



EY Parthenon

Covid-19 Financial Sector Perspective

Covid-19 ...

...has become a unique event in modern history with as yet unknown ramifications. For the first time, we are trying to restrain a pandemic through the broad restriction of economic and social activities around the world. This is done to prevent unnecessary loss of lives and to protect our most vulnerable fellow human beings.

All of us and our businesses are currently struggling to keep things moving while protecting our past achievements. Next steps are crucial, but not necessarily evident. Luckily, there are a huge number of “hot takes” on this crisis, with mostly helpful advice and more importantly a lot of creativity and solidarity on how to help in dire times.



At EY-Parthenon we are also guided by the adage:

We tend to overestimate changes possible in the short term, and underestimate the scale of the change in the longer term.

Accordingly, we have tried to set out some key questions and impacts we anticipate over the long-term, recognizing that this is not just an economic but social and political crisis as well.

We plan to use this conversation with our clients, advisors and colleagues to refine our understanding as we go. We would be delighted if you joined us in this conversation.

HOW MEXICAN, COLOMBIAN AND PERUVIAN FINANCIAL SECTOR USERS ARE REACTING AND ADAPTING TO THE COVID-19 CRISIS

In April 2020, EY-Parthenon surveyed 4,765 financial sector users in Colombia and Mexico to understand if the pandemic and social distancing measures had shifted their behavior towards banking services in any way. In November 2020 under “the new normal”, we surveyed 2,910 users and compared the results, only this time we also included users from Peru. The results revealed that the adoption of digital channels and mobile banking, particularly among the youth, has increased as a result of social distancing measures and will continue as users adapt to the new normal. It also revealed that users continue to worry about their financial stability and a very high percentage of the people surveyed reported having lost some income. In Peru, 92% of respondents reported losing income, followed by Mexico and Colombia with 87% and 81%, respectively. It is important to highlight that credit was not accessed by most people to compensate for income reduction, as access to banking services remains limited and a negative perception on credit and its conditions exist in all three countries.



Credit support and service quality were the main factors driving client dissatisfaction, more important than digital platform effectiveness. About one third of people are unsatisfied with

their retail banking services and 7% have already switched to another bank during the Covid-19 crisis.

Financial institutions must take advantage of the momentum and accelerate the migration of users to digital channels and mobile banking, improve customers' experience, train reluctant clients and plan to reduce their physical footprint.

Our survey focused on four key aspects: (i) the accelerated digital transition that we are currently facing, (ii) the effect of the Covid-19 crisis on people's financial resources, (iii) people's perception of Banks' flexibility programs and (iv) the effect of the Covid-19 crisis on Small and medium-sized enterprises.

What's happening NOW:

1. Digital transition: This trend will continue as users adjust to the new normal. However, all three countries still face cultural barriers as users still prefer physical branches.

2. Financial resources: Most people reported losing income and were worried about their finances. Despite income reduction, few people reported applying for a loan as banking access remains limited regionally and there is mostly a negative perception about loans.

