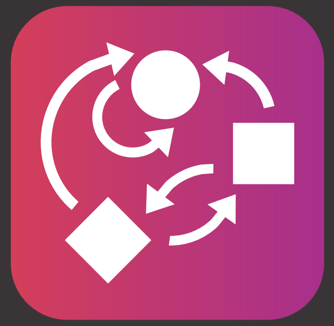
The COVID-19 Pandemic:

How Banks Must Reset the Lending Agenda

Banking & Financial Services

PURPOSE-DRIVEN

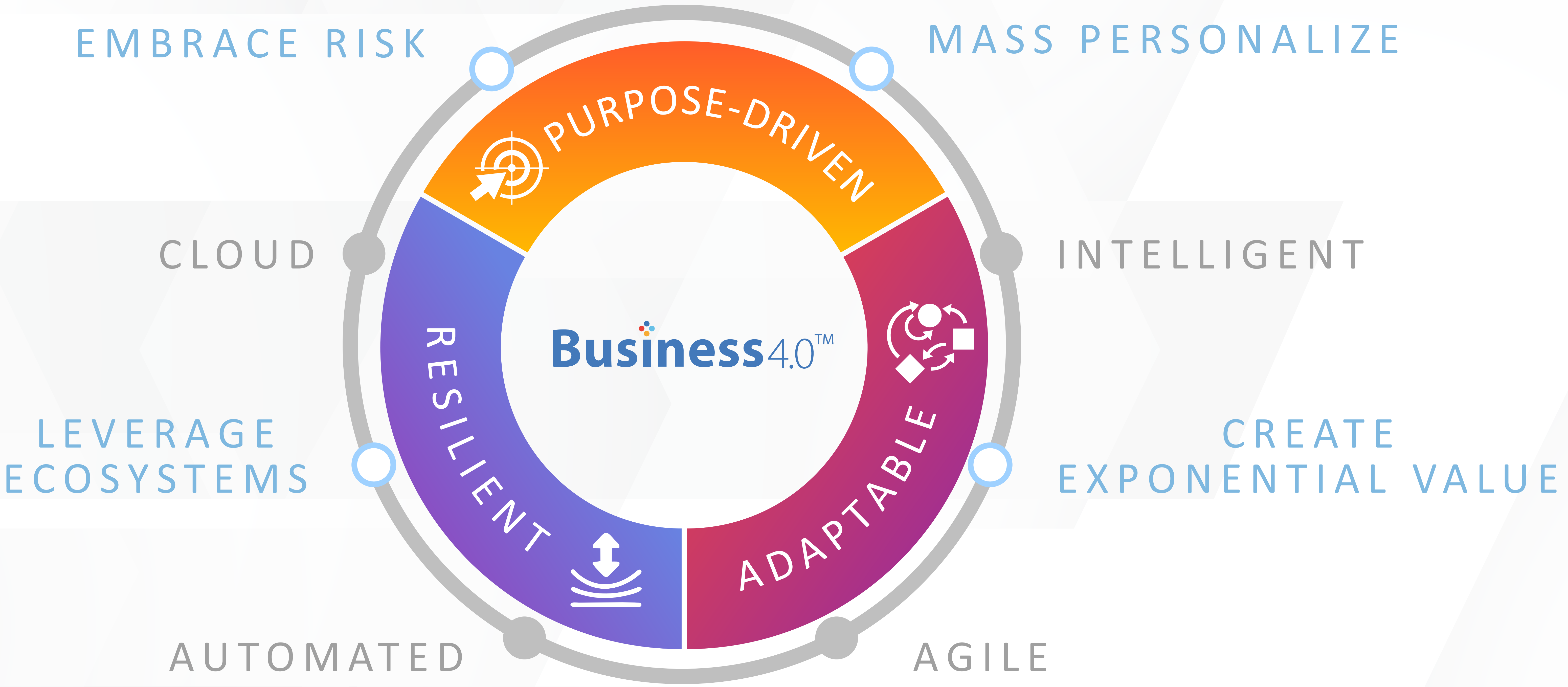
RESILIENT



ADAPTABLE

PURPOSE-DRIVEN, RESILIENT & ADAPTABLE

with Business 4.0™;

