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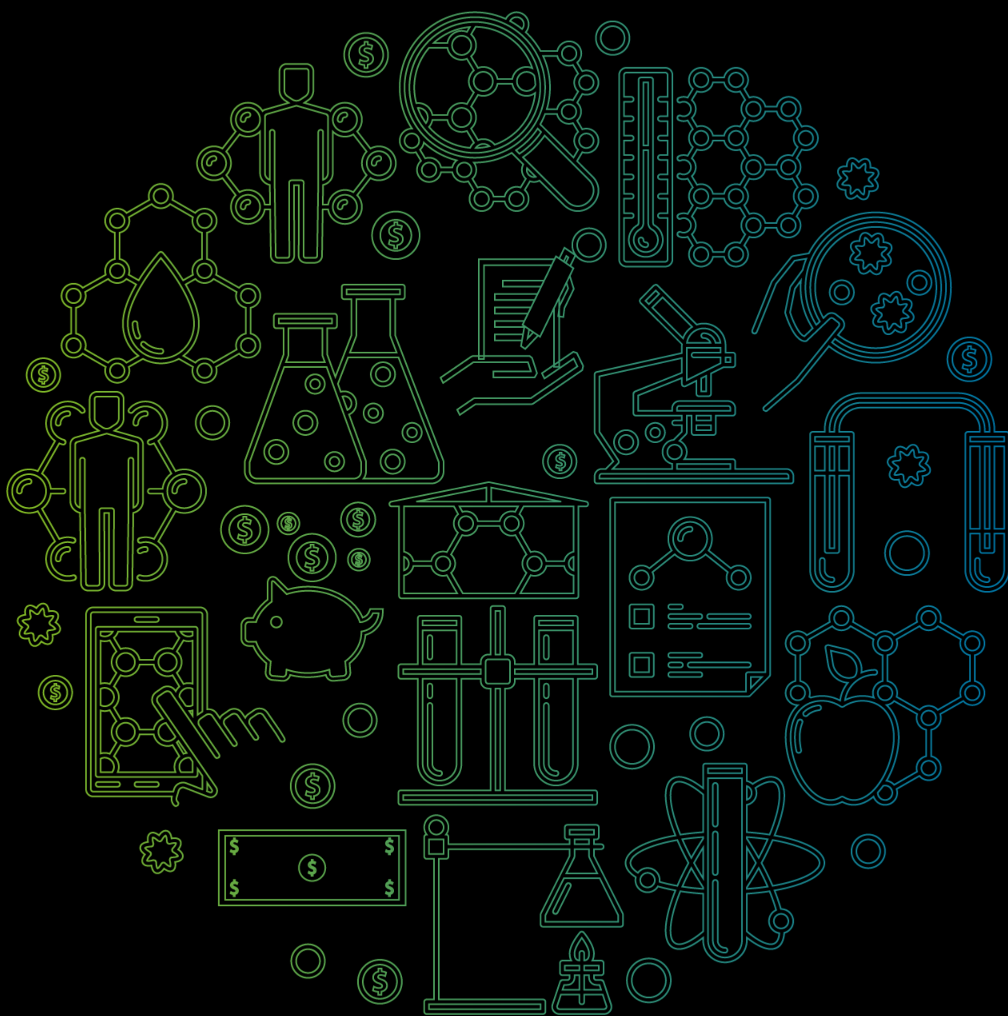