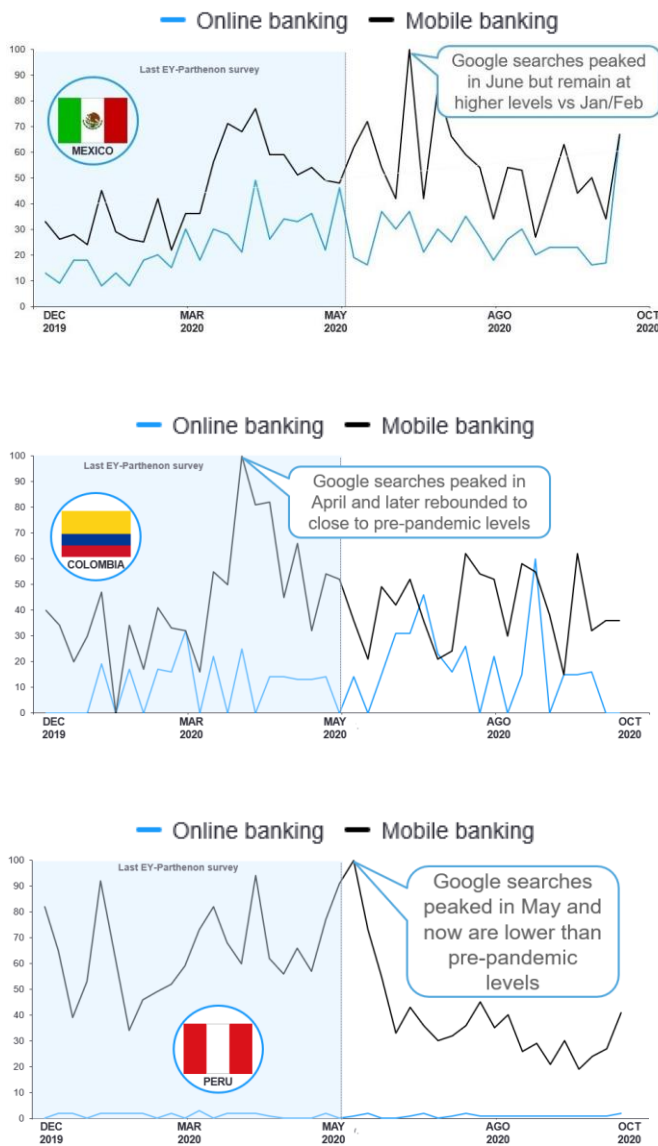
3. Banks' flexibility programs: Despite the offer of flexibility programs from banks, people did not fully understand them, only a small percentage took advantage of them and a few came out satisfied.

4. Small and medium-sized enterprises: SMEs have been under a lot of pressure as their revenues have been largely reduced. Most of them survived through alternative measures to credit, such as modifying processes or cutting personnel.

1. Digital transition

As part of our study we also analyzed the trend of Google searches for online and mobile banking and what we found is that searches doubled and reached a peak between the months of April and June in all three countries. In the case of Mexico, interest in digital banking is still higher than pre-pandemic levels, Colombia is returning to previous levels and in Peru levels are now lower than before.

Interest over time indicated by results in Google searches by country (January 2020 – October 2020)



According to the results of our survey, the adoption of digital channels and mobile banking increased in all three countries as a result of social distancing measures and show that this trend will continue in the foreseeable future.

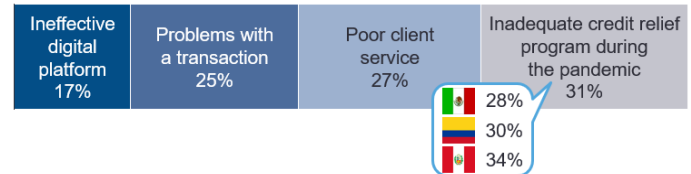
About $\frac{1}{3}$ of people are unsatisfied with their retail banking services and 7% switched to another bank during the pandemic

After just a few months from the start of the Covid-19 crisis in Mexico, Colombia and Peru, about one third of people are unsatisfied with their retail banking services and 7% have already switched to another bank. Credit support and service quality are the main factors driving client dissatisfaction, even more important than digital platform effectiveness.

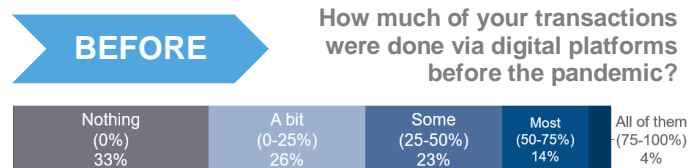
Have you switched to another retail bank during the pandemic?

