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# **FS: Covid-19 Response**

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**Delayer, Reset and Grow:  
Fit for Crisis and Beyond**

**Covid-19 as a Catalyst**  
**FFG War Room: Rapid Execution**

April 2020

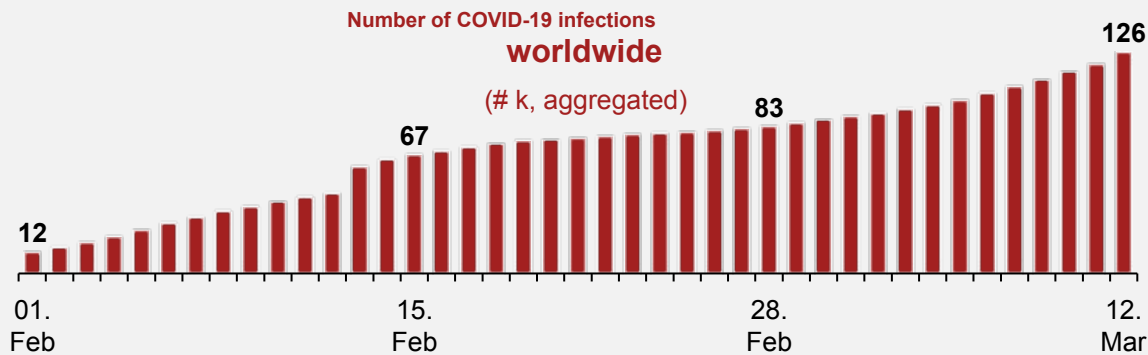




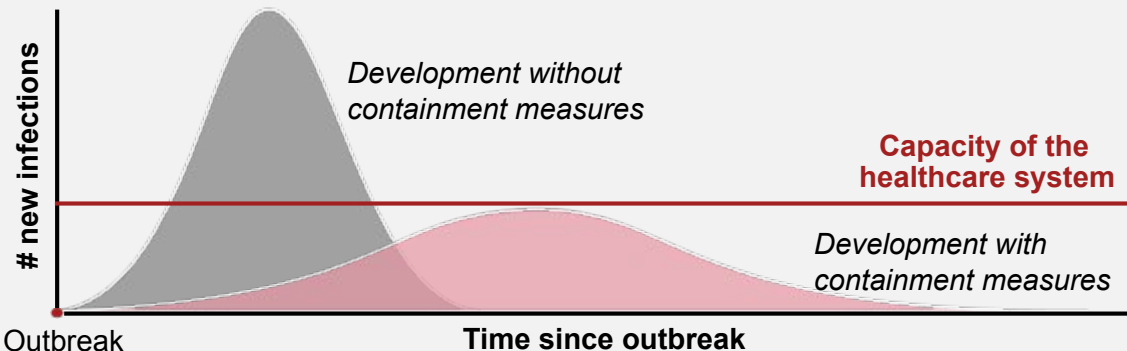
# After severe market disruptions, a long-term pandemic will put the economic system under severe stress

## COVID-19 pandemic: Initial situation

### COVID-19 continues to spread and is now in over 200 countries



### Containment could lead to a long-term pandemic



### Perspective



Global COVID-19 pandemic currently causing **significant market disruptions**



**External shock** hits a fragile global economy – limited headroom for responses of central banks



Containment is the best solution for society, but fatal for the economy – **the longer the pandemic persists, the deeper the recession**



**Liquidity shock due to decline in sales** already impacting SMEs and specific sub-industries



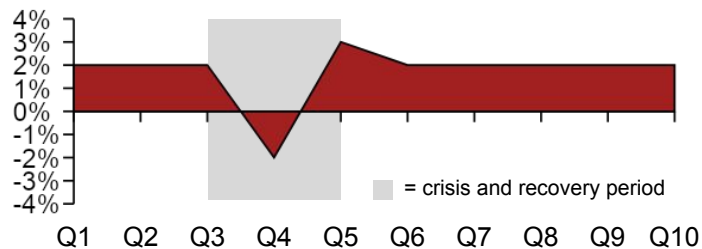
Disruption of supply chains and production stops will soon lead to **more widespread liquidity shortages** in many industries