Forbearance, collections and COVID-19

The ten things that banks have to get right during the pandemic and beyond

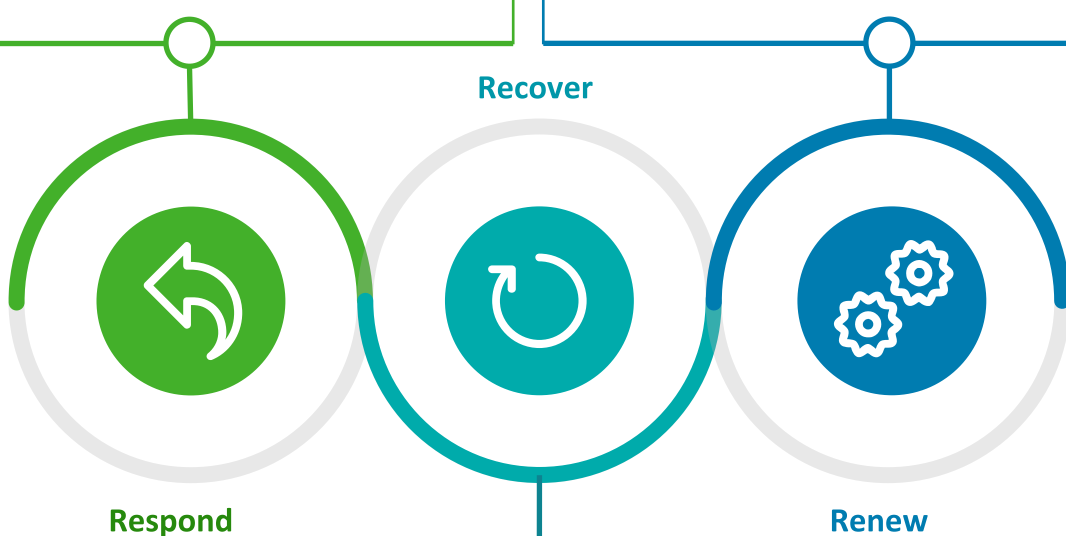
May 2020

Forbearance, collections and COVID-19

The ten things that banks have to get right during the pandemic and beyond

- Sort your forbearance and payment options
- Understand new types of vulnerability
- Update and implement new policies
- Grow your team and train it
- Get MI in place to monitor the risks

- Build up your firm’s agility
- Improve your digital capabilities
- Enhance your reputation with customers



- Start planning your exit strategy
- Get ready for new Income and Expenditure checks (I&EX)

COVID-19 presents banks and other lenders, administrators and debt collectors with a unique set of risk management challenges. In this fast-moving environment, the needs of your customers and guidance from governments may seem to change daily at times.

However, if you solve the challenges step by step, there is a way out of the current pandemic that will enable your collections teams not only to respond and recover but eventually to renew themselves. Along the way, here are the ten things you absolutely have to get right.

RESPOND

Decide your forbearance and payment options

In some jurisdictions such as the UK, supervisors have given a clear steer on what they expect banks to do. In countries such as the US and Australia, however, the decision has been down to individual banks. As such, the range of measures has varied widely, as has the speed with which firms have been able to communicate options to customers.

The things to get right are:

- Review eligibility criteria of existing repayment and forbearance tools to see if they can be flexed; apply for policy dispensation or waivers where necessary;
- Understand your local market so that you do not later regret being out of line with peers;
- Develop new payment or forbearance tools by product and market segment – ideally with a graduated response for more serious instances of stress;
- Consider how the take-up of any tools offered within the stress period might need to be reported to the credit rating agencies;
- Develop crystal-clear staff training and customer communications. Like lunches, payment holidays are not free, and it's vital that your customers understand the consequences up front. We are already seeing cases where poor communications about 'holidays' have led to a spike in complaints;
- Ensure your preferred solutions can actually be put into practice (some systems we are seeing are unable to adapt to changing forbearance rules and the manual workarounds can be painful);
- Ensure a robust audit trail that covers the process from design to sign-off to roll-out.

Understand new types of vulnerability

Firms need to reconsider vulnerability anew. Millions of people are now experiencing financial insecurity for what may be the first time (or their first time in decades).
The unknowable nature and duration of disruption is likely to heighten anxiety. It will almost certainly exacerbate difficulties for people suffering from domestic abuse and addiction to substances or gambling. Such problems are likely to persist for a long time after lockdown ends.

