White paper

Rapid economic downturn response

Focus areas to organize your battle plan

INTRODUCTION

Though likely, the official entrance of a recession is still uncertain. What is certain is a new level of market volatility resulting from the COVID-19 global pandemic. While recession planning has been an initiative for organizations and financial institutions over the recent past – for some more than others – now is the time to act on contingency plans. If organizations don't have plans already instated, the time is now to build out strategies for times of stress.

The economic effects of the global pandemic are affecting consumers and businesses of all sizes. Unemployment rates and working hours for the employed reduced resulting in dramatic declines in spending, an erosion in consumer confidence, and an overall reduction in trust of business and the economy. All of these impacts resulting from this crisis require an agile and quick response. Organizations will be challenged with endless decisions to make in response to actions taken by the government and changes in consumer behaviors.

How do businesses retain their best customers while keeping a balanced eye on the bottom line?

With the current economic environment in flux – and arguably not at all similar to the Great Recession of 2008 or disasters in recent history – there is a quintessential need to understand the current environment including what macro-economic signals to look for, and the impact of major changes in technology and consumer behavior over the last few years. While much is uncertain, **key themes – like risk, compliance and consumer credit reporting – drive necessary next steps to best weather the storm**.

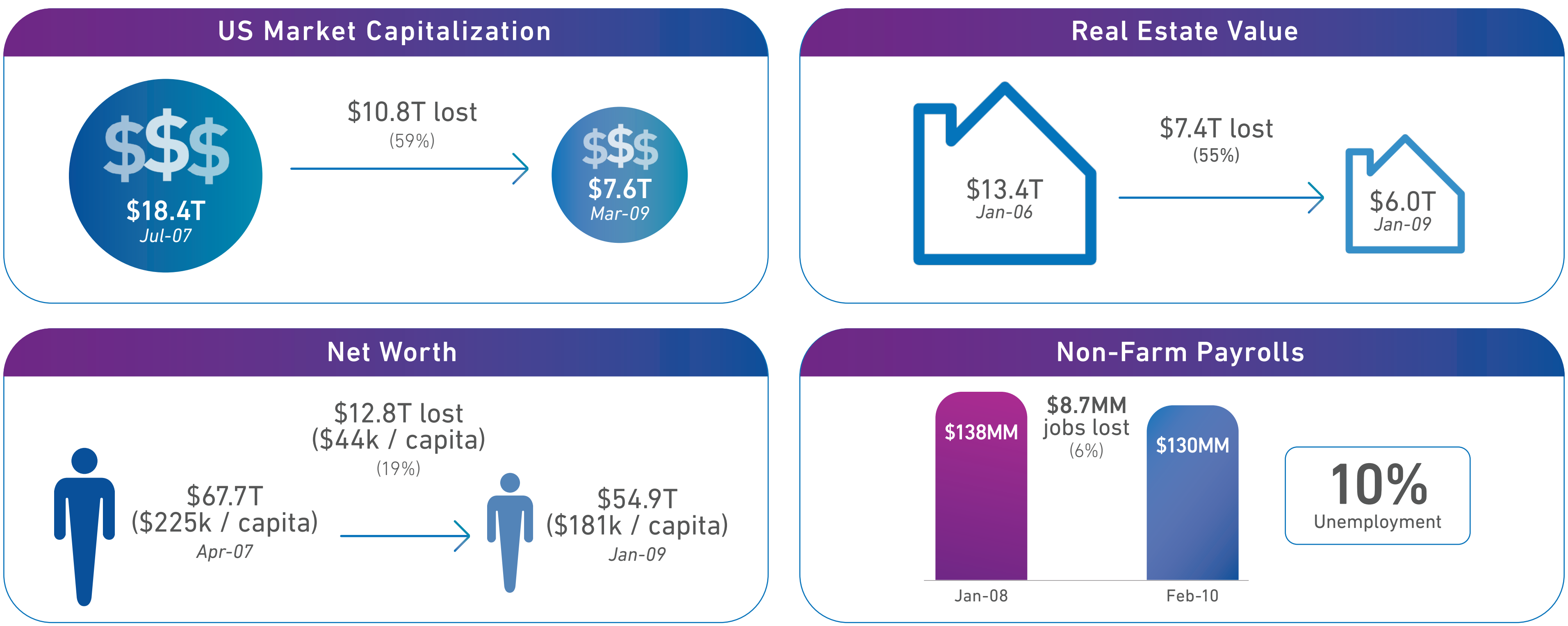
UNPRECEDENTED TIMES

Now is a time characterized by an unpredictable market. As quickly as the COVID-19 virus has spread, a boastful economy posting year over year growth has turned. As employee safety has come to the forefront and “flattening the curve” assigned as a national initiative, we’re embracing a new world.

But beyond business continuity plans, *what comes next*? The recession that many industry experts had deemed long overdue, appears to be imminent. However, it is not as expected.

The Coronavirus Recession will look different than the Great Recession of 2008

What we learned from 2008: Americans were hit heavily



Source: Bloomberg, Federal Reserve Bank of St. Louis, US Census Bureau, Morgan Stanley

A COUNTER CYCLICAL REALITY