# The impact of COVID-19 on the economy potentially evolves in one of three scenarios with various impacts on insurers

## COVID-19 crisis: Overview of possible economics scenarios

### V-scenario

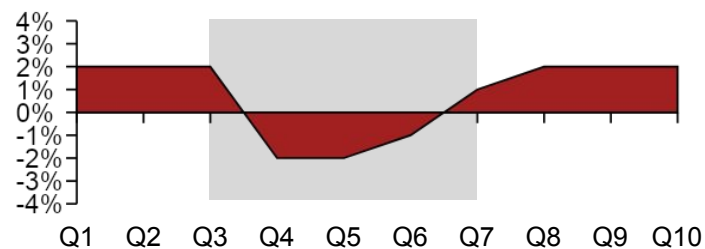
GDP change (quarterly) with early peak of COVID-19



**Shock impact on the economy as a whole followed by swift and complete recovery;** insurers face postponement of investment and consumption

### U-scenario

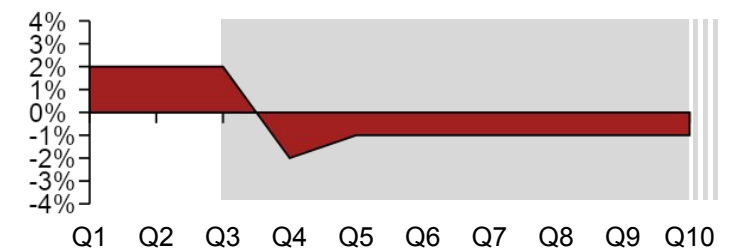
GDP change (quarterly) with flattened curve of COVID-19



**Sustained recession with return to previous GDP level over several quarters** leading to postponed and, in part, sustained restricted consumption

### L-scenario

GDP change (quarterly) with continued re-emergence of COVID-19



**Drastic impact on economic performance and prolonged recession** with acute threats to the monetary and financial system

### Key associated risks and actions needed (not exhaustive)

Short-term **demand shifts** (e.g. travel)

- Launch targeted promotions/ incentives

Short but **severe workforce** impairment

- Implement (temporary) new employment models

Stress for **regulatory capital ratios**

- Monitor asset-liability gap and manage risks.
- Run ORSA process, consideration of management actions and regulator stakeholder management

Increasing **payment delays** and **defaults**

- Provide price and product flexibility

Limited **brokerage/ agent availability**

- Steer customers to digital channels and re-evaluate digital distribution capabilities

Limited **capital market accessibility**

- Perform full asset allocation review

Increased **risk of fraud**

- Strengthened operational processes to deal with increased fraud risk during and post lockdown

**Provider/ ecosystem partners** break down

- Decrease 3rd party provider/ partner reliance

Long-term **impairment** for **sales force**

- Advance digital maturity in distribution

Impact on **investment** and **reinsurance**

- Review reinsurance and hedging strategy

Increased **risk of fraud**

- As for U-shaped scenario

Impact on **underwriting** and **pricing strategies**

- Major review of underwriting and pricing strategies as customer needs and affordability change