For some firms, the right decision may be to assume anyone calling their collections teams is vulnerable – if not, why would they call? Other firms will prefer a screening process to assess and categorise new types of vulnerability to ensure the right customer outcomes, for example, completion of an online form or through a chatbot. Training and consistency are both key.

Firms also need to keep an eye on customers whose requests for forbearance are unfounded or even fraudulent. We know that financial crime (attempted and successful) is trending upwards at pace.

Finally, but equally importantly, firms need to ensure their existing vulnerable customers are not forgotten, especially at a time when banks may have reduced their outbound calls and restricted their branch hours, meaning call waiting times are that much longer.

Organisations need to still maintain their outbound collections activities to ensure fair customer outcomes and customer satisfaction, as the consequences on those customers who either can't make contact with the organisation or are unwilling to make contact (potential vulnerability) could be severe (fees, charges, and ultimately repossession).

Update and implement new policies

In the first phase of their response, we have seen many firms make use of temporary policy waivers and dispensations, including:

- reduced affordability requirements and moving to short form Income and Expenditure Assessments (I&EX)
- Suspension of eligibility limitations; or
- Extended terms and durations.

Firms may have hurried to write 'emergency' policies, to cover ad hoc responses are covered within formal governance. A standalone COVID-19 policy might do for now, but it will soon need integrating with the rest of the firm's governance. As ever, the goal should be consistent criteria, and procedures and treatments that are well understood – by collector and customer alike.

For example, some banks may have reduced or removed the need for I&EX for some customers. Are these robust and do they deliver fair outcomes in the short and long term? The answers to these questions should be found in those firms' policies.

These policies also need to extend to third-party providers you may be using. With the physical audits of these third-party providers currently off the table, it is even more important for supplier managers to review and challenge the management information (MI) of third-party suppliers to ensure that they are doing the right thing for you and your customers.

On a related point, it is essential that organisations reconsider the use of third parties in the current environment and the impact this can have on their customers. Previously, before an account was placed with a third party, an in-house collection team would proactively try and contact the customer several times via numerous methods to resolve the situation. Given current capacity constraints and the focus on inbound calls, there is a real risk that some customers are passed to third parties without any form of proactive prompts from the organisation.

Grow your team and train it

Forming a realistic sense of likely volumes will be the first big task here. Collection volumes will come in phases as the first wave of cases continues to emerge over the coming weeks, followed by the need to update collections treatments and strategies as lockdowns are reviewed. It seems prudent to expect that collections teams will be working beyond their normal capacity for at least a year after lockdowns are eased.

In the UK, some commentators have suggested that COVID-19 may sadly prove one challenge too many for those small businesses that have only survived this long because of the ultra-low interest rate environment. The knock-on effects for job losses and the overall economy could therefore be larger and longer than the lockdowns themselves.

It seems prudent to plan for a sustained period of higher demand on the time of your collections and recoveries teams. There are many ways for firms to respond to anticipated greater demand:

- Expand your experienced hires (likely to prove challenging as market demand is intense);
- Change your operating models to clearly refocus collections staff and strategies on the priority areas (for many firms this entails ending outbound calls to free up space to process incoming calls);
- Bring on board staff from quieter departments within your firms (who will need quality training in order to process collections activities in line with your policies and values);
- Consider the use of contractors and debt collection agencies (DCAs) as contingent front-end collectors until normal business resumes;
- Leverage analytics to better understand customers' circumstances and suggest appropriate forbearance options that can then be delivered via digital mediums such as on-line, chatbots or via apps.
- Make greater use of tools and technologies offered by third parties (for example, Deloitte's automated call monitoring service, True Voice, which can dramatically increase the volume, speed and accuracy of call testing); and
- Use off-shore call centres more widely (although, as some firms have found who use centres in India and the Philippines, these countries can be even more affected by COVID-19 lockdowns, with poor home internet connectivity limiting the potential for home working).

