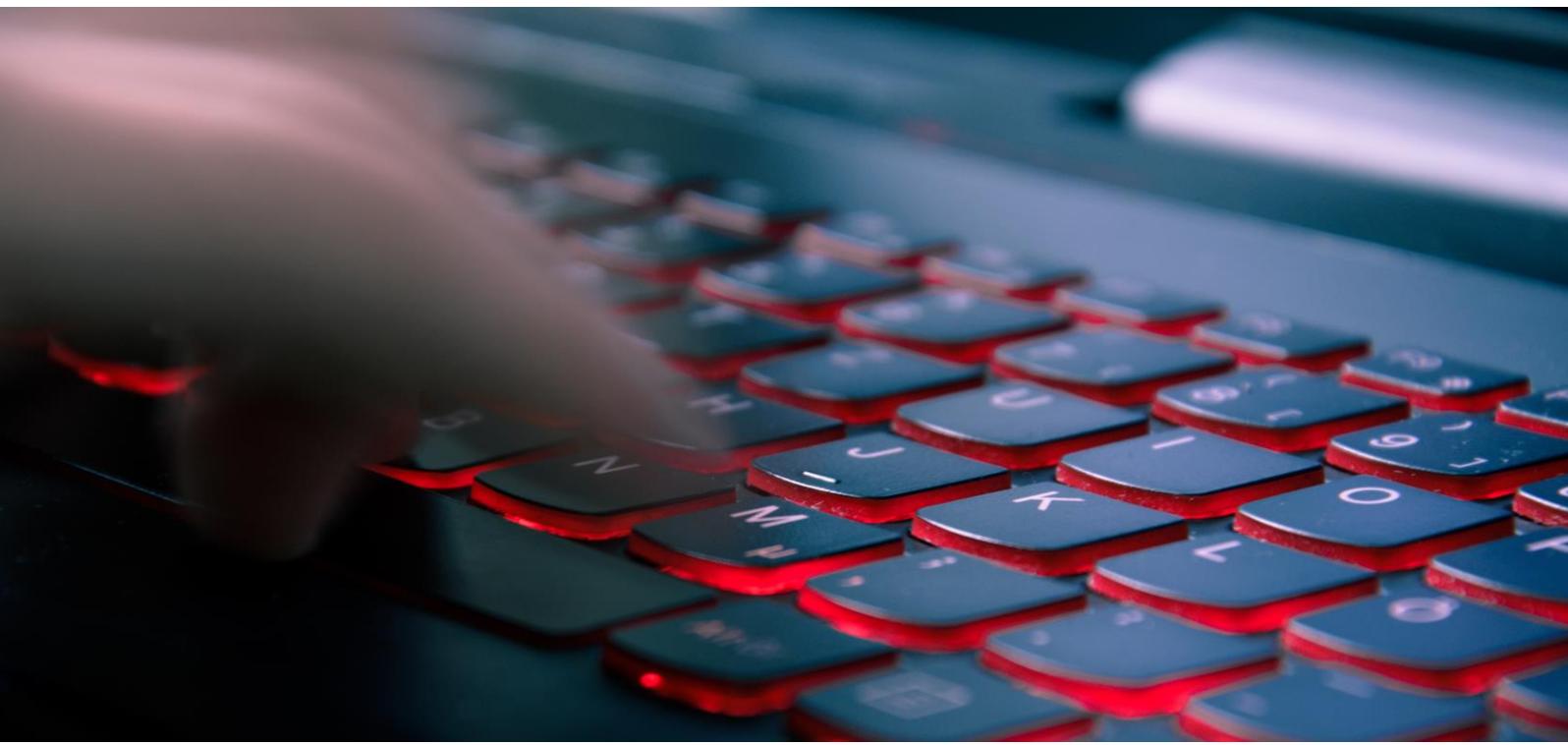


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How does the COVID-19 pandemic accelerate digitalisation?

SBA discussion paper



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How does the COVID-19 pandemic accelerate digitalisation?