# Global banking sector already hit by first negative effects of the emerging crisis

## Impact on the global banking market

### Challenges before the crisis



**Pressure on RWA productivity continues to rise**



**Difficulties to compensate for declining net interest income**



**Key risk indicators at similar levels compared to 2007/08**

**+** *KYC requirements, digitalisation, competitive pressure, ...*

### COVID-19: First effects in the banking sector



**Corporate customers draw their undrawn credit facilities to increase liquidity buffer**



**Extended support measures for SMEs / corporates**



**Increasing pressure to make decisions in dealing with covenant breaches and unprofitable customers**



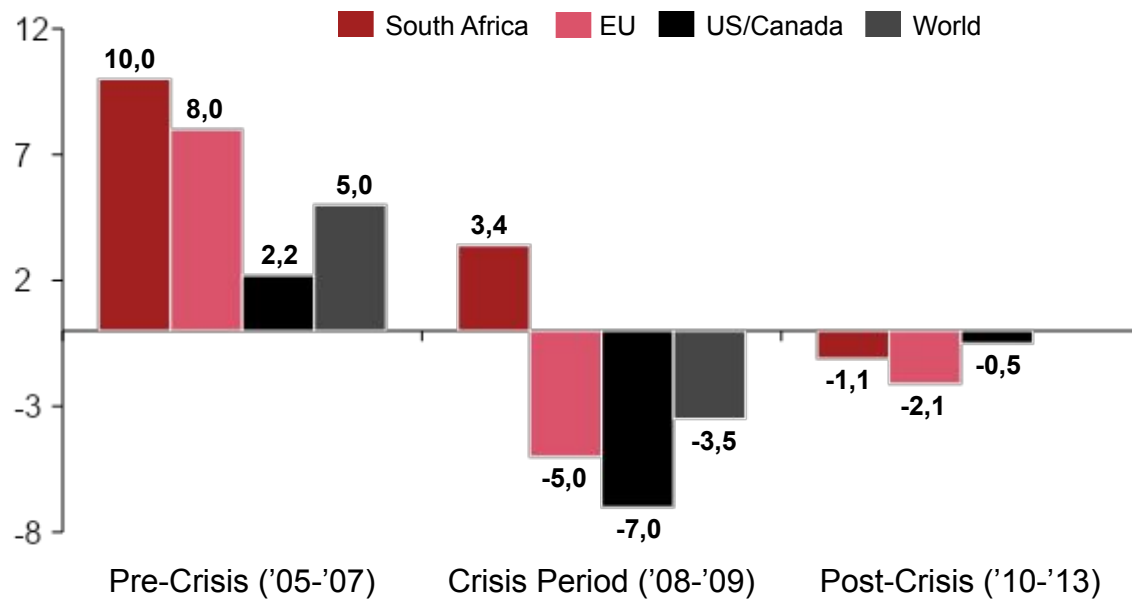
**Low-rate environment here to stay and increase, further limiting financial flexibility of banks**

**New business already in cool-down during 2019 despite ambitious growth plans – the situation has now deteriorated**

# Globally, life and non-life insurers saw a significant impact on real premium growth (%)

The 08/09 global financial crisis was systemic and, while it remains to be seen how the full COVID-19 impacts will unfold, it did teach us that pressure on premium growth is a given, highlighting the importance of cost containment in order to sustain profitability levels.

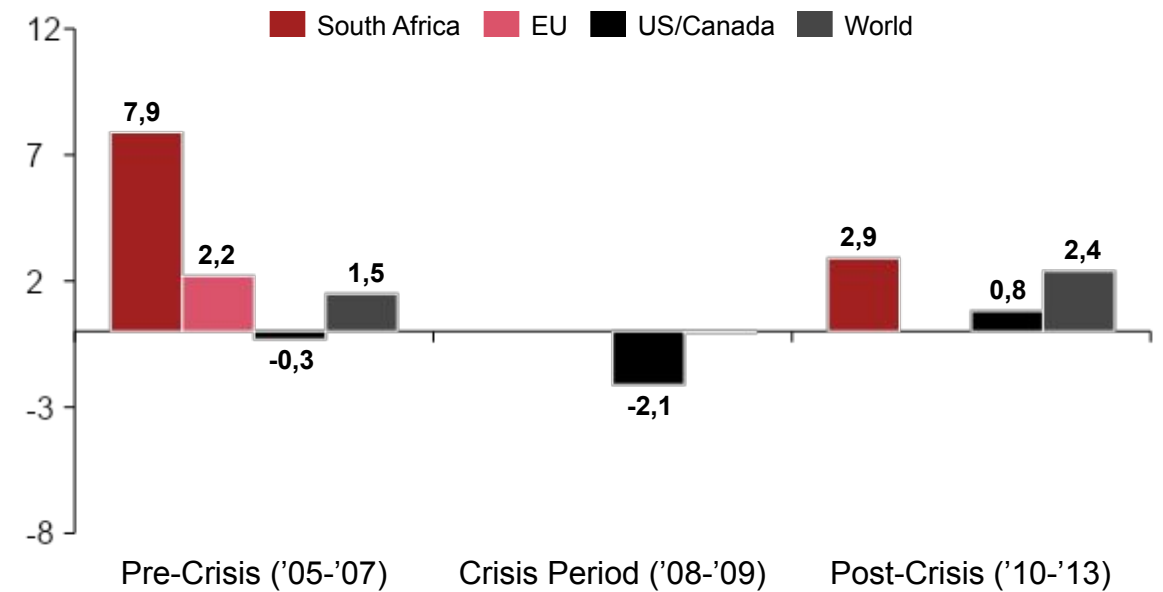
## Real premium growth (Life)



