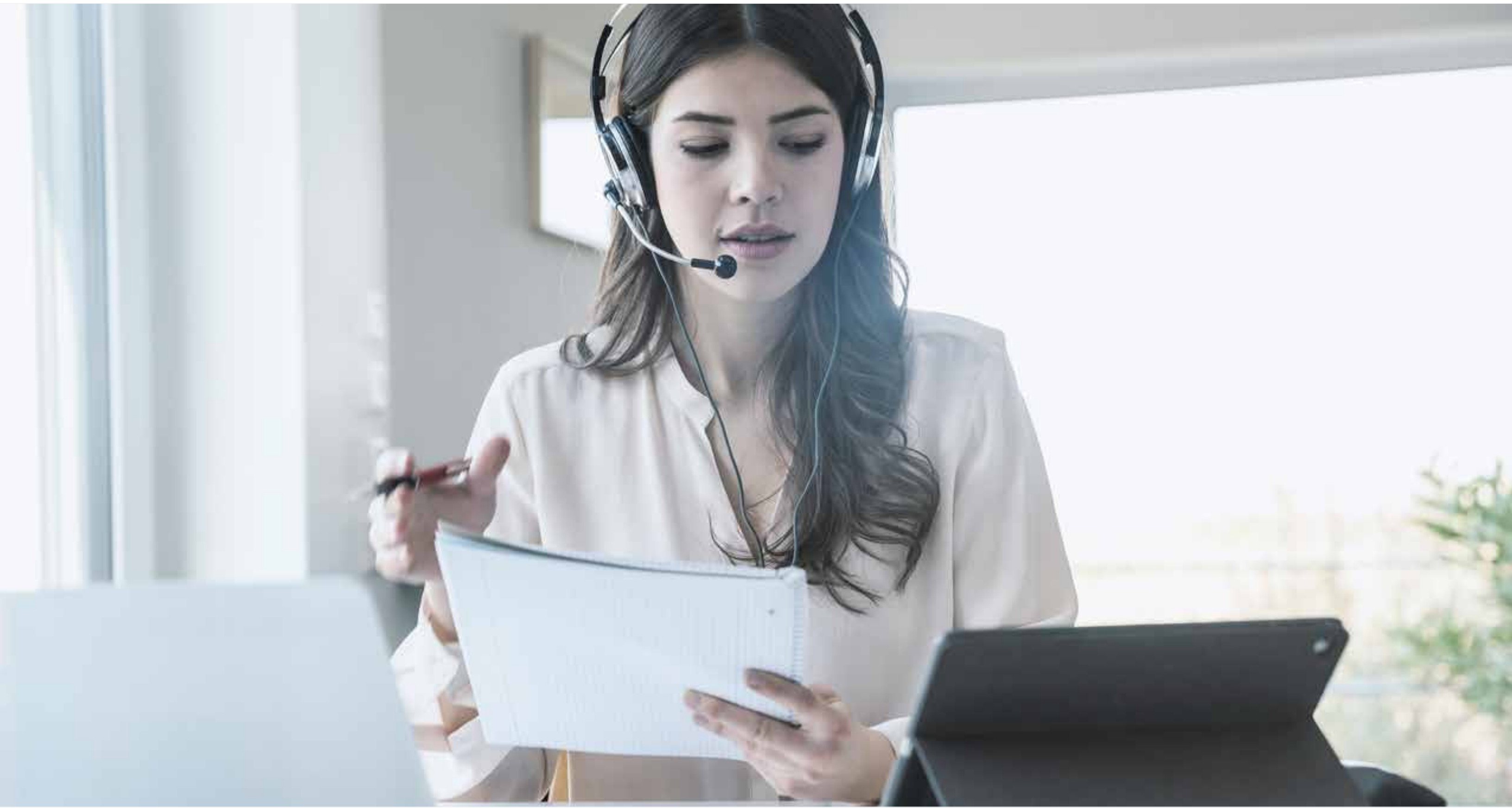
McKinsey & Company

Global Banking Practice

Addressing the needs of customers in delinquency impacted by the coronavirus

As banks respond to disruptions in their operations, they can plan their credit risk management strategies around three customer-centric best practices.

by Ademar Bandeira, Bruno Batista, Adelmo Felipe, Matt Higginson, Frédéric Jacques, Frederico Sant'Anna, Alexandre Sawaya



March 2020

People across the globe are feeling the effects of the ever-evolving coronavirus crisis. Indeed, as of March 19, the World Health Organization has reported more than 200,000 confirmed cases, with more than 9,000 cases in the Americas. By most forecasts, the Americas are only beginning to see of the spread of the virus, and businesses are already scrambling to best support both their customers and employees. Banks' functions appear vulnerable to disruption, with many institutions starting to shutter major operations centers and implement remote-working practices and partial staff furloughs.

