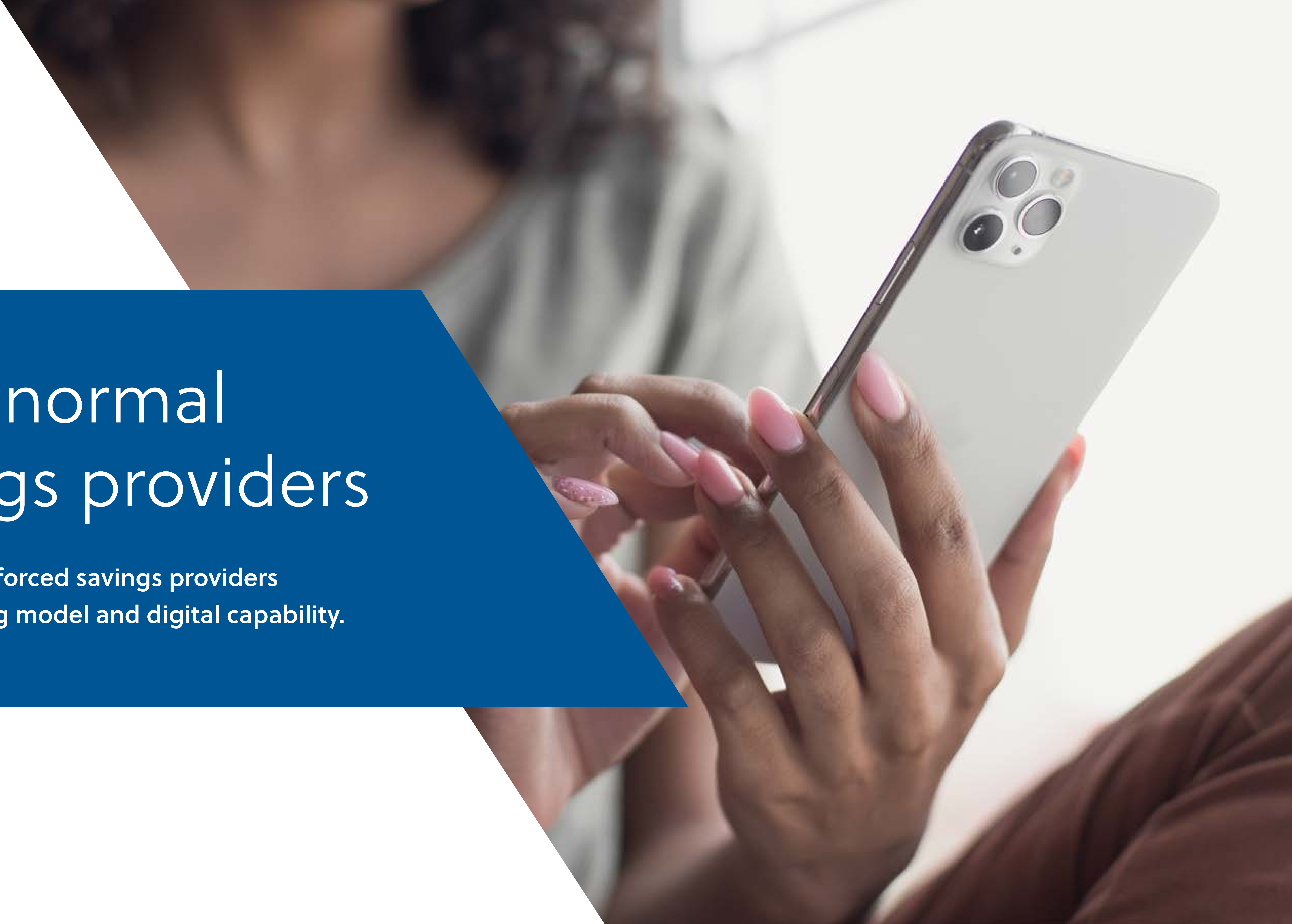
Newcastle Strategic Solutions

The new normal for savings providers

How the pandemic has forced savings providers to review their operating model and digital capability.



newcastlesolutions.co.uk

A time like no other

How the pandemic has put pressure on savings providers

The pandemic has had a profound effect on savings providers.