Figures adjusted for inflation

Source: Swiss Re Institute

## Real premium growth (Non-Life)



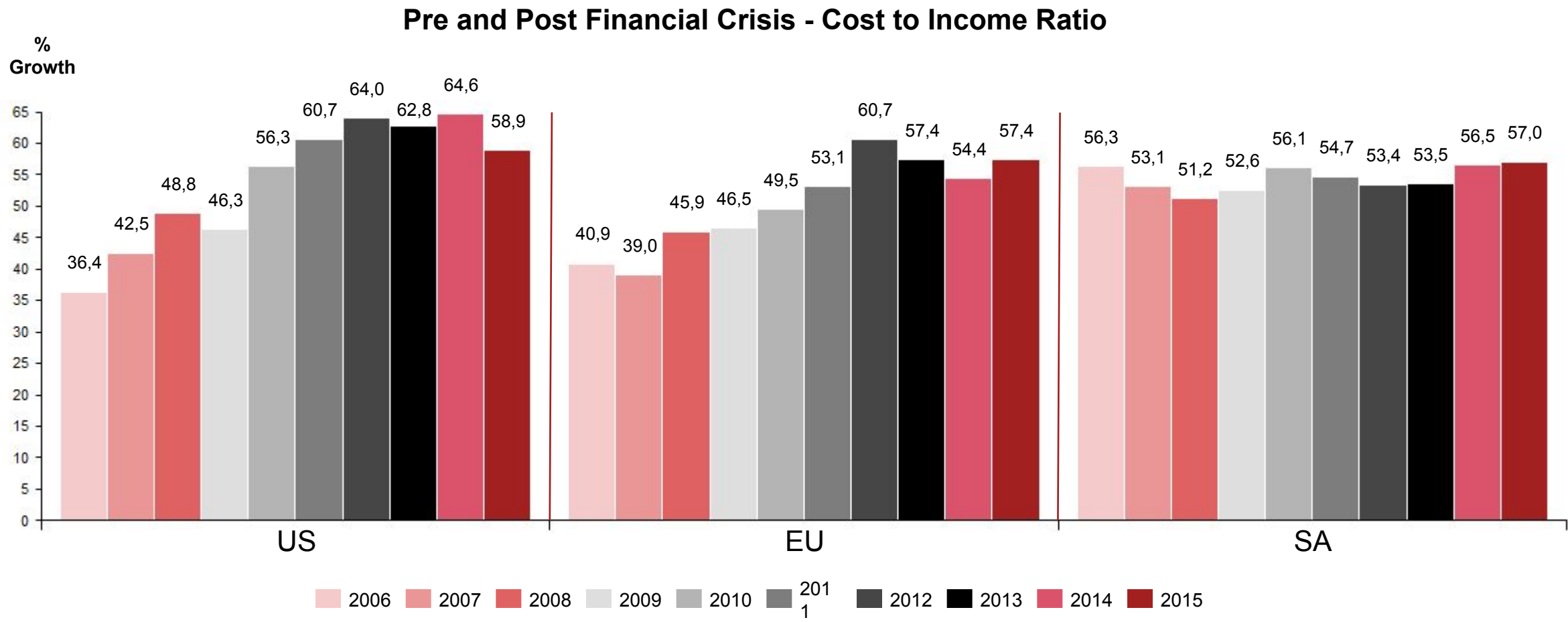
Figures adjusted for inflation

Source: Swiss Re Institute

Between 2008 and 2009, South African insurance real premium growth (life and non-life) dropped significantly. The South African market felt the full effect post-crisis, although on average, proved to be more resilient than other regions.