Historically, we know a counter-cycle economy features a contraction in economic activity, when an indicator and the economy move in opposite directions. Profits decline and credit is scarce for all economic factors. Monetary policy becomes more accommodative and inventories gradually fall despite low sales levels, setting up for the next recovery. *What does this mean?*

With such a correction – and one as dramatic as the one we are experiencing – comes a change in priorities for lenders and financial institutions. Originations will likely go down, as will associated marketing and acquisition tools like prescreen. Growth strategies are traded in for cost containment.

STRATEGIES FOR RIGHT NOW

As frequently as we've heard the words "unprecedented" and "unknown," there's also been a consensus of settling into a new normal. As we've seen with recessions past, settling is the last thing companies–whether financial institutions or not – can do. Those organizations that have shown agility and strategy in how they adjust to the changing environment – leveraging data, analytics and technology – can come out stronger than they entered the downturn.

As organizations and financial institutions brace for an economic downturn, here are some key focus areas to create strategies around.

Reducing and mitigating risk

Credit risk

With the volatile market conditions, consumer behavior will be affected, making it difficult for lenders to determine true creditworthiness. Due to reduced cashflow, layoffs/furloughs and other financial strains created by the economic fall-out from the virus, consumers may start showing signs of financial and/or credit risk. Consumer payment priority may change as well, leading to a need for resources to accurately segment credit risk and stress versus consumers strategically defaulting or loan stacking. Segmentation and loss provisioning are both essential parts to a rapid response. Businesses will seek to cut costs, reduce prices, postpone new investments and reduce marketing expenditures.

Fraud risk

Fraud attacks will likely be on the rise. With more transactions shifted online, a spike is expected in first party fraud and synthetic identity fraud. Staying ahead of new fraud schemes is critical as is awareness and monitoring of organizations' increased risk exposure. **Do you know that your customers are really who they say they are?**

The push towards digital requires heightened protection for all organizations. Account takeover and log in schemes (such as phishing) are also likely to increase in the face of a recession. Better analytics and identity services are critical to keeping fraudsters out.