From the effect of lockdown on savings levels to the corresponding changes in customer behaviour and demands for digital services, the savings market has already faced significant disruption and changing customer demands, with more expected.

Savings providers are facing a "new normal" that requires higher levels of agility and flexibility than ever before to continue to deliver market-leading customer experiences. As timescales tighten and urgency increases in a number of key areas, providers are not only reviewing their strategic roadmaps and wondering how they can accelerate them, but also considering fundamental changes to their operating model to keep pace with the rapid need for change.

At Newcastle Strategic Solutions, we work with and help savings providers to put in place the transformational changes they need to keep up with and anticipate customer expectations.

We've identified four key trends which are driving savings providers to consider their operating model and digital capability →

1. Savers face a decision point on pandemic buffers

As confirmed in a speech by Andy Haldane, Chief Economist at the Bank of England, households have accumulated some £150bn of excess savings during the pandemic as spending has been restricted. Much of these excess savings are held in highly liquid bank deposits.

To put that in context, with the total personal savings market amounting to around £1,800 billion, that equates to an uplift of around 9% - not insignificant.

There is now speculation as to how much of these excess savings will be spent as society and the economy starts to unlock. Many households may well take the view that, at a time of uncertainty, they wish to maintain more of a buffer of some kind in the event of a personal financial shock.

> “Households have accumulated some £150bn of excess savings through the pandemic.

2. Digital acceleration has intensified and diversified

PwC’s June 2021 Global Consumer Insights Survey highlighted the rapid change in consumer behaviour precipitated by the COVID-19 outbreak. Existing trends in the shift to digital experiences have accelerated rapidly since the onset of the pandemic, and show no signs of stopping.

Customers who have already had their expectations of digital experiences heightened by familiarity with market leaders like Netflix and Amazon are increasingly expecting not only intuitive, frictionless customer journeys, but a strong focus on safety and sustainability too. Where digital experiences once sat separately from in-person services, customers now expect a seamless blend, and the ability to combine online and human experiences to suit them.

3. Economic shock leaves providers facing an uncertain future

In the early stages of the pandemic when uncertainty was at its highest, there were signs that some banks rushed to increase funding to provide additional buffers in case funding levels came under threat. That resulted in increased activity for a short but intense period of time.

300% Higher
Customer Activity Levels

At Newcastle Strategic Solutions, we saw customer activity levels some **300%** higher than previously forecast by some of our clients.

The pandemic also clearly impacted bank profitability, at least in the immediate term, with lenders widely reporting reduced profits mainly through increased loss provisions in anticipation of increasing levels of customer default.

While the government undertook a raft of unprecedented measures to protect the economy, businesses and individuals, those measures are now starting to unwind and there remains the potential for more difficult economic conditions ahead.

It's possible that Banks may become more selective in their lending decisions, as they were in the aftermath of the financial crisis.

4. Regulatory focus remains, while balancing consumer demand

Regulatory change is ever-present, and the ability of savings providers to stay on top of new regulatory requirements has always been essential to their continued presence in the market. One example is the requirement the PRA outlined in 2021 meaning firms had to be operationally ready to offer products with negative interest rates. In the face of a significant increase in demands for other digital developments, the ability to balance regulatory requirements with consumer demand is likely to be more important than ever. Savings providers must have the capability to deliver an accelerated digital roadmap whilst maintaining ever more stringent standards of regulatory compliance

> "The requirement the PRA outlined in 2021 meaning firms had to be operationally ready to offer products with negative interest rates.

How should savings providers adapt to the new normal?

With such fundamental shifts in the financial and consumer landscapes, it's no surprise that savings providers are taking stock of their current operations.

For many, the changes required were already anticipated, with the pandemic pushing existing areas of development up the priority list. The disruption caused has also underlined the need for a higher level of agility across the board, as businesses scramble to adapt not only to existing shifts but to a period of continued uncertainty ahead.

We've identified three vital priorities for savings providers going forward. →

1. Reviewing operating models to reduce reliance on legacy tech

Many providers were already examining their operating models and how they manage their savings books but, from our own discussions with numerous firms, it appears the environment caused by the pandemic has encouraged others to conduct strategic reviews and with more urgency.