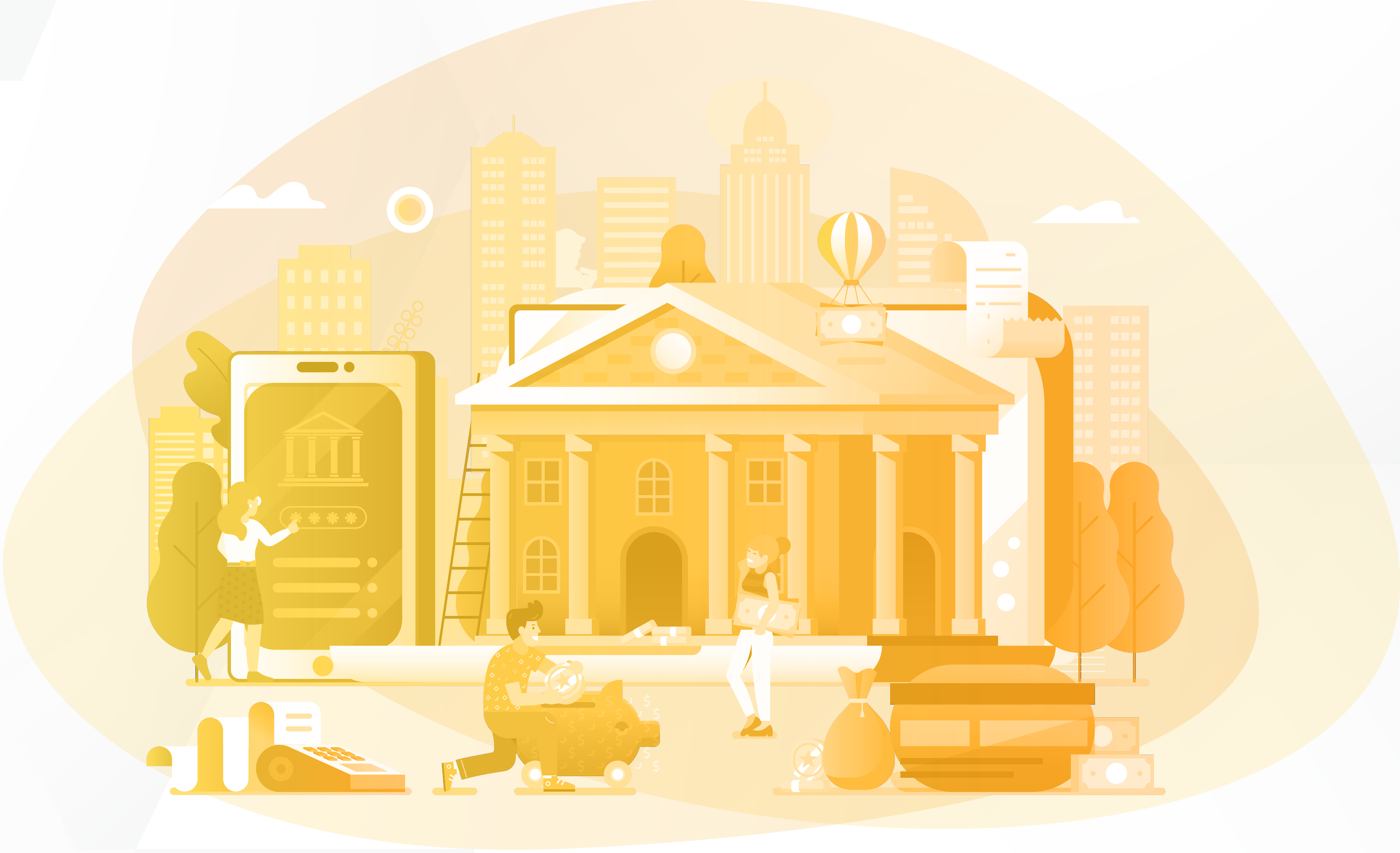


PURPOSE-DRIVEN RESILIENT ADAPTABLE

Abstract

Super humans, zero carbon footprint, space tourism – are some phrases that have come to define the vision of the future. While the COVID-19 pandemic may have unsettled these plans for now, we will get past the crisis to realize this vision. If anything, we believe, this pandemic has given the humans an opportunity to 'restore factory settings'. We will need to reset our agenda to adapt to a new way of life, perform essential activities, while we continue the pursuit of our vision.