One aspect of bank operations seems especially vulnerable: retail credit risk management. A sharp economic slowdown and an equally sudden interruption to core banking functions, including call centers, pose a double threat to effective retail collections operations. The inability to effectively help delinquent customers and service debt poses real operational and economic risks.

In this article we describe three steps lenders can take to best assist customers during this humanitarian crisis and attendant economic hardship. We also discuss ways to modify current credit risk management strategies and adjust staff working practices to a new normal following the pandemic outbreak. Our perspectives are based on our experience supporting executives over recent weeks, including in infection hotspots across Asia and Italy, as well as managing collections during previous crises.

Help your customers

Customers will experience the impact of COVID-19 on multiple levels. In the short term, a significant percentage of people will likely be directly affected by the virus, either through their own health or that of a loved one. Even for those who are not infected by the virus, widespread lockdowns and other social curbs may already be preventing them from earning their regular income and curtailing physical interaction with their bank through an abundance of caution.

In the medium to longer term, employees of industries hardest hit by the pandemic—such as oil, retail, and travel—may face prolonged unemployment and economic hardship. Several highly populated US states are already reporting more unemployment applications in the first two days after the crisis intensified on March 16 than they would expect in a typical month, and US Secretary of the Treasury Steven Mnuchin warned the unemployment rate could spike to up to 20 percent from its current level of 3.5 percent. Meanwhile, the US Travel Association forecasts nearly five million travel jobs will be lost in 2020, which alone would nearly double the US unemployment rate. Although countries in Central and South America have lower exposure to Asian supply chains than the United States, they are facing substantial capital market uncertainty due to oil demand shocks, financial market volatility, and possibly decreasing business investments. University and think tank FGV estimates at least 100,000 people in Brazil will be newly unemployed at current GDP projections.

At such times, it is critical for banks to prioritize the welfare of their customers. For those in debt or facing delinquency on their borrowing, it is the lender's responsibility to provide short-term relief from debt payments for those in need while making payments as simple and frictionless as possible for those who can afford them. We have already seen retail banks and several Latin American and US auto lenders offer borrowers temporary suspension of payment obligations ("payment holidays") while suspending repossessions, interest and late fees, and offsets.

We recommend that lenders provide a range of both short- and long-term, socially responsible solutions to customers in debt or facing hardship. Lenders should activate programs for deferring payments, interest relief, and automated restructuring plans while also communicating details of organizations offering consumer guidance and debt relief. In recent times we have seen lenders launch programs for customers affected by natural disasters—such as fire, flooding, or hurricanes—including at the postal-code level for especially vulnerable communities. While every US state and most Latin American countries have reported cases of COVID-19 infection, certain states and metropolitan areas have been and will be hit harder economically (for example, cities that are heavily dependent on the oil industry, such as Houston, or major airline hubs such as Atlanta, Chicago, Rio de Janeiro, and São Paulo).

In addition, early signs from China suggest the novel coronavirus may be catalyzing a predictable yet widespread shift away from brick-and-mortar banking to digital channels. Lenders must follow this trend for customers in debt, rapidly activating digital channels for communication, self-service, and payment. Now is an opportune time to mimic—and arguably improve upon—the customer experience received through interactions with a call-center employee via online channels, multiple payment options and debt-relief solutions, and customer education on financial well-being.

Above all, lenders must prioritize outreach and communication with concerned customers. Offering empathy and genuine caring not only strengthens the customer relationship but also demonstrates a commitment to customers' long-term well-being. Customers will welcome such a commitment as reassuring and potentially even refreshing at a time of extreme uncertainty.