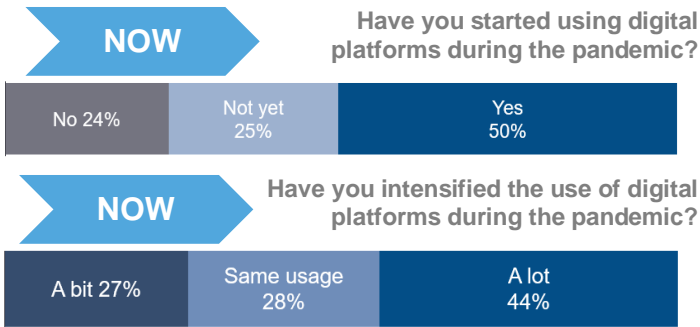


Why are you not satisfied with your retail bank?



Regarding the use of digital platforms, before the Covid-19 crisis started, one third of the respondents in Mexico, Colombia and Peru did not use them and 50% started using them during the pandemic. In addition, 44% of respondents reported intensifying the use of the platforms.





Even though an important percentage of users migrated to digital platforms, there is a big challenge in all three countries, around culture and adoption. Branches are still the preferred channel in all three countries as 31% of respondents answered they still prefer visiting a branch, 24% consider digital channels and online banking as difficult to use and 21% have safety concerns when using digital platforms. And during the Covid-19 crisis 77% of people in Mexico continued visiting branches, followed by 67% from Peru and 53% from Colombia.

Disadvantages of digital banking platforms

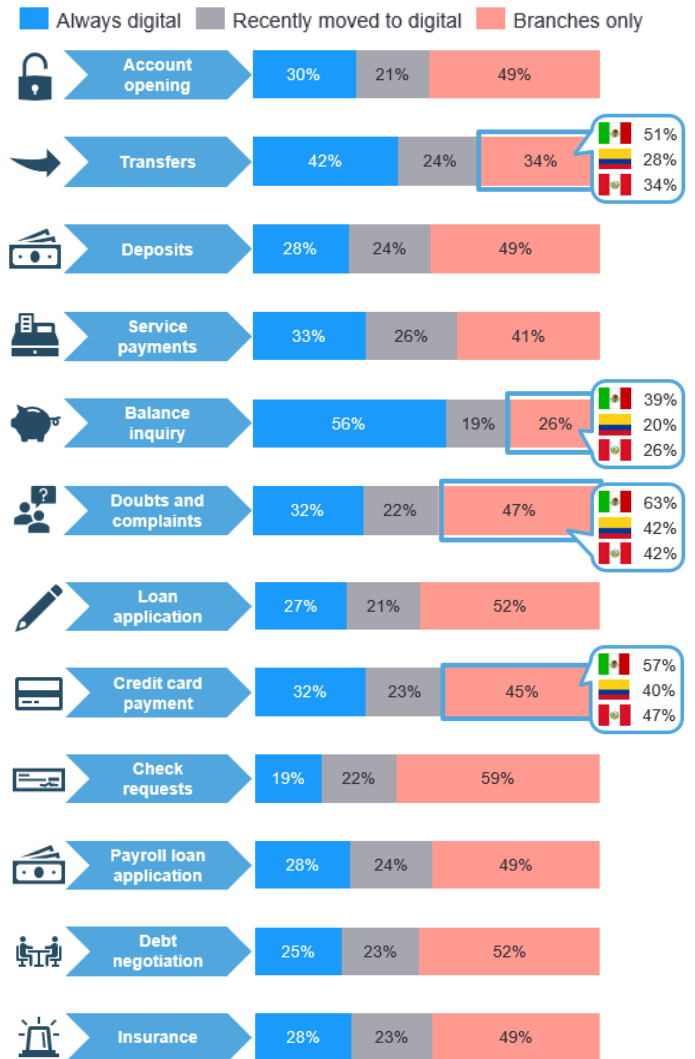


53% of respondents from Colombia continued visiting branches vs. **67%** from Peru and **77%** from Mexico



Cultural barriers will put financial institutions to the test, as a high percentage of people in all three countries, still visit the branches for even the most basic services such as transfers, balance inquiries, complaints and credit card payments. On average, 60% of users in Mexico use branches for most of their services, vs 42% in Colombia and 44% in Peru.

How do you use the following retail banking services?