In this environment, training takes on an especially vital role. The biggest increase in demand will likely be felt by specialist support teams (those with experience in handling the rarer hardship and vulnerability cases). Training them typically takes longer than for entry-level collectors. Firms need to think how best to triage customers, in order to allow their more experienced agents to deal with more complex customer situations.

Quality Assurance (QA) processes will need putting in place to support newly trained collectors dealing with large volumes of newly vulnerable customers. One of the keys here is to ensure that staff have enough time to practice and learn new scripts, supported by post-training phase QA.

Technology and the provision of specialist third parties to monitor call quality and the end-to-end effectiveness and efficacy of collections strategies (outcome testing) will also be essential.

Get MI in place to monitor the risks

You need to monitor the effects of your actions to see what impacts they're having and whether your strategy is working. This is a multi-faceted challenge.

On the one hand, you need to monitor whether recently trained collections staff are consistently following the new processes. This will entail modifications to outcome testing and QA programs to check whether treatments offered are appropriate to the customer's circumstances and are set up correctly.

For example, if the customer was already showing signs of financial difficulty it might still be appropriate to offer a more permanent or longer-term solution rather than delay the inevitable. The targets and thresholds you have used for assessing call quality up until now will probably need to be reset.

On the other hand, you need to step back, review the book, what actions have happened and where the portfolio is. Amidst all the additional requests, the flow of MI will need to continue to help you decide next steps. So, ensure exceptions reporting can identify issues for timely resolution. And watch out for any signs of a rise in the number of complaints.

But you also need to ensure all accounts subject to any emergency measures (such as payment holidays or suspension of conditions) are appropriately marked for future analytics and strategy. Monitoring the accounts which have been dealt with under COVID-19 will be especially critical for analytics during the 'Recover' and 'Renew' phases (see 'Start planning your exit strategy', below).

Your COVID-19 response will also create or heighten your exposure to related risks: credit, conduct and operational risks could all be negatively affected by poorly designed or implemented collection strategies.

For example, your recently trained staff may be working from home, with less supervision and guidance than usual, and needing to follow a raft of manual or ad hoc processes – and all the time using IT systems that have only just been rolled out. The scope for an operational risk event should be clear.

The desire for all this information from executives is already high – be it operational, conduct or compliance, as well as portfolio and business performance. But, as and when regulatory or government guidance changes, or there are material changes in the macro-economy, executives will demand this reporting with increased frequency and with greater degrees of clarity of message and insight.

The pressures on firms' internal reporting functions are inevitably going to grow – so start planning for it now with increased capacity and better operational efficiency. For example, you should expect to be asked a higher number of urgent 'what-if' questions to help with scenario planning (What if resource supplies collapse? What if customer demand outstrips supply?).

RECOVER

Plan the Exit Strategy

In some countries, collections teams will have enacted a huge range of extraordinary measures and temporary policy exceptions, often at great speed and using the principle of say yes now and sort out how later.

At the heart of any exit strategy is working out the long-term impact of COVID-19 on the customer's ability and willingness to pay. The exceptional nature of current forbearance needs to be brought back within established processes. In the UK, for examples, regulators have pushed for a 'no blame' approach to customers experiencing difficulty. That has implications for reporting customer behaviour to credit rating agencies (CRAs).

But what happens the month after your three-month payment holiday expires? Do the subsequent month's arrears go into your four-month arrears cycle? How will firms consider this period of time when assessing affordability and creditworthiness in the future, including use of internal data and CRA data?

There is a risk that models which identify income and expenditure and segment types of expenditure could incorrectly identify a gap in payments as an instance of arrears – even though there should be no impact.

Firms also face the awkward question of when to resume repossession processes. Customers will likely be financially impacted across all their credit products. The housing market may well experience pronounced but temporary weakness. Repossessing in the current market may be hard to defend to the regulator or any complaints ombudsman.

To prepare for exiting the COVID-19 stress, all firms need to be sorting out their data now. Given the strategies you'll likely want to pursue, are all accounts correctly flagged with enough markers to enable robust segmentation? For example, the flags for 'part-time' or 'temporary worker' may no longer capture all the information you need for optimal strategies.