In a number of cases these reviews are the result of issues created by legacy tech. Such technology has proved expensive to manage with increasing levels of risk. The necessary knowledge and skills to maintain these legacy systems is declining and therefore managing change is costly and at greater risk of error. Managing regulatory change is also challenging and complex.

At a time when providers want to focus on those areas of their business which produce the most value, managing savings books based on legacy technology can be a distraction requiring a disproportionate amount of attention. The required investment can also be a challenge when considered alongside all other competing priorities.

> “Legacy technology has proved expensive to manage with increased risk. The necessary knowledge and skills to maintain these legacy systems is declining and therefore managing change is costly and at greater risk of error.

In February 2021, the FCA launched their review “Implementing Technology Change” which confirmed there were a number of factors which contributed to a firm’s success in managing change. Given that the average firm makes an incredible 35,000 changes per annum, the importance of this is clear. These factors included:

- A high level of legacy tech was linked to failed or emergency changes. Over 90% of firms surveyed relied on some form of legacy tech.
- Legacy tech impacted firms’ ability to implement new technologies and innovative approaches.
- A higher proportion of spend on managing change helped reduce issues.

Providers are seeking lower cost, lower risk solutions which allow a more agile approach to development and deployment. With the advent of Open Banking and its evolution into Open Finance, providers are also considering solutions which are built on open architecture and which can connect to the wider financial eco-system to take advantage of whatever opportunities may come to services in the future.

At Newcastle Strategic Solutions we are responding to this demand by forging ahead with our own roadmap towards open and connected solutions, supporting clients to migrate legacy systems to our digital platform and achieve the highest possible levels of performance, reliability, security and compliance.

2. Expanding digital capabilities to meet consumer demand

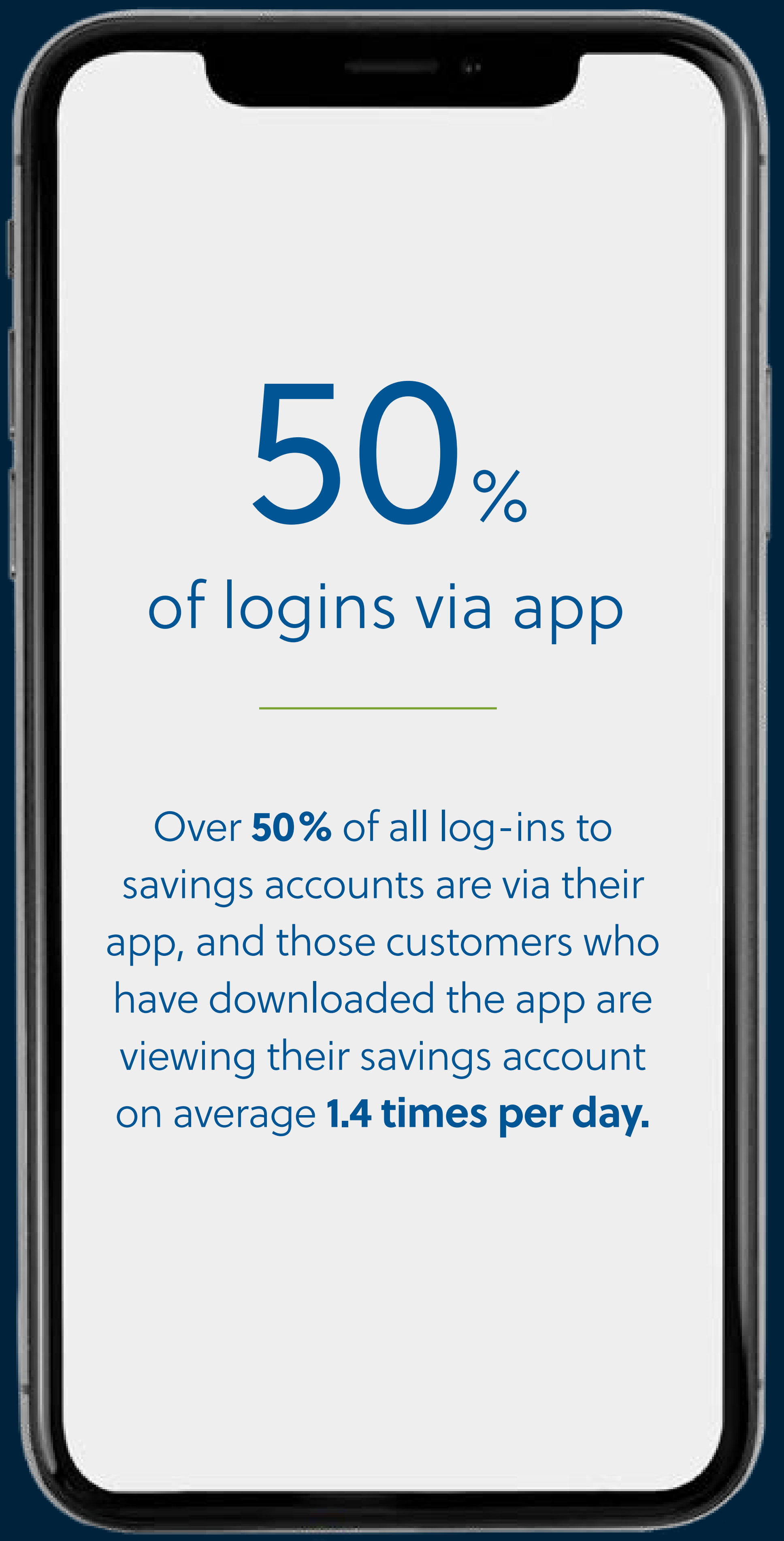
PwC's Global Consumer Survey mentioned above confirms that the pandemic has accelerated the shift to digital channels and this is evident in all consumer industries including financial services. Customers now expect experiences comparable to the best they encounter in other parts of their lives.