# Pre and Post Financial Crisis Impact – all banks experienced CIR increases post the 08/09 crisis

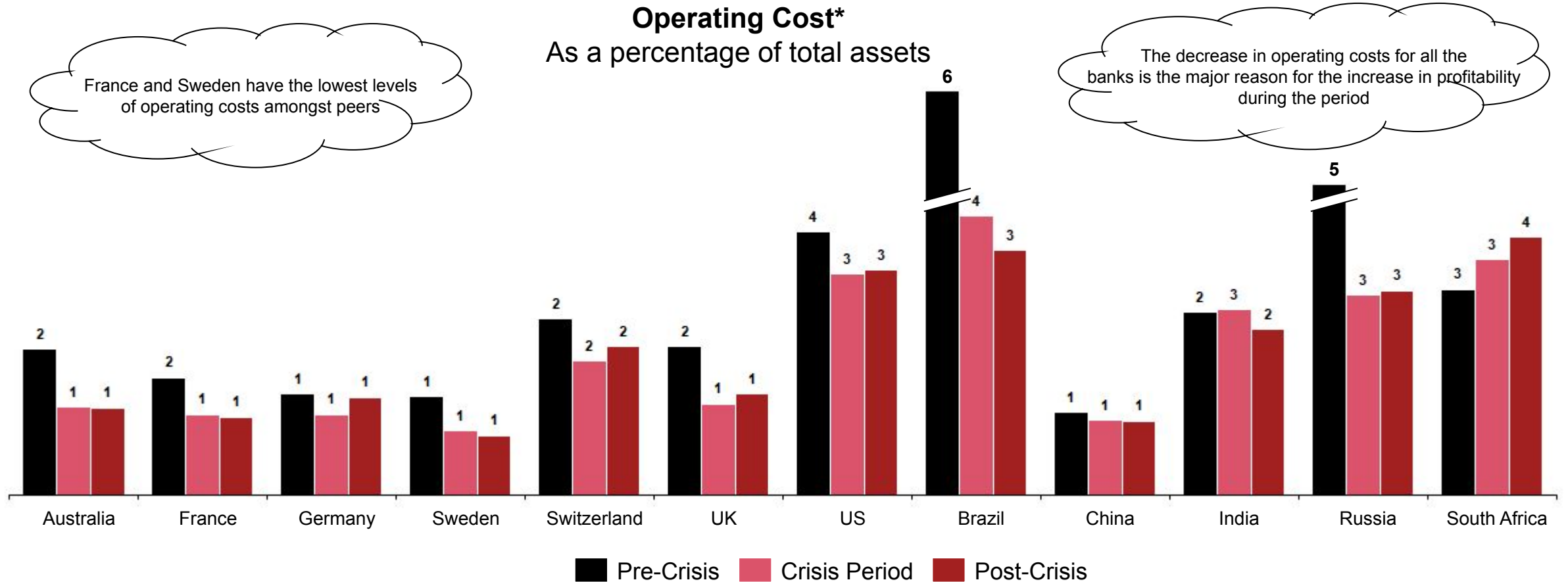
2013 - 2019 was a period of low growth, negative jaws and now compounded by COVID-19 crisis. The 08/09 global financial crisis was systemic and while it remains to be seen how the full COVID-19 impacts will unfold, it informs us that cost containment action will certainly be required



**With significant costs removed, banks will have the option to move to a growth focus**  
South Africa banks did not fully exploit the 08/09 financial crisis to rebase the cost structure. The cost base (Big 4) tripled over the last 10 years from R80bn to R300bn and the operating cost ratio to total assets increased from less than 3% to more than 5% during this period. The best performing global banks are at less than 3%.

South African Banks need to learn the core lessons from their counterparts in the US and EU to manage the Covid-19 crisis and rebase the cost base.

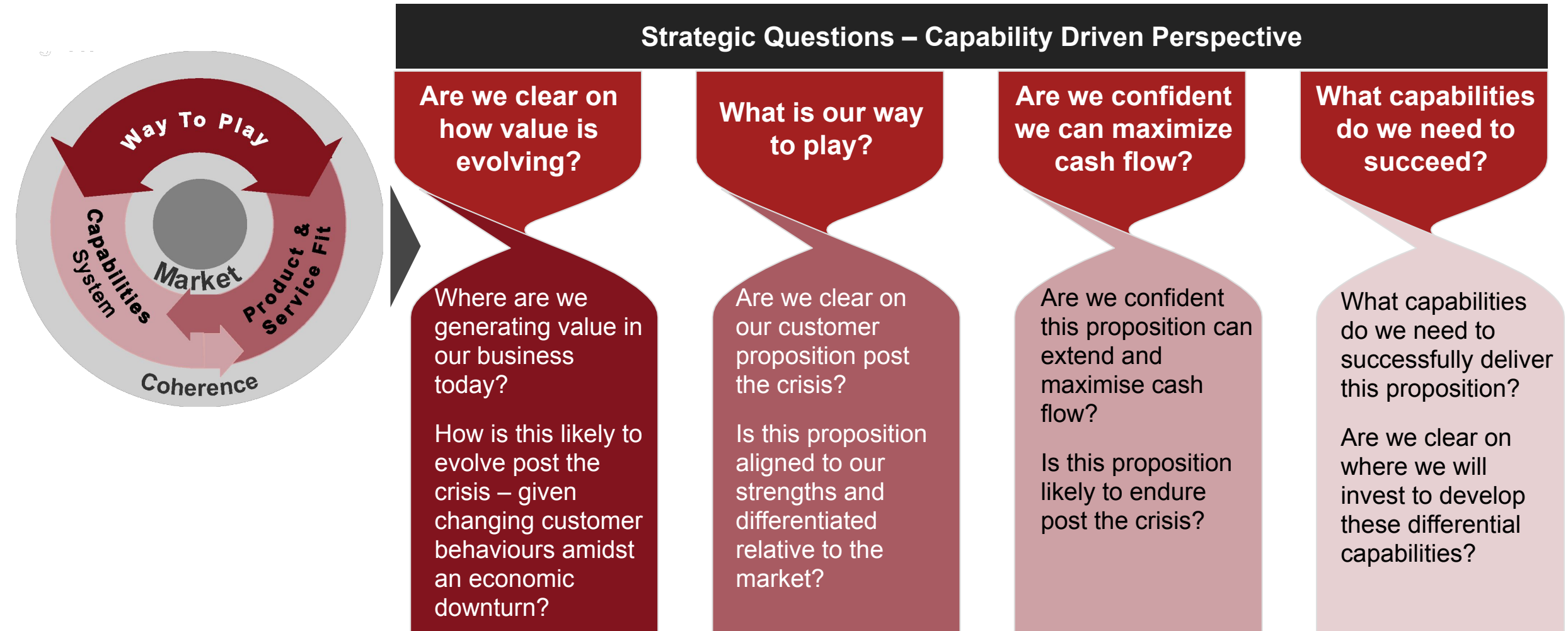
**Operating Cost\***  
As a percentage of total assets