Six trends in the Swiss financial sector

During the COVID-19 pandemic, banks in Switzerland have proven that they are capable of adapting their structures and processes quickly and flexibly in order to shift into crisis management mode. The banks have remained accessible at all times to their private and corporate clients via the Internet, by telephone and at their branches, and have continued to provide their services with the accustomed level of quality. They have enabled their employees to work safely from home. The sector has been reliable in fulfilling its economic role and, through the SME loan programme, banks have quickly and pragmatically provided the economy with liquidity. Without the investments into digital capabilities and infrastructure, the banking sector would not have been able to deliver these services at such a scale.

The COVID-19 pandemic has underscored just how important digitalisation is for the Swiss economy, and in particular for its financial sector. The crisis has further sharpened the awareness and behaviour of employees and customers with regards to digital processes and products and increased acceptance thereof. In the future, working remotely on an intermittent basis is likely to become the norm in the financial sector too. The share of cashless payments will further rise. Customer contact via digital channels will progressively become the new normal.

The Swiss federal government's key responsibility lays with creating framework conditions for digital business models that correspond with this new reality (e.g. introduction of a state-verified electronic identity or the adjustment of formal requirements to allow for the use of digital channels) and prioritising the promotion of efficient and secure infrastructure required to this end. For this to succeed, it is essential that banks and the authorities take advantage of both the milestones achieved during the crisis to date and the customer needs arising from the new normal as an opportunity for further digitalising the financial sector and optimising framework conditions in Switzerland.

The structural consequences of the COVID-19 pandemic cannot yet be assessed conclusively. However, a preliminary assessment based on the experience gained to date is useful for drawing initial conclusions about the period that follows the immediate crisis. This paper examines six key trends in the context of currently emerging developments in the sector.

An overview of the six trends

1. **The banks will further increase their speed and scope with regards to developing digital processes without media discontinuity.** The prerequisites are dispensing with digitally incompatible formal requirements, increased utilisation of qualified electronic signatures (QES) and a state-recognised electronic identity (e-ID). In addition, all stakeholders must become familiar with such features.

- 2. Customer demand for financial products and services via digital channels will further increase thanks to the positive experience during the COVID-19 pandemic.** Personal customer service via various channels will remain key. In this context, Swiss banks must succeed in balancing agility and stability jointly with their customers in a way that builds on the latter's trust.
- 3. Payment transactions will become even more diverse and complex in the future.** As a result of innovative technologies, traditional, established forms of payment such as cash will be gradually complemented by alternative types and channels (contactless, P2P, mobile, online).
4. Experience during the lockdown has shown that both operational efficiency and resilience can be improved by enabling people to work remotely. The **trend towards smart working solutions will therefore intensify.**
5. The digitalisation of the economy is further accelerating. **Investments in a high quality and secure digital infrastructure will therefore further increase.** These investments are a vital prerequisite to ensure Switzerland's attractiveness as a business location.
- 6. In the interests of competitiveness and resilience against crises, government agencies will further intensify their efforts related to end-to-end e-capability.** Switzerland must swiftly implement the necessary changes and in doing so, further improve its locational framework conditions.

Digital processes were fundamental for the swift roll-out of the SME loan programme

With the SME loan programme, the Swiss banks together with the authorities and the Swiss National Bank (SNB) swiftly and pragmatically created a system to provide the Swiss economy with liquidity as quickly as possible. Around 10,000 COVID-19 loan agreements were concluded with SMEs during the initial stage of the programme. Even during this challenging period, most Swiss banks could be reached through a number of different channels (digitally, by telephone and in person) – in some cases 24/7. Thanks to an exemption granted by the federal government, banks also processed loan applications over weekends. Over the course of around two months, **from the end of March until the end of May 2020**, a total of 125,000 loan agreements were concluded.

Speed was crucial to ensuring SMEs' liquidity. When announcing the programme, Federal Councillor Ueli Maurer set a processing-time target of 30 minutes. By making the process of application, verification and payment as simple, accessible and above all as digital as possible for the main bank, it was possible to meet this target in many cases. Physical contact with the bank or the client adviser was generally not necessary for the loan application process. Signature verification and loan processing were carried out using the banks' usual systems, which are digitalised to varying degrees. **A number of institutions** used software robots (RPAs), which are expedient in terms of the resources required and the error rate, for the automated processing of loan applications.