Savings providers are having to consider whether their own digital offerings are meeting the needs of savers and, critically, whether they can be developed in such a way as to remain relevant as services evolve further. For those providers who have a predominantly legacy estate, this will represent yet a further challenge.

Our own experiences have been telling. Research conducted amongst the customers of one of our clients confirmed 89% would or might value an app, and in response we developed and deployed the first iteration of our savings app in May 2020, built on an open cloud-based architecture. The results so far have been extremely interesting. Already, some clients are finding that over 50% of all log-ins to savings accounts are via their app, and those customers who have downloaded the app are viewing their savings account on average 1.4 times per day compared with once a week via online log-in. This is helping to create greater engagement with those customers than ever before.

The future development of our service will follow the principle of "Mobile First", with continued developments to the app alongside mobile-friendly features and enhancements to the platform as a whole.

We would fully expect other savings providers to pursue a similar course if they haven't already.



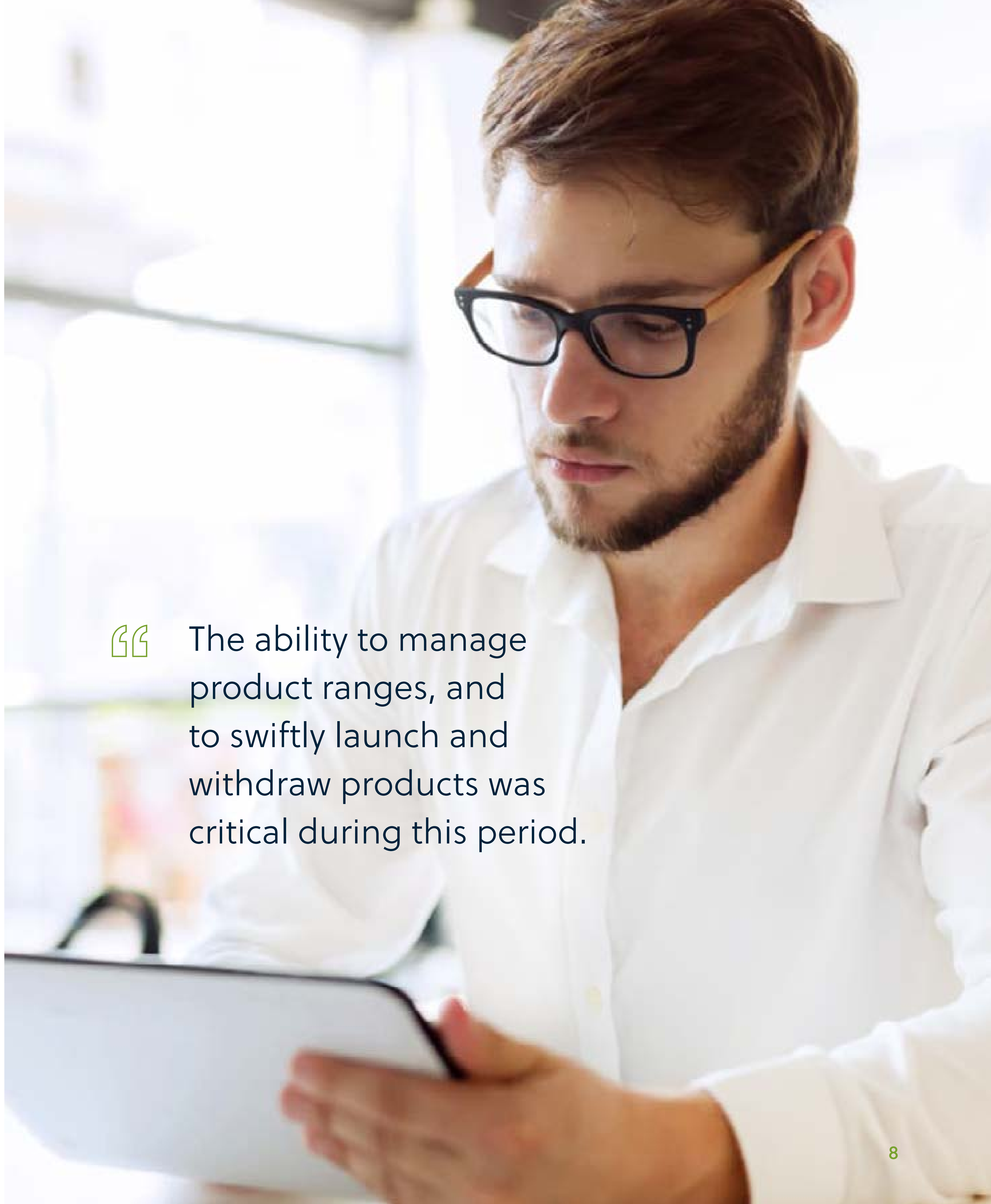
3. Building agile processes to respond to future volatility

Another consideration in reviewing operating models is how providers can flex and scale resource to deal with volatile swings in customer activity, and maintain an agile approach in managing products.

The pandemic presented operational challenges to savings providers with sudden requirements for increased levels of funding, even if temporary, and greater degrees of volatility in customer activity.

In July 2020, in the face of significance increases in public borrowing requirements, the Treasury announced an increase in NS&I's net financing target for 2020/2021 from £6bn to £35bn. Attractive rates to savers were offered to secure that funding which inevitably resulted in high levels of customer interest and pressure on NS&Is service levels. NS&I was perhaps an extreme example, but a number of providers would have experienced challenges in maintaining customer service levels in the face of volatile volumes. Within Solutions we had first-hand experience of this, with record numbers of customer enquiries and account openings.