The pandemic poses a big opportunity for financial institutions to consolidate digital transformation by contouring cultural barriers and improving usability.

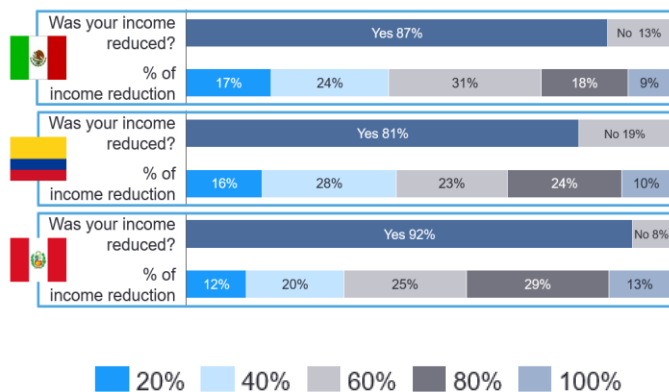
Going forward, financial institutions should:

- (i) Improve safety and app functionality
- (ii) Leverage branches to increase digitalization and educate customers about the benefits and ease of digital platforms.
- (iii) Amplify their range of digital services.
- (iv) Improve user experience to attract reluctant users to try digital channels.
- (v) Financial institutions should carry out a complete transformation of their entire channel strategy.



2. Financial Resources

Financial assistance has become a priority since most people reported having lost income during the pandemic. In Peru, 92% of respondents reported losing income, followed by Mexico and Colombia were 87% and 81% respectively reported reductions. In Colombia 8 out of 10 people saw their income reduced by over 40% compared to 6 and 7 people in the case of Mexico and Peru, respectively.



Our survey also revealed 9 out of 10 people in all three countries are avoiding spending on non-core personal expenses rather than taking on debt to finance these purchases and more than 50% believe they will not see recovery in their income levels over the next 6 months. It also revealed that loans were not accessed by most people to compensate for income reduction.

In Mexico, only 38% have applied for a personal loan during the crisis of Covid-19 followed by Colombia and Peru with 29% and 25% respectively, as access to banking services for low socioeconomic levels remains limited and a negative perception on loans and its conditions prevails in all three countries.

Banks should leverage their high liquidity levels, result of the Covid-19 crisis and invest in new products. We believe Covid-19 has been a wake-up call for everyone and that there will be a relevant opportunity for new insurance and savings' products in the future as people will want to be better prepared.

3. Banks' flexibility programs

Financial flexibility programs to support people during the Covid-19 crisis remain mostly misunderstood and had dissatisfactory outcomes from adopters in all three countries. Despite the strong advertising efforts, the flexibility programs may have caused negative reputation effects for financial institutions.

Regarding banks' flexibility programs our survey revealed:

- (i) Most people still do not fully understand the financial assistance programs offered by banks.



- (ii) A few used the financial flexibility program, but came out mostly unsatisfied with them.

23% have used a financial flexibility program offered by their bank

63% of those who used the flexibility program reported it was not enough to cover their financial needs

(iii) A few accessed government aid programs, and most came out satisfied or partially satisfied.



23% of those who used the government aid were satisfied and 25% were partially satisfied with it

And when asked if there was a product/service that would have made them better prepared to deal with the Pandemic, top three choices by country were the same: financial planning or education, savings account and work insurance.

Going forward, financial institutions should strengthen their communication with clients to better inform them about their programs and make sure that advertising campaigns about future flexibility programs are clearer, using traditional and non-traditional communication channels, leveraging social media channels to solve clients' concerns, improve perception on loans and inform about the more flexible credit conditions.

The crisis has also taught banks the way they can help their customers, creating a win-win situation between them and their customers. Banks should offer alternative products such as finance education and planning and make some additions to their current credit schemes such as skip-payments, which has become increasingly popular in some countries.

4. Small and medium-sized enterprises

Small and medium-sized enterprises have been another victim of the Covid-19 crisis in our countries. In April's survey, 50% of SME's reported closing their operations completely and results from the last survey revealed 65% of them lost revenue due to the pandemic.