To make processing loan applications without media discontinuity possible, the need for a handwritten signature was dispensed with both in the Swiss COVID-19 ordinance on joint and several guarantees as well as in the standard internal bank guidelines. Scanned signatures were permitted for the general terms and conditions between the bank and the loan guarantee cooperatives.

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Communication between the credit programme's key stakeholders (banks, customers, authorities, loan guarantee cooperatives) therefore consisted almost exclusively of e-mails and signed, scanned PDFs.

In order to swiftly roll out the COVID-19 loans, the application process for customers in particular was continuously improved (see box). At the outset, applications were submitted in writing, but this was then quickly supplemented with an online application that had an automated link to the application form. This resulted in loans being granted more swiftly and at the same time reduced the error rate. Within four to five days, several institutes, including Credit Suisse, were able to offer their customers a digital workflow with increased control possibilities for the COVID-19 loans.

Continuous improvements for customers to the application process

- For customers, the most important step in the process is filling out a form (loan agreement for COVID-19 Credit or loan application for COVID-19 Credit Plus) on the easygov.ch website. The form is one A4 page long. The SME is identified and linked to the registers via UID number, which was introduced in 2011. The bank identifies the customer via IBAN number.
- The customer prints out the form, signs it by hand and sends it to the bank via e-mail, post, fax or e-banking. There is no need to submit the original. This step is necessary due to the need of a handwritten signature and therefore results in media discontinuity.
 - In a **first phase**, the form had to be printed and then filled out by hand. In many cases, this resulted in documents that contained errors or were illegible.
 - In a **second phase**, the form was filled out according to a process through which the applicant was led step-by-step (online application with built-in checking mechanisms). This significantly reduced the error rate.
 - In the current **third phase**, the form contains a GUID code (globally unique identifier), which makes it possible to link the data entered in the online application to the signed form. This facilitates application processing for the central office of the loan guarantee cooperatives (PwC).

A **comparison with other countries** (e.g. Germany, the UK, France, Italy) shows that comparable programmes have proven less suitable for quickly providing liquidity to SMEs in distress. The reasons for this include complex, extensive forms, long processing times and the inadequate digital and legal infrastructure of administrations or banks.

Findings

Swiss banks were able to process a very large number of loan applications within a very short time. Three factors were key for this success: digital processes at the main bank, simplified formal requirements when signing the contract and the rapid implementation of possibilities to optimise the credit application process for customers. The decentralised nature of the process via channels that customers are familiar with (especially e-mail), meant that there was no risk of a centralised infrastructure becoming overloaded. Other approaches to supply liquidity (e.g. via tax offices, municipalities, etc.) would likely not have resulted in a similarly positive result.

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The errors and delays that did arise were largely attributable to the issue of media discontinuity during processing. On the customer side, this led to mistakes, while for the banks it resulted in reduced efficiency during processing and signature verification. For the authorities and loan guarantee cooperatives, the media discontinuity led to delays in entering agreements into the database. The use of qualified electronic signatures (QES) together with a state-recognised electronic identity (e-ID) would have reduced the workload for the banks with regards to signature verification.

Trend 1: The banks will further increase their **speed and scope with regards to developing digital processes without media discontinuity**. The prerequisites are dispensing with digitally incompatible formal requirements, increased utilisation of qualified electronic signatures (QES) and a state-recognised electronic identity (e-ID). In addition, all stakeholders must become familiar with such features.

Positive user experience with financial products and services via digital channels increases the pace of digital transformation

Banking is a business based on trust, and Swiss banks enjoy a very high level of customer trust. Personal customer service plays a key role in this. It is very important for many customers, especially in times of crisis, that they have a personal point of contact, particularly in the corporate client business. Many financial institutions closed some of their branches during the crisis and **adjusted** opening hours. An initial **analysis conducted by the Institute of Financial Services Zug (IFZ)** together with the management consultancy zeb, shows that during the first few weeks of the lockdown, all channels examined (telephone, e-banking, mobile banking) were used to a greater degree. Banks with a previously low degree of digital maturity made a greater push to channel their customers into e-banking and mobile banking:

- **Contact by telephone:** Traditional support from client advisers via telephone approximately doubled. The switch between personal face-to-face service at the branch to service via telephone took place seamlessly. In addition, customer service centres also experienced a trend reversal in terms of inbound telephone calls, which until that time had been declining or stagnating.
- **e-banking:** The number of e-banking logins increased by an average of one quarter compared with the same period in the previous year.
- **Mobile banking:** In contrast, the rise in the rate of customer interaction via mobile channels, which was already high before the introduction of the COVID-19 related measures, did not change significantly. The number of logins increased both prior to and during the peak period by an average of 50 percent compared with the previous year.