Care for your employees

We have already seen many financial institutions quickly introduce remote-working arrangements and establish the underlying infrastructure for beyond the short term. The high transmissivity of the open, high-density environment of call centers, such as those required for effective collections, poses a particular challenge because supporting effective remote operations requires wholesale changes to working practices. Supporting staff welfare, such as by communicating well with and reassuring staff while encouraging real-time connectivity, is especially important.

For many employees, remote working requires little more than a laptop, adequate bandwidth, and robust authentication methods. But for call centers to help customers in financial distress, lenders face the additional challenges of providing coordinated telephony (dialer) services, secure access to account information, and the protection of sensitive and confidential customer information such as payment details. Supporting remote work may require banks to migrate from a physical to a virtual dialer and provide additional physical devices

Take urgent action to demonstrate commitment to helping customers

Actively overcommunicate

— Communicate frequently and clearly with customers, demonstrating empathy and a shared sense of impact and response to the evolving crisis

— Set expectations for service-provision levels, assistance with debt, and likely outcomes

— Acknowledge the personal and economic hardship caused by the pandemic, and reassure customers of the commitment to finding sustainable solutions

Provide immediate debt relief

— Offer short-term payment relief via additional payment channels

— Activate socially responsible collections programs (such as deferred or restructured payments, or interest relief)

— Provide tailored customer solutions at city, state, or postal-code level

— Activate digital channels for customer communications and self-service

— Prioritize proactive outreach, with public advisory and welfare messaging

Safeguard employees' safety

Humanize work relations

- Communicate frequently and clearly with employees, set expectations, and be sincere in recognizing concerns and supporting their well-being
- Promote and encourage remote work versus face-to-face meetings, especially for any high-risk groups; eliminate large in-person employee meetings (such as conferences or events)
- Consider changing sick- or personal-leave policies, offering flexibility for employees to care for ill or vulnerable friends and relatives, or organizing child-care services

Ensure a safe workplace

- If employees cannot work remotely, reinforce principles of social distancing, promote heightened cleanliness, and ensure availability of hygiene products in the workplace
- Involve the health insurance provider in planning and implementing different prevention or containment scenarios (such as primary care and testing at home, instead of hospitals)
- Continuously review and update policies to prevent further spread of COVID-19 infections (via home offices or travel restrictions), prioritizing employee welfare over financial considerations

such as imaged laptops, monitors, and headsets. Banks may also have to offer training on compliant handling of personally identifiable information and maintaining strict information security while working remotely.

For staff, remote working also presents challenges to regular communication, team coordination, and management. It is especially important for managers to schedule regular touchpoints with their team members, such as video conferences ("virtual huddles") at the start and end of each day, and experiment with ways of providing remote coaching and feedback (for example, through call listening, video feedback, and instant-messaging channels). Staff are likely to be nervous, unaccustomed to working alone, and unsure about how long the arrangements will continue. Therefore, clear and regular communications with all staff are critical. To the extent possible, current performance-management programs (such as scorecards and feedback) should be maintained to demonstrate the ongoing commitment to excellent standards of customer service, though targets will likely need to be modified to reflect the changed priorities and working conditions.

Where remote working is not an option, or employees voluntarily voluntarily still choose to work on site, employers should practice responsible social distancing and take care to reduce the density of workspaces, deliberately increasing the physical space between employees to at least six feet (two meters). Having on-site staff may require regularly cleaning an office space; however, this may cause workflow interruptions and result in a shifting call-center contact strategy—for example, to limit the number of employees available at any one time to help customers. Equally, this change in availability will require refreshed customer segmentation to ensure that help is prioritized for those who need it most. Above all, it should be impressed on employees that their safety is of primary concern, any working arrangements are entirely voluntary and, to the extent possible, their job security does not depend on such choices.

Modify your strategy

Our experience in times of financial stress suggests that lenders should rapidly modify their credit strategy, both to manage exposure and ensure the effectiveness of providing support and solutions to customers in delinquency. In the face of economic uncertainty, many lenders are already undertaking active portfolio and balance-sheet management, selling underperforming assets, and reducing their portfolio-risk exposure. Furthermore, many lenders have been reviewing and updating their downturn-readiness playbooks and are well positioned to act now.