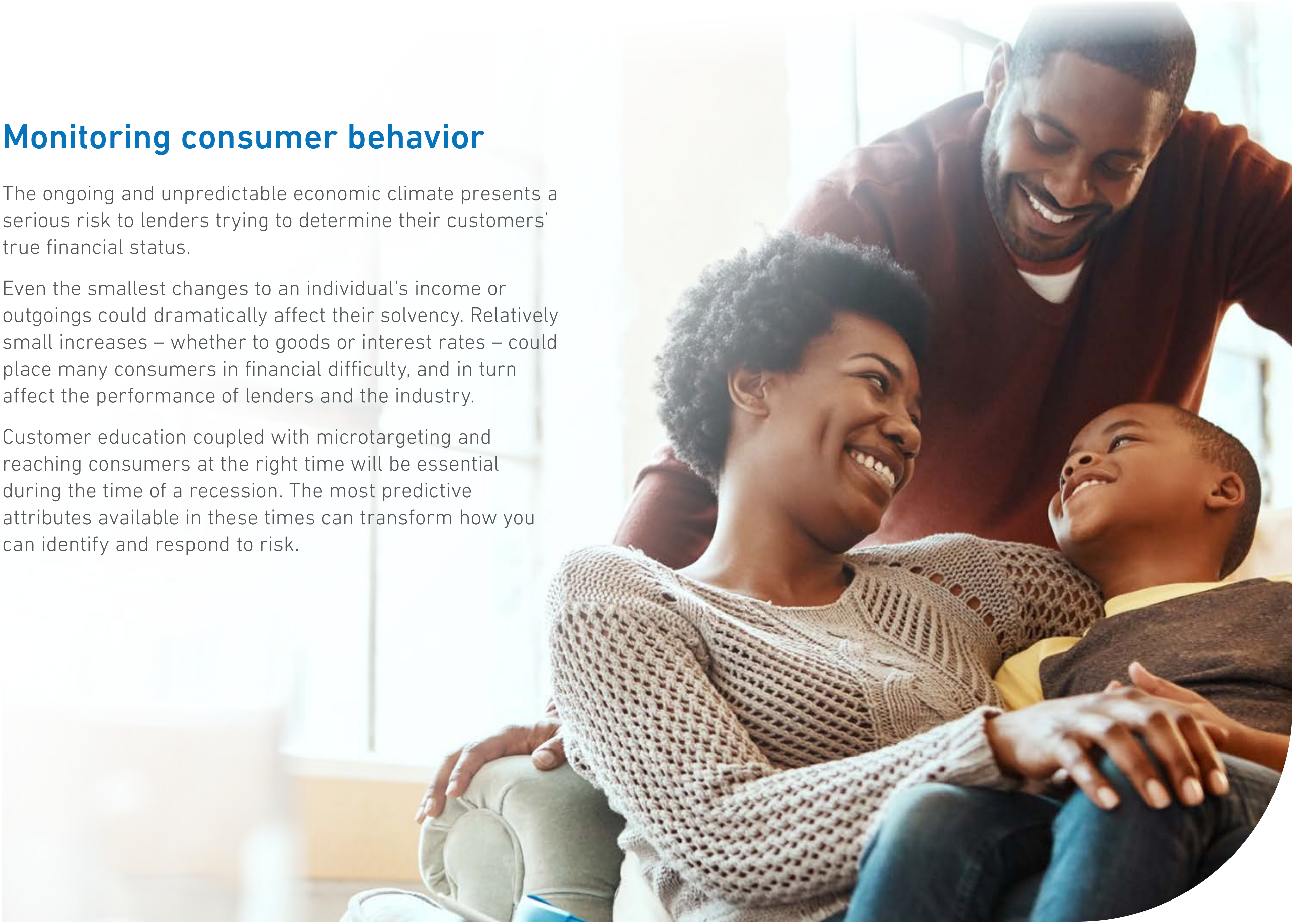
Challenges will include eligibility and identity proofing via new online portals as well as fraud prevention and detection. As fraudsters continue to increase and innovate, organizations must stay on top of the issue and protect their customers and consumers who need the benefits of these intended relief programs.

Monitoring consumer behavior

The ongoing and unpredictable economic climate presents a serious risk to lenders trying to determine their customers' true financial status.

Even the smallest changes to an individual's income or outgoings could dramatically affect their solvency. Relatively small increases – whether to goods or interest rates – could place many consumers in financial difficulty, and in turn affect the performance of lenders and the industry.

Customer education coupled with microtargeting and reaching consumers at the right time will be essential during the time of a recession. The most predictive attributes available in these times can transform how you can identify and respond to risk.