A significant rise in digital onboarding can also be observed in the area of customer acquisition. During the lockdown phase, some banking institutions recorded the same number of digital onboardings as during the entire previous year. For example, digital account openings at UBS increased by 82 percent compared to the same period last year.

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Findings

The COVID-19 pandemic has further accelerated the pace of the digital transformation in the financial sector. The customer experience with digital financial services, which was made inevitable in the wake of the crisis, has proven to be positive and acceptance of such services has increased. Owing to the good response, many banks have recognised the opportunities provided by increased customer service via digital channels. Through automation, they are aligning internal processes even more closely with customers and their needs. The crisis shows that it is possible to **balance** agility and stability in a process undertaken jointly with customers and that is built on the latter's trust.

Trend 2: Customer demand for financial products and services via digital channels will further increase thanks to their positive experience during the COVID-19 pandemic. Personal customer service via various channels will remain key. In this context, Swiss banks must succeed in balancing agility and stability jointly with their customers in a way that builds on the latter's trust.

Cashless payment transactions in Switzerland take on even greater significance

Compared to other countries, **cash is still used relatively frequently in Switzerland**. Nevertheless, the **share of cash transactions** at stationary points of sale has fallen from around 90 percent to around 43 percent over the past thirty years. In other countries, cash has been largely replaced by other means of payment. The Swedish financial institution Nordea, for example, recently announced that as of summer 2020, it will discontinue all cash transactions at its branches.

Current data on credit card use show that contactless payments, and especially online payments, have increased significantly since the start of the lockdown. In Switzerland, the maximum amount for contactless payments without requiring a PIN was adjusted from CHF 40 to CHF 80. **At UBS**, contactless payments for the stationary retail segment in Switzerland increased by 32 percent in March 2020 compared with the previous year. Another finding is that fewer cash withdrawals were made at cash dispensers: an **analysis by PostFinance** shows that between 16 March and 14 April 2020, there was a decline of around 50 percent compared to the previous year. In absolute amounts, PostFinance customers withdrew CHF 872 million in cash during that period. Compared to the previous year, 64 percent fewer cash transactions were effectuated at its cash dispensers.

Raiffeisenbank and Credit Suisse have also ascertained that cash withdrawals are at a persistently low level. However, changes in consumer behaviour mean that the amounts paid per transaction are significantly higher than usual. For example, at the beginning of the lockdown, the amount paid by card averaged around CHF 300 per transaction. In certain segments (especially in the retail industry), a catch-up effect has been recorded for card sales since the partial easing of lockdown measures on 11 May, following the extended consumption drought.

The payment service provider TWINT also reported a large increase in users during the crisis. **According to information provided by the company**, the number of transactions has increased by 50 percent, and over 11,000 new merchants have been integrated since the beginning of the year. Moreover, the number of new registrations doubled during the COVID-19 pandemic and surpassed the 2.5 million user mark.

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Findings

The importance of cash as a means of payment declined during the crisis. The high level of acceptance of cashless payments during the lockdown creates **further potential** for banks to encourage even more customers to use digital and cashless payment alternatives, e.g. via mobile devices. It has been inevitable that companies further digitalise products, services and processes during the crisis. The boom in online retailing and a strong demand for omnichannel experiences such as “click and collect” intensify the acceleration of cashless payment transactions (e.g. contactless, mobile P2P, QR codes).

Trend 3: Payment transactions will become even more diverse and complex in the future. As a result of innovative technologies, traditional, established forms of payment such as cash will be gradually complemented by alternative types and channels (contactless, P2P, mobile, online).

