opportunities outside their borders

Sunrise in the East: Dimensions overview (cont'd)

Technology adoption	Operating model evolution	Risk management focus
• **Digitization focuses on front-office experiences** like digital end-to-end self-service and digital advice. • **Digital self-service is heavily emphasized for advice offerings;** barriers to adoption fall (e.g., consumer preferences, regulation) and more consumer journeys are digitized beyond what would be expected today. • **Banks increasingly consume core capabilities** from big tech partners, or look to partner with fintechs, accelerating the move away from proprietary platforms and reducing the ability to differentiate based upon the use of proprietary technologies. • **Banks, big tech firms, and consumers increasingly share data** and become more comfortable with cloud and API connectivity; this improves cross-sector data flow, which can enable cross-sector solutions; players invest in data governance and data modernization platforms to prepare for this environment accordingly.	• **There is an emergence of the fully enabled remote worker**, who can also provide flexible coverage for non-core hours and overtime. • **Greater digitization permanently reduces the people costs** of customer-facing operations; those who remain in customer service are often specialists (e.g., industry experts, high-net-worth relationship managers). • **Banks move away from offshoring** as they build automation capabilities to compete with new entrants, which in turn reduce the need for large back-office people costs. • **Branch consolidation is accelerated** as banks and consumers look for models that minimize in-person interaction as consumers are slow to return to physical locations for face-to-face interactions; banks effectively institutionalize some of the benefits of a work-from-home model, increasing productivity, reducing costs and helping drive more flexibility and agility.	• **There is an initial increase in fraud and financial crime**, as more transactions with higher limits go through digital channels. However, over the medium term this will be mitigated by more modern investigative techniques like contextual networks, leveraging greater access to better data. • **Western incumbents hoard liquidity** as balance sheets are tested; well-capitalized foreign entrants are able to seize the opportunity and take risks in consumer and SME credit, kick-starting the recovery effort. • **Some smaller institutions require bailouts or face distressed sale**, especially those in deeply affected regions or who were over-indexed in affected sectors (e.g., travel, hospitality).

Scenario 4

Lone wolves

What critical conditions come to pass?

- The COVID-19 virus continues to mutate and evolve, and a working vaccine proves elusive, evading eradication.
- Countries deemphasize global collaboration and enforce isolationist trade policies, strongly shortening supply chains and hampering economic output.
- Some global economic recovery will be seen by mid-2022, with diverging rates of recovery across countries; consumer sentiment is significantly depressed.
- The financial system suffers from prolonged systemic stress as governments and central banks exhaust fiscal and monetary measures after prolonged liquidity injection.

Scenario overview

The COVID-19 pandemic becomes a prolonged crisis as waves of disease rock the globe for longer than anyone was prepared; concurrently, no vaccine seems to be close, global health systems are overwhelmed, and societies become increasingly depressed. Decades of globalization are reversed as the world becomes increasingly "balkanized." All countries grow isolationist in the name of domestic safety as mounting deaths and social unrest continue; this isolationist reaction severely limits trade flows and reduces geopolitical alignment. Moreover, government surveillance is commonplace to monitor civilian movements; governments collect personal and social information not only to eradicate the pandemic, but also to put in place effective prevention methods. Prolonged economic downturn and investor uncertainty dramatically impact the capital markets, as many companies observe sharp falls in market value.

Governments, heavily indebted and weakened, struggle to maintain the stability of the system. Financial regulations become isolationist. The face of the retail banking sector will be remade; smaller institutions struggle, provoking a flight to quality, and larger institutions retrench on core products and geographies.

Macroeconomic and financial market shifts

- Employment levels, consumer demand, and overall economic output remain depressed at an unprecedented level, and the global economy's return to pre-crisis levels is uncertain.
- Supply chains become more reliant on domestic production, causing international trade to freeze. This has a material impact on foreign exchange volumes and other commercial banking activity.
- Interest rates remain low; the housing market is put under severe stress as foreclosures increase.
- Global demand for oil and gas remains low, putting severe strain on the energy sector and specific jurisdictions (e.g., Russia, Saudi Arabia, Canada); protectionist measures limit the ability of trade agreements that would encourage a bigger market for oil.