The ability to manage product ranges, and to swiftly launch and withdraw products was also critical during this period. Fast access to savings deposits remains vital during periods of economic uncertainty. Our agile processes and ability to flex and scale resource was critical to many of our partners during the initial period after lockdown.



Newcastle Strategic Solutions

Step up to the new normal

It has been a period like no other for the savings market, as in the wider finance sector and our lives more generally

All providers, whether existing or new, have had to face up to new challenges which were not there before, or reprioritise areas which previously sat slightly further out on the horizon.

Many existing providers are reviewing their operating model, IT architecture and digital capability to reduce cost and risk, meet changing customer expectations, and enable a more agile response. This may result in providers launching new IT strategies to transform their technology or outsource certain operations, including savings, to suppliers who can deliver those services on their behalf whilst freeing them up and allowing them to concentrate on other aspects of their business.

Given the critical importance of the savings market as a source of funding, it's vital that savings providers are able to find ways to accelerate their strategic roadmaps and adapt to the new norms.

Newcastle Strategic Solutions, a subsidiary of Newcastle Building Society, is the UK's leading provider of savings management services, providing end-to-end outsourcing solutions for a range of financial institutions.

To find out more about how our solutions could help your business adapt and thrive, contact **Steven Marks, Business Development Director.**

newcastlesolutions.co.uk
steven.marks@newcastle.co.uk
Steven Marks