Smart working solutions will also further increase in the financial sector

According to the Swiss federal government’s Labour Force Survey, 80 percent of bank employees are able to organise their work and work schedules flexibly. This is the highest percentage across all sectors. Since many employees already had experience with working from home before the crisis and banks already had the technical prerequisites in place, the temporary changeover to this form of working was relatively easy. Starting mid-February 2020, many banks reduced the physical presence of employees at the company and introduced team-splitting models. Since 16 March 2020, around 80 per cent of bank employees have been working from home.

Communication with employees and customers was always ensured despite the fact that so many employees worked from home. Process adjustments were implemented quickly and successfully. Many banks, for example, used digital channels to recruit staff on an entirely virtual basis. In order to implement the concrete lockdown requirements, some banks had to make adjustments in terms of the availability of hardware. In a first step, employees were equipped with or upgraded to notebooks. The most common problem thereby was that the Internet connection in many households was inadequate for operating secure connections or conducting virtual meetings without interruptions.

However, not all functions can be carried out remotely, especially those relating to buildings and security, teller services and on-site customer advisory services expressly requested by customers. In some cases, the technical requirements for trading also make it impossible to work from home. Remote access to company networks has considerably increased the scope for cyberattacks. It also poses additional challenges in terms of data integrity. For example, during the lockdown, **there was an international rise in ransomware attacks**, which can prevent system access, of around 148 percent within one month. An increase in phishing, DDoS, and social engineering attacks was also observed. For example, at the beginning of April, 18 million malware or phishing e-mails with a direct link to COVID-19 were registered daily. Banks are aware of such risks and therefore invest resources and expertise in their cyber defence.

Findings

Despite the very short lead time prior to the lockdown, banks in Switzerland were very quickly ready for the almost complete changeover to home office operations. They managed to provide their services at all times with the accustomed level of quality. To avoid uncertainties with regards to adhering to the stringent security requirements and labour laws that arise from the circumstances specific to home offices and other mobile forms of work, appropriate internal bank guidelines are needed (e.g. data protection, security, financial compensation for the infrastructure at home). The trust of customers must be upheld, and employee needs must be met at all times. When developing emergency plans and measures, employers and employees should talk in-depth about their views on various issues. For example, how should employees react if business comes to a complete standstill while they work from home, if sensitive data is disseminated or if they no longer have access to their data? Working from home has also highlighted the dependence on cross-border workers and the importance of confidential cross-border access to bank data. In addition to technologically safeguarding data confidentiality, questions around how to meet regulatory requirements in securing data traffic in cross-border, mobile forms of working needs further examination. To ensure a seamless, fully mobile work environment, a data policy is needed that is designed as part of a social decision-making process and is viable for the future. The cyber-resilience of modern forms of work and communication is vital for operational security. Any future technological concepts and corresponding infrastructures should take such aspects into account using the experience gained during the crisis. Damages caused by such attacks can be mitigated by insuring against cyber risks.

Trend 4: Experience during the lockdown has shown that both operational efficiency and resilience can be improved by enabling people to work remotely. The **trend towards smart working solutions will therefore intensify.**

There can be no seminal data economy without a high-performance digital infrastructure

The operational measures to ensure compliance with hygiene rules have led to a massive increase in data flows. According to **DE-CIX**, data traffic rose by up to 50 percent within seven days at the beginning of the crisis as a result of video conferences. Due to the home office model, there was an increase in both the use of electronic means of communication for business purposes and in private data volumes. The daily peak load at **SwissIX** rose by around 50 percent compared to the previous year.

Overall, however, the network infrastructure remained stable and largely fulfilled its function despite the massive rise in demand. Isolated bottlenecks initially occurred at the interconnection points when calls were made from one network to another. However, telecom operators very quickly increased capacity. Two brief blackouts during the crisis demonstrated the systemic importance of a stable electricity supply at all times.

Banks are aware of the importance of a functioning digital infrastructure. Their systems performed well in the "crisis stress test". Where minor disruptions occurred, e.g. during virtual conferences, the weaknesses were mostly at the endpoint, or in other words, with video conference participants or employees working from home.