Note: \* All figures are provided as a percentage of total assets

In the face of the crisis, Financial Services Executives should be asking four key questions relating to Value Creation, Unique Customer Propositions, Cash flow maximisation and Capabilities building to be a competitive player post the Covid-19 crisis.

## Strategy&'s Capability Driven Approach





# Covid-19 FFG Approach: Reorganise capabilities to fit for growth - “connecting growth strategy to cost structure and organisation”

## Fit for Growth Framework



**What are the potential SA retail landscape scenarios post the Covid-19 scenario: 8-24 months**

**Where, How and “Way to Play”**

Rebase the cost fit for growth post the Covid-19 crisis scenario

Expanding the core, pursuing growth opportunities and capturing the future



### Rebase and Build Leading Capabilities

Invest in sustainable and differentiated capabilities funded by improvements in the cost structure



### Transform Cost Structure

Develop a clear cross-organisational cost agenda, making deliberate choices from front line to back office



### Reorganize For Growth

Implement an operating model, processes, and systems to unlock potential and enable agility for growth post Covid-19

Identify higher value-added priorities for investments

Enable & sustain



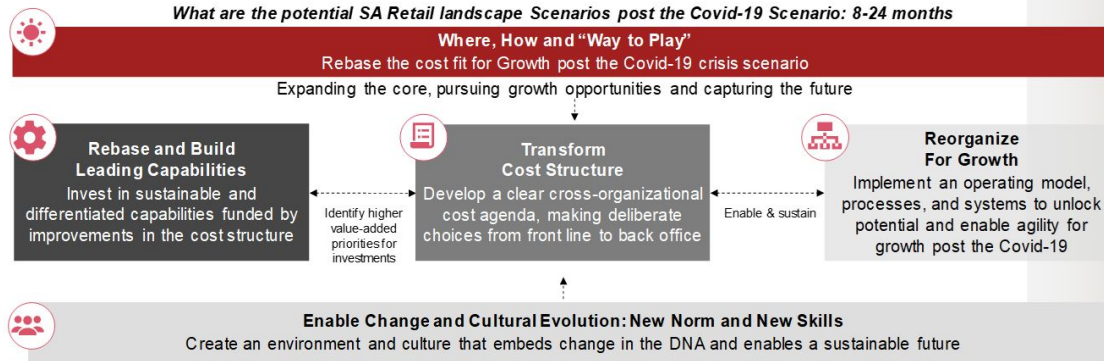
### Enable Change and Cultural Evolution: New Norm and New Skills

Create an environment and culture that embeds change in the DNA and enables a sustainable future

# A Fit for Crisis approach

Fit for crisis is different from traditional cost cutting by layering and rebasing costs, based on the crisis intensity.