The financial services industry will be no different. In many ways, this pandemic will be an epoch-making event – the world and the financial services industry will not be the same again. The crisis is resetting the agenda of banks and financial institutions as well as the world economy at large. We are still in the midst of an unprecedented situation and the road ahead is a bit hazy. However, in this white paper, we attempt to draw the broad contours of the way forward, analyze the impact of the pandemic on lending and credit management, and highlight how banks must rejig the lending function in response.



COVID-19: Banks have Kept the Ball Rolling

The financial services industry has invoked well-rehearsed business continuity plans – plans that were not envisioned for a pandemic scenario. However, the plans have proved effective worldwide with banks delivering essential services without disruption. As this period of uncertainty looks set to continue in the medium term, banks must plan responses to handle the emerging situation.

Appropriate technology adoption and purpose-driven innovation will be a crucial part of the response. The agility to make adjustments on the fly and the ability to deliver on inflight initiatives, specifically those aimed at handling the immediate fallouts, will be the key to ensuring business-as-usual.

There is, however, a silver lining to the COVID-19 cloud in the form of an opportunity for banks to rethink and reset their agenda. Banks have so far been looking to gain market share, maximize returns, and diversify risk by installing technology to achieve these objectives. While these objectives remain valid, the current crisis provides an opportunity to evaluate the specific role they can play in building sustainable and resilient businesses and industries while also helping individuals in the recovery process. We believe that banks' agenda will be reset to play the role of an agent to enable this recovery and build sustainable businesses deviating from their traditional performance measures.

Some areas like contact center management, digital infrastructure, lending and credit management, and insurance will witness a comparatively higher degree of impact. Lending and credit management will assume special significance as businesses will look toward their banks to help them deal with cash flow and other credit issues that will emanate from this pandemic situation. In our view, the reset of the agenda in the lending and credit management functions must be viewed from three horizons – immediate-, short- and medium-term.

Immediate-term: First Things First

At a macro level we are already witnessing disruption in the supply chains coupled with the destruction of demand. Retail consumers will likely experience lower incomes or loss of employment. Businesses are forced to shut down production or curtail the level of operations resulting in severe cash flow problems. Providing access to credit and capital is a crucial function of banks, specifically in the current scenario.

As part of their immediate-term response, banks globally are working to ease the financial stress faced by retail and business customers. Central banks across the globe have reduced the benchmark interest rates ranging between 50 and 200 basis points. In addition, governments are introducing stimulus or financial support packages to assist the financial services industry and are even guaranteeing loans extended to small businesses. Banks are undertaking suitable IT interventions and helping consumers and businesses by

- Offering moratorium periods on loans, deferring repayments, and offering these facilities though digital channels to make it easier for end customers to avail them
- Offering emergency credit lines and loans to help businesses overcome the cash flow crisis
- Complying with new credit bureau reporting policy to ensure the credit rating of borrowers is not adversely impacted to limit their ability to borrow in future
- Reducing interest charged to borrowers, where possible
- Extending grants in limited amounts and period

Short-term: Setting the House in Order

Transformation initiatives focused on easing customer onboarding, credit delivery and administration are gaining significant traction. The call for digitalization will only grow stronger given the need to adapt to remote service delivery as well as facilitating interactions with geographically dispersed customers and partners. In our view, to cope with this situation, banks must quickly ramp up their digital capabilities and rapidly develop new ones to deliver urgently needed relief to their customers. Banks must quickly transform their internal capabilities by introducing self-service channels to service credit requests from customers, automating and simplifying processes to reduce complexity, facilitating remote asset valuation, modifying credit reporting, enabling digital onboarding and fulfillment, and adopting digital signature and documents.