Healthy credit-line management is important at times of economic stress, not only to reduce banks' risk exposure but also to signal the need for responsible budget management to customers. An effective early warning system (EWS) will detect customers showing signs of distress—for example, rapid increases in revolving balances, reduced monthly payments, unusual spending behavior, and sudden deterioration of credit score. Effective EWS signals can trigger policies to manage credit lines and thereby exposure. But lenders may want to become more proactive, too, anticipating instances in which increasing or decreasing lines can help customers and initiating outreach campaigns that can demonstrate genuine concern for their financial well-being. Similarly, offering short-term forbearance solutions and other loan modifications, guidance on more appropriate or advantageous products (such as consolidation loans), and effective budgeting tools can lead to better customer outcomes and faster recovery.

Collections strategy will also need to change at an operational level. As centralized collections operations shutter, automated nonhuman messaging (for example, voicemails and digital messaging) can be introduced in place of human outbound calling to limit interruption of day-to-day customer contact. Effective account analytics and segmentation will be essential to tailor the contact strategy to customer preferences and identify opportunities to accelerate assistance for distressed customers. For example, predicting the behavior of customers falling delinquent for the first time can be especially challenging. In many instances such models have not been tested under such difficult conditions and may need to be adapted to new and evolving circumstances.

Develop strategies to manage credit-risk exposure

Safeguard for crisis escalation

- Increase sensitivity to early warning systems to trigger active credit-line management
- Offer short-term forbearance solutions and other loan modifications, guidance on alternative products, and broader financial education
- Build and pilot a contingency strategy based on digital or automated channels to run operations in case call center capacity is depleted by more than 50 percent

Design and deploy strategies

- Initiate implementation road map for contingency strategies with activation triggers and measurable performance indicators
- Build renegotiation products with deferred payments and fee waivers, targeting specific high-risk customers
- Design customer service contingency plans that consider substituting agents with robocalls, interactive voice response systems, and digital-first contact channels managed by geographically separate teams

Take preventative steps to minimize operational disruption

Social distancing

- Educate agents to greet without touching
- Intensify good hygiene during shift changes
- Increase the number of cleaning teams by at least 30 percent
- Deep clean work stations between shifts
- Ensure each operator has a unique headset
- Install hand sanitizer dispensers

Workforce preservation

- Eliminate overlapping shifts in call centers
- Check employees' health on each shift
- Stagger work breaks in waves of fewer than ten people
- Accelerate establishing home-office solutions
- Immediately report any new COVID-19 exposure
- Cancel all in-person training and onboarding

Workplace continuity

- Test contingency plans of all third parties
- Guarantee suppliers have alternative sites
- Set up contracts for using a nonhuman contact channel
- Ensure call centers have spare robocall and interactive voice response licenses

Historically, as credit losses rise, there has often been a scramble to increase servicing capacity, both in-house and through third-party agencies. However, third parties are facing similar capacity challenges during the spread of COVID-19, and hiring and training employees during a pandemic would be especially difficult. Instead, to ensure that customers in need are receiving maximum assistance, some banks might choose to retrain staff (for example, offering digital training for early-stage collectors) or redeploy employees from other roles at the call center or branches.

Lenders typically struggle in recessions to balance the need to limit credit risk while providing sufficient credit to customers to survive personal financial hardship. In the case of the spread of COVID-19, the challenge is especially acute due to the physical constraints banks face when serving customers in need.

Choosing the right path for both the short and long term can be tough. In this instance, the guiding principle is clear: banks should care for customers and employees in a sustainable way first and foremost. By immediately offering short-term hardship arrangements and activating remote-working models with necessary precautions, banks can limit their risk exposure. Whether the economic impact of COVID-19 is a short, sharp shock to people's everyday lives or leads to longer-term stress on the financial system, how individual banks react and care for customers and staff will be remembered for years to come.

Ademar Bandeira and **Adelmo Felipe** are associate partners in McKinsey's São Paulo office, where **Bruno Batista** is a partner, **Frederico Sant'Anna** is a consultant, and **Alexandre Sawaya** is a senior partner. **Matt Higginson** is a partner in the Boston office, and **Frédéric Jacques** is a partner in the Montréal office.