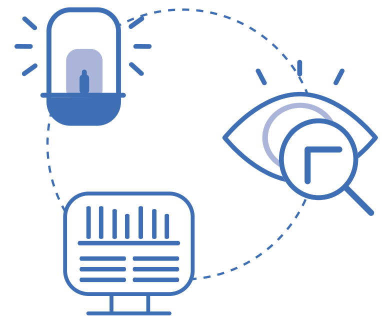


Credit bureau reporting & compliance

As with past major national disasters, there will be impacts to credit reporting and processes – specifically in regards to delinquency reporting and requests for payment. Organizations will need to be adaptable and agile. New credit reporting guidelines, legislation and concerns will all be at play. In an already constantly shifting regulatory environment, financial institutions and organizations are likely to see increased pressure. Stress testing can be used to run scenarios and understand impacts.

Addressing operational challenges tactically

Account management

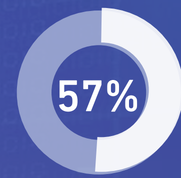


Similar to the frontlines, financial institutions and organizations will need to have effective portfolio management strategies in place in order to limit negative implications of an economic downturn. **Stress testing gives visibility into how your portfolio will perform under different circumstances, including in the tumultuous economic environment of a recession.** The ability to identify how portfolios will perform can help financial institutions determine how to go about a plan of action — while carefully considering the customer experience.

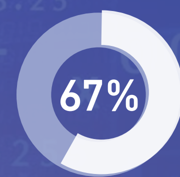
Lenders need to actively monitor accounts in their portfolio, and stay on top of day to day changes that may provide either an opportunity to retain a valuable customer, or a way to avoid nearly certain risk. Alternative financial data sources and trended data can provide new opportunities to signal early warning signs or offer help to the most creditworthy customers. Financial institutions can begin segmenting customers and collection cases (or potential collection cases) initially by exposure, risk and behavioral dimensions — along with capacity and willingness to pay, preferred contact method and preferred channels of intention. **This much more differentiated and tailored approach will ensure that resources across the portfolio are allocated in the best way possible, significantly reducing inefficiencies for the financial institution.**

Embracing and enhancing the digital experience

Limited in-person interaction means less visits to brick-and-mortar branches, as well as increased digital banking and online shopping. As already evident by consumer preferences, digital channels are king when it comes to communication. As such, digital identity verification to keep up with account opening and digital banking services is a key priority for financial institutions. A mainstay in financial institutions, Know Your Customer (KYC) will be more in play than ever, for both consumers - and their devices - as well the need to maintain compliance in the digital space.



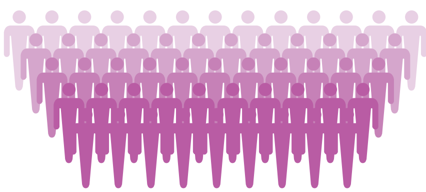
of businesses consider the use of advanced analytics to be important for identifying customers.



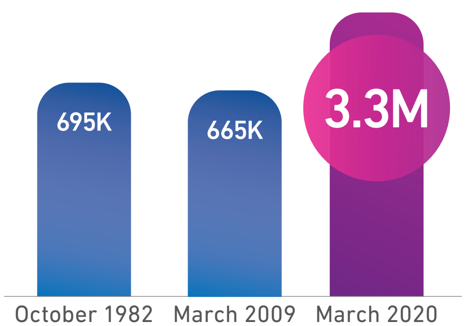
of businesses consider the use of advanced analytics, like AI, to be important for fraud prevention.

2020 Global Identity & Fraud Report

112 million+



Americans said they do not have enough savings to cover three months of living expenses, according to a survey conducted by the Center for Financial Services Innovation (CFSI).



Source: Labor Department Report

Couple that with the complete loss of income for many Americans – a record high of over 3 million Americans reported jobless in March 2020 – and we're facing an inevitable case of an increase in delinquencies, collections and charge offs.

Analytics-based customer segmentation is at the center of the next-generation collection model. This model allows lenders to move away from decision-making based on static classifications, whether these are standard delinquency stages or simple risk scores.