Findings

Good, stable data connections and a first-class power grid are fundamental prerequisites for an innovative and flexible economy. Digital-friendly framework conditions and measures that enable the further development of technical solutions for the continued strong rise in data traffic are therefore all the more crucial. The nationwide introduction of 5G is of key importance in this area. The crisis shows that it is necessary to prioritise network stability as a criterion when issuing licences. Private sector and government investments in technology and business continuity measures have paid off during the crisis in the form of flexibility and stability. Resource-saving protocols such as SCION (Scalability, Control and Isolation On Next-Generation Networks) and expanding the infrastructure for future technologies should therefore be promoted. The government must strengthen confidence in such technological innovations, also by actively making use of them, and thereby increase Switzerland's attractiveness as a location for business. The banks' infrastructures functioned smoothly, even under difficult conditions. However, some clarification is needed with regard to home office end points; and related to customers, with regard to technical handling, questions surrounding the protection of privacy and the prevention of cyber risks. Of key importance for the entire financial centre is the rapid establishment of the National Cyber Security Centre and the implementation of industry-wide crisis management exercises.

Trend 5: The digitalisation of the economy is further accelerating. **Investments in a high quality and secure digital infrastructure will therefore further increase.** These investments are a vital prerequisite to ensure Switzerland's attractiveness as a business location.

e-government services are an important pillar for Switzerland's attractiveness to business

While the private sector quickly found creative solutions to overcome fragmentation and ensure adherence to the hygiene requirements, various state bodies experienced interruptions. For example, Parliament had to halt its activities during its spring session. The various courts in the country were forced to partially suspend hearings that were already underway and extend deadlines. It took weeks before parliamentary commissions were able to conduct their business again by using video conferencing. Ultimately, under observance of the distancing rules, Parliament was able to reconvene. The judiciary has since also found digital solutions to ensure proceedings can be conducted.

The Federal Council's eGovernment Strategy Switzerland 2020-2023 has been in effect since January 2020. The core element thereof is the strategic objective of making digital channels the first choice when contacting the public administration. One outcome of the eGovernment Strategy is the Swiss Federal Council's bill of May 2020 on the complete digitalisation of tax procedures without any media discontinuity and the increased collaboration of the federal government, cantons, cities and municipalities in the area of "digital administration".

In May 2020, the Swiss Federal Council commissioned reports on **political participation** and **cloud services** with the aim of advancing digitalised processes within the public administration and Parliament, and making the systems more resilient. In the context of public services, one particular focus is the possibility for citizens to have their identity confirmed at any time via digital channels. The popular vote on the referendum against the federal act on electronic identity is as yet to be held.

Findings

Digital solutions can increase resilience to crises. In the event of a crisis, the public, the private sector and the administration must be able to switch over to e-mode at any time. However, the conditions in place when using public services and for political decision-making via digital channels are currently inadequate. “Digital first” is key for the private sector in order to meet rapidly changing customer needs, but the government also needs efficient structures. The Swiss Federal Council’s eGovernment strategy therefore takes the right approach, especially in terms of its scope of application for the various levels of government. The rapid and end-to-end implementation of the strategy is pivotal for Switzerland’s competitiveness and resilience against future crises. The restricted mobility during the crisis has underscored the fact that it is essential for the security of citizens that for digital services, they are able to confirm their identity securely on the Internet at all times. The introduction of an electronic identity (e-ID) on the basis of the Swiss Federal Act on Electronic Identification Services (eID Act) is therefore of central importance. The referendum against the eID Act should thus be rejected. In order to be able to guarantee the changeover to e-mode at any given point, work such as that on facilitating digital tax procedures without media discontinuity must be accelerated and extended to all public services (e.g. an e-commercial register).

Trend 6: In the interests of competitiveness and resilience against crises, government agencies will further intensify their efforts related **to end-to-end e-capability**. Switzerland must swiftly implement the necessary changes and in doing so, further improve its locational framework conditions.

Conclusion

Digitalisation can increase the resilience of the Swiss economy and financial sector against crises. “Digital first” is increasingly the strategy required in order to address changing customer needs and intensifying competition. Banks are therefore well advised to make further inroads with their strategies, internal processes and cultural transformation. Not only the financial sector, but also the authorities, must further optimise the framework conditions. This is the only way to ensure that Switzerland will remain an attractive and competitive financial centre in the future.

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Are you interested in this topic and have an opinion on it? Our experts look forward to hearing your thoughts and would be happy to exchange views with you.

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