2021 Predictions. Part IV
by Charles B. Wendel

Another week and another set of predictions have crossed my e-desk. One of them, presented in an article written by Anindya Roy, published in Global Banking and Finance, a UK publication, makes some predictions that merit consideration by US financial institutions.

1. He writes: "Firstly, credit losses will increase dramatically, a result of the huge economic decline and potential bankruptcy facing corporate and business customers, as well as a sharp rise in unemployment. Revenues are also likely to fall, because there may be reduced demand for services such as mortgages."

Comment: Bank performance will be more skewed in 2021, with winners and losers more recognizable, than at any time since the 2008-2010 period. So far, the performance of the banks we know well has been surprisingly steady, as their strong capital positions and business diversification allow them to deal with losses and delayed payments. That said, smaller banks, those with limited capital and a narrow focus, will likely suffer most.

I have predicted an increased pace to consolidation before and I will do so for 2021 as well. (Eventually, I will be right.) Banks can live with lower NII; they cannot live with: increased losses, increased costs due to required IT investments, and a management team befuddled by the push to digital. Finally, more managers and Boards of a certain age will say, "Enough," and sell.

2. Roy goes on to write, "Customer behaviour is set to change dramatically, as people and businesses rely on digital channels rather than face-to-face interactions in bank branches."

Comment: No new news here, but still a critical insight. Years ago, a client placed a slogan above his white board: "This too shall pass." These changes will not pass. Managing through the digital revolution and its impact both on internal infrastructure and client management is permanent.

3. His third prediction is "remote working has become a major part of the new normal, even for customer-facing staff."

Comment: Again, not a new insight, but one that management must live with going forward. Some banks are actively retraining line staff to sell remotely, providing them with the necessary technology and new marketing approaches that traditional in person sellers need to adopt. Banks also need to face up to the fact that a portion of their front-line staff will not be able to or want to adapt to this new world. I see some clients already moving out these bankers, replacing them with cheaper and less experienced staff who may possess excellent digital skills but lack the ability to connect with clients.

4. “Banks will be keen to take advantage of technologies that help them engage customers and employees remotely, and simultaneously reduce costs.”

Comment: This is definitely true, but note the emphasis on cost. The word “engage” needs to include relationship development, otherwise customers will view digital as just a cost play (for many banks it is) and look elsewhere for high value solutions and advice.

I was recently speaking with a client about their plans to move business clients from one product to another, an offer that arguably is better both for the customer and the bank. Win-Win. They expect the banker to lead that transitional effort because they know the customer and the customer trusts them.

But, today, more customers have no one at a bank they relate to. Banks that fail to provide a personal experience, one that shows the bank views a customer as a person rather than a digital connection, face continued margin erosion and competitive incursions from Fintechs, banks, and credit unions with a meaningful customer focus.