Lone wolves: Dimensions overview

Shifting consumer attitudes and behaviours	Regulatory responsiveness	Shifting competitive dynamics
• **Consumers become very fiscally conservative, primarily focusing on saving** as continued uncertainty drives a need for cash and low-risk liquid investments to secure their financial position. • **Demand for consumer credit (e.g., mortgage, auto lines, credit cards) collapses** as major purchases (e.g., houses, cars) and discretionary spending are abandoned in lieu of saving or spending on essentials. • **Consumers are forced to adopt digital channels** as banks scale back physical channels and human-led advisory. • **Consumers retrench to more traditional players** as disruptive players (e.g., robo advisors and digital banks) are seen as riskier and customers seek out stability. • **Public sentiment turns against banks and switching increases** as banks are seen to have abandoned their customers in their "moment of truth," even if bank profitability is weak and executive compensation is cut.	• **Significant operational regulatory relief is provided to banks** on a broad set of compliance requirements to minimize the operational burden (e.g., anti money-laundering/KYC). • **Barriers are lifted to enable the consolidation of institutions,** as some smaller retail banks and digital non-bank lenders teeter on insolvency and are no longer able to meet liquidity and capital requirements. • **Bank conduct comes under greater scrutiny** as government budgets to financially support communities is limited and banks continue to generate some profits. Banks face increasing pressure to play the role of community support infrastructure, but are unable to do so profitably. • **Banking regulation becomes increasingly localized and focused on protectionism,** and the ability of banks to maintain foreign subsidiaries is curtailed; capital requirements increase to account for increased volatility. • **Relief programs (e.g., co-lending, grants, insurance) are under pressure** as large swathes of customers face prolonged financial distress.	• **There is little investment in topline growth**, as institutions focus on eking out small efficiency ratio improvements and investing only behind highly certain, fast-payback projects. • **Smaller, poorly capitalized institutions face the threat of insolvency and consolidation**, magnified for those with outsized sectoral exposure (e.g., oil and gas); some of these institutions require bailout or are sold at distressed pricing. • **Banks with foreign market presence are forced to retrench domestically** due to the complexity of managing across divergent regulatory regimes, and the need to simplify operations. • **Some global banks close their foreign market operations** as they find it too costly to operate across multiple countries with divergent and strict regulations, and face domestic protectionist pressures from regulators. • **In highly fragmented markets, some new entrants fail** due to lack of profitability/investment, causing many to exit the market. Client books and digital assets will be sold off to incumbents.

Lone wolves: Dimensions overview (cont'd)

Technology adoption	Operating model evolution	Risk management focus
• **There is significant re-vectoring to enterprise level digitization** that accelerates the development and deployment of efficiency-oriented technology (e.g., automation/RPA, digital identity, online signatures, document capture), creating disparity between the firms that are able to make scaled investments (haves) and those that cannot (have-nots). • **Economies around the world accelerate contactless commerce and become more cashless** to reduce the risk of contagion through money; merchants invest in technologies to enhance point-of-sale and e-commerce checkout. • **Self-serve digital advice and remote advisory channels** proliferate beyond expectations to include even complex conversations (not just transactions), driven by prolonged social-distancing measures and an institutional desire for lower operating cost.	• **Banks may not be able to retain their full workforce** given the worsening market conditions and increasing cost pressures. The need for governments to curb growth in unemployment creates pressure on banks to limit future job cuts. • **Banks undertake significant onshoring and shift to contingent workforces**, with the use of third parties to offset increased people costs, via performance contracts that emphasize risk sharing. • **There is a complete shift to remote working;** remote work for full operations and contact centres becomes a priority and the cost mix shifts to dramatically reduce occupancy costs, putting significant pressure on corporate real estate footprints. • **Servicing agents become generalists** and cut across multiple channels (e.g., branch, digital, call centre) to provide enhanced experiences while providing necessary workforce flexibility; they mainly handle complex issues, as basic issue resolution is automated. • **Banks have reduced ability to operate globally** due to isolationist policies; cross-border offerings will become more difficult and costly to maintain.	• **Mounting credit losses and capital pressures permanently shrink balance sheets**, hampering credit availability and severely curtailing credit-risk appetite; many smaller institutions have to restructure their balance sheets, fail, or are forced to merge; banks look to protect capital so as to sustain business-as-usual (BAU) activities. • **Retail banks "balkanize" regulatory capital** by ring-fencing operations and divesting from international assets, reducing market liquidity and industry margins. • **Consumer creditworthiness becomes very difficult to predict** as employment levels and economic output continue to be volatile; retail banks struggle to proactively identify individual credit exposures and predict portfolio level defaults and loan losses. • **Increased levels of fraud become an ongoing concern**, as pandemic stresses reduce cross-border collaboration and historic cooperation between market participants.

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