Delay, Reset and Rebase to be fit for crisis and positioned for growth



**"Lights-on"**  
Lower service levels / eliminate low-priority discretionary activities

**Exploit the Crisis**  
Fundamentally re-set the cost base, extracting wasteful costs and investing these in future growth capabilities

**Invest in Essential/Core**  
Aim for best-in-class service levels

## Not required

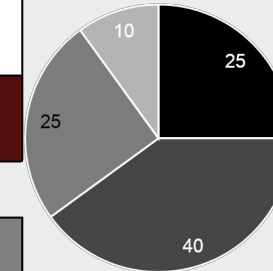
- Eliminate non-essential capabilities
- Challenge the need to have investments at all
- Place strong limits on ability to offer, or lower service levels to bare minimum

→ **Eliminate**

## "Lights-on"

- Activities required to "keep the lights on" / operate (e.g., legal requirements etc.)
- Look for opportunities to increase efficiency – lower service levels and low priority activities
- Rationalise non-performing products and services

→ **Drive to lowest possible cost**



## Invest in Core

- Differentiating capabilities / build sustainable advantage
- Streamline for effectiveness and efficiency
- Invest in activities to reach best-in-class
- Re-set the strategy to grow post crisis

→ **Invest to develop**

## Exploit the Crisis

- Activities required by industry dynamics to compete in a given sector
- Look for opportunities to lead industry in efficiency and effectiveness (productivity)
- Explore M&A opportunities

→ **Aim for best-in-class cost and service level**

# What

## Aligning the cost structure to the Strategy to Grow : Fit for Crisis and Beyond

### Objectives

- Identify and evaluate viable cost containment options to protect earnings and margin based on Covid-19 scenarios
- Mobilise the team and approve and select options in real time

- Output
- Cost containment options and analysis (playbook) addressing potential savings and associated risks
- Rationalised / optimised product, services, channel and pricing in “Real Time”
- Actionable plans to position to extract costs quickly and enable investment in future

### Key Focus Areas

#### Take the learnings from the previous financial crisis to set cost containment objectives

- The CIR typically increases by 20-50% during the crisis zone
- Banks which controlled their costs during the crisis (through decisive cost measures) improved profitability by 25-50%. South African banks did not take advantage of the opportunity to rebase during the global financial crisis.

**Banks can't wait for a perfect cost containment plan, “Speed is Essential” and will be aided by a 3-staged approach/playbook to be deployed as the scenarios unfold**

### Governance & Reporting

#### Mobilise, Delayer and rebase – Kick off the key action plans

- Develop a lights on strategy to drive out 10% + cost base reduction within 60 days.
- Set up a Covid-19 Cost and Scenario War Room
- Delayer and categorise the cost value chain for both short and long term initiatives.
- Identify the cost category workstream leads.

#### Lights on Strategy – Initial hypotheses

- Rationalise / exit non-performing products and service lines; rebase the sales force costs to the core services and products
- Closure of outlier branches / sales outlets and maximising digital channels
- Exit technology on non-core services, products and activities
- Rebase the shared services and back offices to the core services and traffic

### Stage I Trigger

#### Reset Strategy - 30 Day Plan: R500m+

#### Build robust Covid-19 Cost Base Scenarios (3-6 months)

- Reduce non-discretionary spend and optimise discretionary spend (e.g. revisit book of work)
- Rationalise the marketing spend and promotions on non-performing products & services
- Postpone price increases and renegotiate all contracts
- Freeze non-essential applications, hires, salary increases and overtime
- Develop a lights on strategy / Stage II road map

### Stage II Trigger

#### Lights on Strategy 60 Day Plan: R1bn+

#### Build Post Covid-19 cost scenarios (6 -12 months)

- Rationalise / exit non-performing products and service lines; rebase the sales force costs to the core services and products
- Closure of outlier branches / sales outlets and maximising digital channels
- Exit technology on non-core services, products and activities
- Rebase the shared services and back offices to the core services and traffic
- Detailed Stage III plan

### Stage III Trigger

#### Rebase and Grow 90 Day Plan: R2bn+

#### Build rebased core cost base / “Fit For Growth” Scenarios

- Exit of low demand products, services and segments - resize the sales forces and network
- Rationalise the investments on the payment systems and applications for rebased traffic
- Resize the shared services and renegotiate the KPIs with services providers
- Reinvest in core products and services

