

Navigating the change



Unprecedented Government support and regulatory forbearance has helped to cushion the economy and maintain stability in the banking system

- Regulators have permitted payment holidays not to be treated as forbearance.
- IFRS9 transitional rules have deferred the impact of provision increases on Capital.
- In the UK, over 40% of the working population have until recently been paid by government, with in excess of £30 billion spent.
- Over £55Bn lent through BBILS and CBILS, with one year payment holiday.
- Around 1.5 million mortgage holders have taken advantage of payments holidays.



However, while extensions or tapering of benefits may be applied, at some stage stimulus will be reduced/withdrawn and the private economy will be called upon to fill the gap.

- The current period presents a crucial opportunity to prepare for the coming change.
- Re-set strategy to drive growth and profitability in a post COVID world.
- Accelerate business model transformation and cost reduction.
- Optimise and de-risk the balance sheet.
- Engage proactively with Regulators.



Navigating the change

Re-set strategy for growth and profitability in the new world



The Macro-environment will change the commercial landscape and economic returns of different asset classes (margins, impairments and capital consumption).

Banks will need to change both their participation choices (asset mix) and product strategies (e.g. pricing) to propel growth and profit, and arrive at a coherent franchise vision.

Likely solutions may include:

- Strategic analysis & modelling
- Proposition development
- Product portfolio review & simplification
- Digital sales and service design
- Design and delivery of new change delivery models / ways of working.

Optimise and de-risk the balance sheet



On the asset side, options include:

- Portfolio divestment of NPLs and Higher Risk segments
- Sale of non core divisions
- Refreshing of stress testing and IFRS9 provisioning approach
- Opportunistic M&A, if pricing permits value purchases

On the liability side, options include:

- Reviewing efficiency of the capital stack
- Ensuring sufficient liquidity to withstand temporary dislocation of the capital markets

On the capital side, options include:

- Back book re-financing
- Considering fresh issuance in calmer times to re-establish buffers
- MREL / Tier 2 issuance

Likely solutions will require key capabilities are:

- Capital and IRB (incl. model re-calibration)
- Liquidity
- Provisioning and IFRS9.

Accelerate business model transformation and cost reduction



Revised franchise models may call for more radical actions than previously contemplated, and a balancing of cost reduction with investment in new capabilities and technologies.

Potential focus areas may include:

- Revisit the Operating Model, including outsourcing, nearshoring and shared utilities options
- Accelerate automation and digital programmes in front and back office (e.g. RPA, AI)
- Revisit property and branch footprint, incl. future working methods / locations, branch formats
- Revisit project slate / tech spend with focus on mandatory / near term or high-impact outcomes
- Redesign contact centre and other operational service centres (process and enabling tech)
- Re-engineer central functions; simplify/streamline organisation.

Engage proactively with Regulators



Key focus on relations with Regulators (PRA/FCA/ECB etc):

- Ensure Conduct of Government Schemes is fully compliant
- Ensure risk procedures remain effective and treat customers fairly
- Ensure risk and recovery plans are fit for purpose
- Ensure regular and constructive dialogue
- Responding to s166s where required
- Ensure regulatory comfort with stress testing requirements
- Ensure early consultation regarding any corporate actions
- Ensure SMFs apply and meet their prescribed responsibilities

Other key stakeholder engagement likely to included investors and ratings agencies.

Authored by:

Tom Macdonald,
Partner, Head of Banking Transaction Services

tmacdonald@deloitte.co.uk
+44 (0)20 7007 1966

Vishal Vedi
Partner, Head of Banking & Capital Markets

vvedi@deloitte.co.uk
+44 (0)20 7303 6737

Contacts:

Strategy & revenue:
Richard Kibble, Partner
rkibble@deloitte.co.uk
+44 (0)20 7303 6761

Cost reduction:
Tony Schofield, Partner
aschofield@deloitte.co.uk
+44 (0)20 7303 7878

Capital:
Thomas Spellman, Partner
thspellman@deloitte.co.uk
+44 (0)20 7303 0019



This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London, EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2020 Deloitte LLP. All rights reserved.