Most of the SME's did not use external funding as a way to survive, only 12% relied on it while 30% of the rest ended up modifying processes or cutting personnel. 30% of the surveyed informal SMEs reported losing more than 50% of their revenue with no recovery and 20% of the formal SMEs.

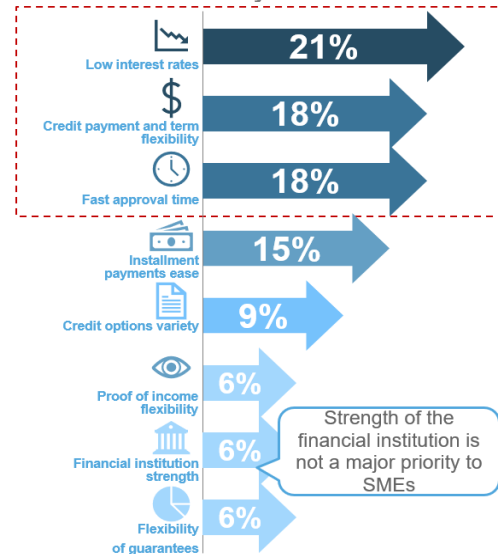
Regarding measures taken, 40% of SMEs used internal savings, 21% modified processes, 12% took out a loan 9% had to cut personnel and the rest took other measures.

What measures did you take to have your business survive the pandemic?



When asked about their top priorities when evaluating a loan for their SME, low interest rates (21%), credit payment and flexibility (18%) and the approval time (18%) were the top three mentioned in Mexico, Colombia and Peru.

What are the priorities when evaluating a loan for your SME?



Financial institutions should focus on providing the flexibility that SMEs need and offer tailor made products, adapting their credit programs to meet needs from different geographies and industries. They also need to improve their communication channels with target customers and sectors to understand their concerns and to make sure SMEs fully understand the financial solutions designed for their segment.

We believe that what should come **NEXT** is a strengthening of current digital platforms, the launch of new financial products, clearer advertising campaigns and most importantly an enhanced and robust approach to the SME market, which will be driving the recovery of our economies, as they generate a very relevant amount of both, formal and informal jobs.

NEXT

Financial institutions still **have room to improve their digital platforms and increase penetration**. The foreseen model should combine the use of **robust digital platforms with branches**, which should also incur changes in terms of their number and archetypes.

- **New financial products** that are not currently offered could meet the demand for better financial preparation, such as **financial planning & education**, unemployment insurance and savings accounts.
- **Financial institutions should improve how they communicate with customers**. Clearer advertising campaigns and direct contact could be used to better explain the flexibility and support programs offered.
- **Financial institutions should provide more flexibility** to both individuals and SMEs and offer tailor made products, adapting their credit programs to meet the needs of each segment and improve the negative perception around loans
- **The SME market remains an opportunity** for both large and small financial institutions. Tapping into these businesses will require navigating a fragmented market, lack of information and managing a higher risk while offering necessary flexible conditions.

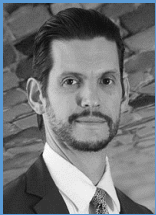


Going forward, financial institutions should rethink their strategy and answer some key questions to figure out if they are well-positioned to what is **NEXT**. Are our digital platforms fulfilling the needs of our customers? Do we need to launch new products? Do we need to change the way we communicate to our customer base? Is our strategy aligned with our target market?

Financial institutions should stop for a moment and rethink the way they are currently making business and should start creating their own banking ecosystem, beyond core banking. Financial institutions must start thinking on their product and services' offering post-Covid, to both individuals and companies to support them in the recovery period.

We will continue to understand how the Covid-19 crisis is impacting the financial sector of Latin American countries. We will launch additional surveys, as required, to understand the shift in user's preferences. We believe financial institutions who can quickly adapt will be able to capture opportunities for growth in the new normal.

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