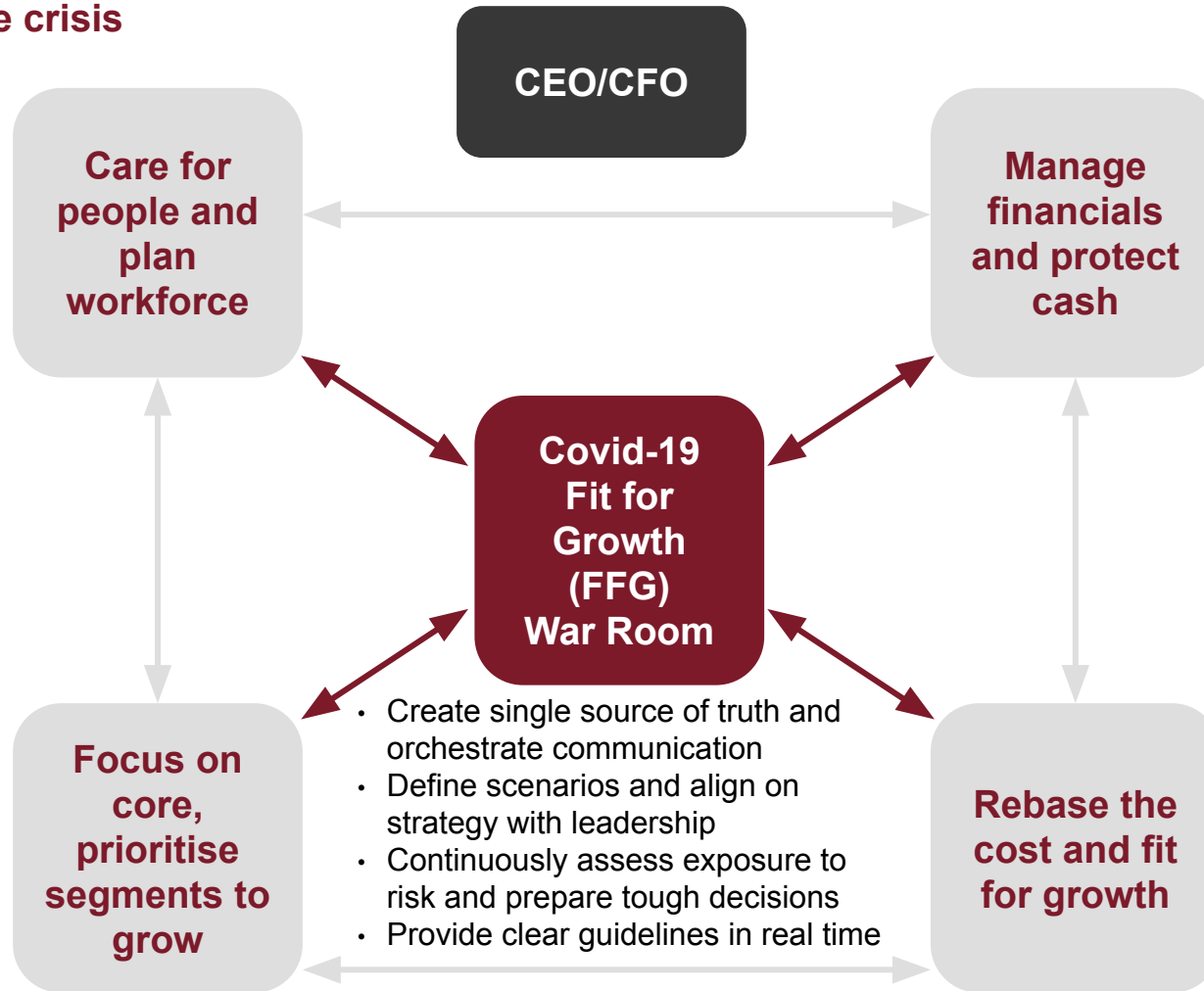
# How

Building action plans across core workstreams, with a FFG Crisis Response team at the center, reporting to CFO / CEO and driving both the growth and cost strategies

## Key elements to respond to the crisis

- Ensure bi-directional communication
- Educate and adopt health measures (e.g., screening protocols, flexible work)
- Workforce planning (e.g., identify business critical staff, succession planning)
- Support national/global response efforts
- Invest in new digital enablers

- Create transparency on customer segments and prioritise
- Refresh incentive / promotion plans for customers
- Strengthen collaborative customer relationships



- Run financial stress test (Risk, Credit, Liquidity and impairment)
- Quantify cash flow implications of shutdowns
- Manage working capital
- Identify trigger points and corresponding decisions
- Communicate with investors and capital market

- Rationalise / exit non-performing products and service lines; rebase the sales force costs to the core services and products
- Closure of outlier branches / sales outlets and maximising digital channels
- Exit new technology on non-core services, products and activities
- Rebase the shared services and back offices to the core services and traffic



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Delay, Reset and Grow:  
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# Thank you

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