In the corporate business segment, we have seen tremendous increase in corporate bonds in the past decade with a significant proportion of BBB rated bonds (lowest rated in the investment grade bonds). We are now witnessing drastic re-pricing in the bond market and we can expect to see rating downgrade and defaults. Corporations have already drawn on credit lines and will be turning toward banks for fresh capital and bridge loans. Before extending additional credit to corporations, we believe that banks must review their credit policy and risk appetite and ensure consistent enforcement across the credit underwriting, due diligence, and verification functions.

The pandemic will likely continue into the medium-term prolonging the stress on the global economy. We believe that banks must proactively take steps to contain any adverse impact that may ensue to their portfolios. In addition, banks will need to reexamine their lending policies and look at how they can adopt more prudent policies and practices in the aftermath of the pandemic. These measures will help banks monitor emerging risks and mitigate them while optimizing the costs of doing so.

The measures include:

- Automating portfolio and borrower monitoring
- Automating hardship workout strategy and plans
- Revising underwriting policies and standards
- Establishing sound underwriting, credit fulfillment, and monitoring practices
- Optimizing costs related to credit origination, monitoring, and administration
- Recapitalizing to absorb potential additional losses
- Managing evolving governance, regulatory, and compliance needs

Medium-term: Exploring Unique and Sustainable Opportunities

Going forward, what will set banks apart is how they reset their agenda in the prevailing shifting scenario. Embedding sustainability objectives into their mission statements will emerge as a key imperative for banks. In our view, banks must ensure sustainability across two dimensions – business models and communities. Creating sustainable business models will require banks to formulate appropriate policies, build industry-specific subject matter capabilities, establish best practices, and craft and offer the right products and services. Building such market-differentiating capabilities will help banks to support the creation of sustainable businesses. The other, and more significant, sustainability dimension revolves around creating sustainable communities, regions, and super regions to promote sustainable businesses. Banks can play a vital role in this by designing tailored, innovative debt products and capital solutions to fund sustainable businesses, especially in areas like health-care, agriculture, and green technology. For example, in addition to offering innovative credit products, banks can look at channelizing investments from venture funds and asset managers to fund these new business ventures.

The current pandemic has also highlighted the need for countries and regions to be self-sufficient. To this end, the banks must explore lending opportunities that facilitate businesses involved in import substitution in sectors such as food and its processing, agriculture and agro business, and health care. This will help absorb shocks in the supply chain while also generating employment.

A resetting of the agenda can also help banks play a larger role in redefining the market and accelerating recovery. For example, banks can build industry marketplaces and provide advisory services to play the role of an agent in aggregating demand and supply and enabling access to local and cross-border markets. Banks can also set up advisory boards to advise specific industries on the right products or services to be offered, enable more efficient operations, utilize capital prudently, and manage cash flows efficiently. Such market interventions that go beyond the lending function will serve as a pump-priming action to provide impetus to the economy post the pandemic.

The Path to the New Normal

Banks that exercise the option to 'restore factory settings' will be in a position to recast their strategy and help build a sustainable economy governed by rules of efficient markets. Business model innovation backed by the appropriate technologies will enable banks to reset their lending agenda and quickly adapt to the new normal. Needless to say, banks that act quickly will gain an edge over their peers.

TATA CONSULTANCY SERVICES

About the Authors

Rajesh Ramar

Rajesh Ramar is a Consulting Partner with the Industry Advisory Group, Banking, Financial Services and Insurance unit at TCS. He leads the Lending Advisory Group and works with banks globally to help them define, plan, and achieve their growth, transformation, and sustainability objectives. He has about 24 years of experience in delivering client specific advisory engagements and solutions, providing thought leadership, developing solutions and assets leveraging emerging technologies, and building organization-wide capabilities in the lending domain. He holds a Bachelor's degree in Mechanical Engineering from Bangalore University, India.

TATA CONSULTANCY SERVICES

Contact

For more information on TCS' Banking & Financial Services, please visit https://www.tcs.com/banking-financial-services

Email: bfsi.marketing@tcs.com

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match.

TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at **www.tcs.com**

Corporate Marketing | Design Services | M | 06 | 20