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"The need to constantly update skills, learn from breaches faced by other organizations and invest in security patches is critical to proactively manage Information Security Risk."

Ramaswamy Meyyappan

Chief Risk Officer, IndusInd Bank

In this issue

"IBA and member banks are planning to come out with advisories to create customer awareness and promote contact-less banking."

Sunil Mehta

IBA chief executive

"Good to see that entities handling funds of customers are only being proposed to be regulated unlike the original draft."

Naveen Surya

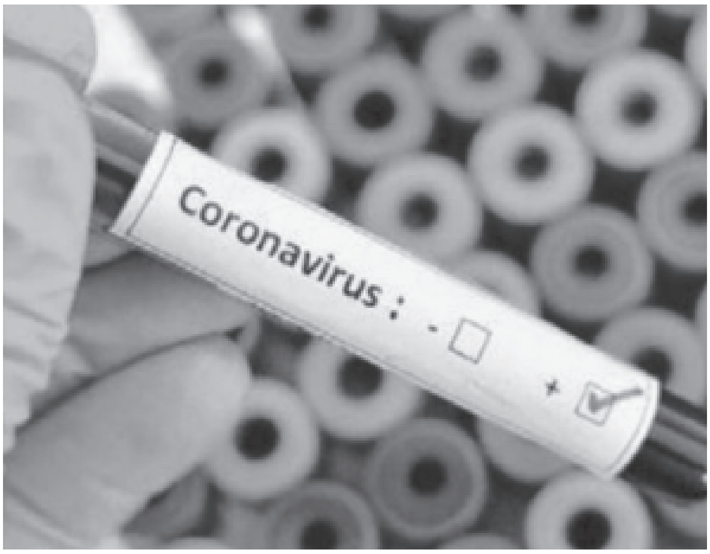
Chairman, Fintech Convergence Council

"Around 20% of its total cards are co-branded, and such cards see around 30% more spending."

Parag Rao

Head of the Cards Business, HDFC Bank

BAILOUT, CREDIT RISKS AND TECHNOLOGY - HOW WILL THE BANKING INDUSTRY SURVIVE COVID-19?



Like every other industry in the world right now, our banking industry is reeling under the effect of the Covid-19 pandemic too. To be sure, I believe the global financial industry is in a much better position to brace this impact than it was in 2008 in the wake of the global financial crisis.

Several bankers around us are anticipating a liquidity crunch in the aftermath of the pandemic. This, in turn, will get passed to the general population in terms of pay-cuts, delayed salaries, etc.

Instead of worrying about the impending dent that this may cause to the world economy, financial institutions need to innovate to manage this crisis and minimize the losses for the economy.

About the author

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A liquidity crisis is not the only thing that is keeping the industry veterans up at night. Will there be a paradigm shift in the way the global industry operates soon? No one has a clear answer but I am sure some of these ideas are here to stay.

The Bailout

Not only will the immediate impact from the pandemic be substantial but experts are unanimously forecasting an economic downturn that is bound to follow.

To lessen the economic pressure on financial institutions faced with the Coronavirus adversity, governments all over are coming to the rescue with the help of aid programs.

Generous packages are being rolled out to bail out the industry in its moment of stress.

Germany has announced an aid package that amounts to 822 billion Euros - about 26 percent of the country's annual GDP.

What's more, the German government has already committed to more financial assistance if required.

The UK Treasury has announced a package to the tune of 330 billion Euros or about 15 percent of its annual GDP. The

Czech Republic has pledged to guarantee loans to businesses that would account for 19 percent of its GDP.

Unfortunately, the aid provides temporary relief and that too for an indefinite period. This is a risk that is borne by the governments.

To defaults and substantial loss of life, this stimulus package will not cut it. Bigger and more comprehensive financial assistance will be needed to commensurately address the same.

It's time for banks to come forward and create ways to collaborate directly with organizations and look at buying out bills, etc. and help employees sustain even on 50% of their wages.

Credit Risks

Covid-19 has brought about massive upheavals within the environment. It is not easy to update these rapid changes within existent models in such a short period.

To account for the said changes within the economic environment, banks will have to revise the Significant Increase of the Credit Risk (SICR) and the parameters that govern the expected credit losses (ECL).

The parameters that are expected to be impacted by Covid-19 are the weightings that will be allocated to the multiple scenario approaches, forward-looking information, non-performing loans (NPLs), forbearance, bucketing and staging parameters, loss given default (LGD) and the probability of default (PD).

Suspended payments or debt moratorium measures are also a credit risk. To be sure, as a moratorium measure, the suspension of contractual payments does not result in the defaulting of all the concerned loans.

Conversely, organizations that stand to benefit from the said measures may default in the immediate future.

Analysis should be done on a case-to-case basis while considering several factors. Data engineering should be done to understand who stands to benefit from the moratorium, modalities of the moratorium that is being implemented and the bank's policy when it comes to moratorium-related measures. A strong analysis will help to predict future defaults and prepare to create some safeguards for the same.

Fraud Risk and Cybersecurity

As employees and consumers grapple to adapt to the disruption, the rise in fraud and cyberattacks are of prime concern to businesses. Historically speaking, sudden change and crises have always been a boon for unscrupulous people. The fallout resulting from Covid-19 is no exception to this rule.

With more and more members of the staff shifting to remote work, banks are readying themselves for newer types of frauds and attacks. It is time to collaborate with remote work experts to ensure that no data loss or theft is allowed to happen. Finding out modern ways of fraud detection and using Geospatial technologies for transaction handling can be a good way to get started.

Contactless Fintech Future

FinTech is gearing for tap and pay with many banks initiating contactless payment even before this pandemic outbreak.

Coronavirus will now make it a mandate to have and permanently redefine the way we continue to live in society. Consumers will gravitate towards a cashless /contactless society. This, in turn, will lead to a large-scale proliferation of integrated payment tools enabled by mobile wallets.

They will be used to make payments to businesses and peers alike. Customers will also use their mobile devices to operate ATMs that do not involve touching the screen, such as Samsung Pay. Biometrics will be used and they will become the new norm for authentication.

Other technological advancements designed to facilitate the proliferation of Fintech adoption in the wake of the global pandemic include Artificial Intelligence, Big Data, Blockchain, Chatbots and Robotic Process Automation (RPA).

Fortunately, central banks all over the world are responding with a war footing to negate the effect of the global pandemic.

For example, the Bank of England will undertake a range of measures that aims to support businesses and banks. These include an interest base rate drop and assistance to banks via a funding scheme so that it can facilitate lending to customers at reasonable rates.

Technology, the great equalizer, has already helped to mitigate the adverse effects of the Coronavirus on the Financial industry. Many apps are now offering their services for free or at reasonable rates to their customers so that it can assuage their troubles during this moment of crisis.

Adjoint, the real-time cash management app, is offering its setup fees at a discounted rate to its enterprise customers. Libeo has allowed SMBs free access to help them pay their invoices, financing, managing and account payables.

Shtar is offering a 60-day free trial for its automated accounts payable that is cloud-based. Bond.ai is offering its conversational AI platform free of cost that does not carry ongoing or implementation charges.