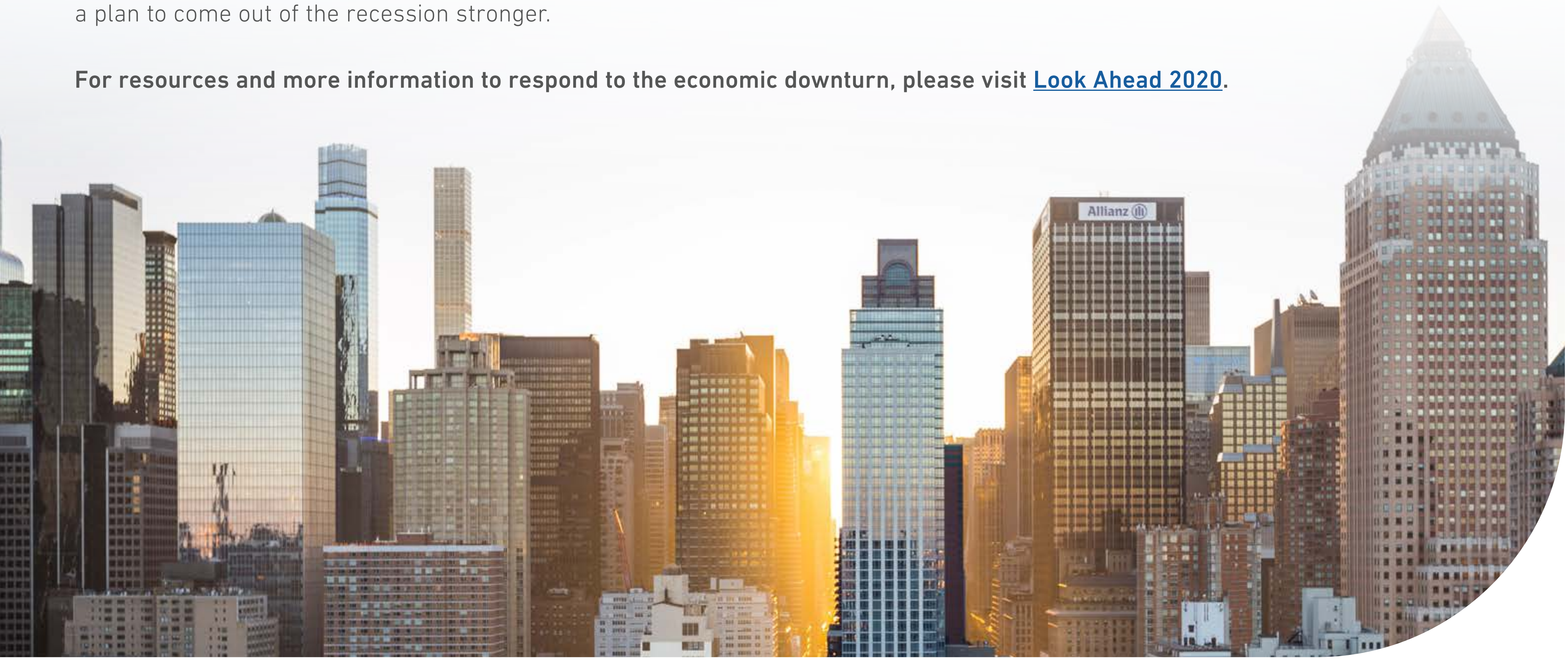
However, no matter how sophisticated the implemented strategies or treatments, many lenders struggle with a foundational element – quality of data in the form of basic contact information. Financial institutions must place priority on correcting their data deficiencies with a robust data management strategy for what many are likely to see as increased needs of collections in the near-term.

CONCLUSION

Though we are at a time of economic uncertainty, taking a strategic approach now will be for the betterment of financial institutions and their customers. Loss provisioning and mitigating risk have increasing urgency to keep fraudsters at bay. Consumer behavior will change but with careful monitoring can provide opportunities for financial institutions as the industry rides out this economic wave. Additionally, managing reporting needs and compliance, and addressing key operational challenges will help steady financial institutions in the immediate future.

A rapid – and appropriately aggressive – response requires both swiftness of implementation and attention to detail in the right places. Streamlining your focus enables your organization to action quicker, more accurately and set into motion a plan to come out of the recession stronger.

For resources and more information to respond to the economic downturn, please visit Look Ahead 2020.



Experian
475 Anton Blvd.
Costa Mesa, CA 92626
T: 1 855 339 3990
www.experian.com