If your team needs better analytics to devise and execute strategies, now is the time to start building them. One of the first questions to resolve is can you identify customers who may continue to have financial difficulties at the end of any current payment holidays? If so, what should you offer next?

Your exit strategy also needs to take into account the different phases of the pandemic in different countries. Global banks with call centres across the world will see countries come out of lockdown at different times and facing restrictions of varying degrees.

It seems wise to prepare for a range of scenarios, considering the range of responses that different governments have adopted up until now. However, all the potential scenarios seem likely to require large collections teams for an extended period of time, as the secondary impacts are felt.

Finally, your exit strategy should include ways to harness what you've learnt about your portfolio during this period. You should be able to apply what you've learnt to become a better lender. Do you understand your customers better? Are some of them better or worse credit risks than you had thought? Are your risk appetite limits and triggers up to date? And are you happy allowing particular credit concentrations to persist?

Prepare new Income & Expenditure (I&EX) checks

I&EX assessments have always been a key collection capability but now with COVID-19 they are critical.

Organisations are seeing a vast array of customers taking advantage of the repayment holidays on offer, such as:

- Individuals with no affordability issues now or in the future, using payment holidays as source of funds for investment strategies;
- Individuals with no affordability issues now, taking advantage of holidays to create an additional savings buffer for the future;
- Individuals with likely affordability issues now or in the future.

Unless firms understand the affordability situation of their customers, there is little chance that they will select the correct forbearance option – let alone that customers will stick to the repayment plans you have negotiated.

Even historically imperfect I&EX guidelines will need to be reconsidered in the light of the pandemic, as will their impact on strategies. They will need to reflect the best available information on disruption to standard economic patterns, the prevalence of reduced working time, temporary furlough schemes, the potential for further phases of lockdown and the much greater volatility in the supply and demand for labour.

For instance, a customer who is still working through lockdown, with good job security, may choose to repay other expensive forms of debt with the additional monthly free cash-flow caused by their reduced spending. Other customers may prefer a payment holiday on all their credit obligations (mortgage, cards, loans, car loans, etc.).

Firms need to start planning now how they are going to adapt their I&EX. This includes considering that the demand for debt advice and related services is likely to increase. The old model of calling clients up and discussing their cases with reference to statistical averages may need to be rethought. Firms will need to rethink their risk appetite. Many will feel tempted to make greater use of self-certification. But whenever there is increased pressure on firms to accept what customers are saying, there is a greater potential for fraud or adverse selection.

Here's where technology may offer further support. Open Banking and technology solutions can use a customer's consent to grant your firm access to their full transaction history (across all providers). Firms that can draw upon sophisticated transaction analysis should have a far more granular and accurate view of their customer's affordability – and therefore the appropriateness of collections and forbearance tools.

RENEW

Build up your firm's agility

By the end of this pandemic, your firm should be inoculated against similar shocks. Learn the lessons now and make sure you are ready for the next jolts to the system, when they come. Your response patterns should be better grooved by now in terms of:

- Confirming roles, responsibilities and making timely decisions;
- Being able to rapidly ramp up and down resources;
- Understanding the variety, effectiveness and ease of implementation for your range of forbearance options;
- Managing knock-on effects and unintended consequences.

Some firms we have worked with were able to deploy rapidly because they already had a framework in place to govern collections in emergency environments. Their war-rooms members, work-flows and audit trails had already been agreed in advance. As such, they can be tailored to deal with natural, medical or ecological disasters, including what do should mass redundancies occur in particular sectors.

Better digital capabilities

Many firms have been slow to see the applications of digital technology to collections. COVID-19 has forced their hand and they have needed to experiment to find solutions. At the very least, most banks have used online forms to roll-out forbearance tools, but chatbots and digital self-certification options are also becoming more widely used.

These digital capabilities are a crucial tool in addressing the challenge of future collection capability when the second wave of calls is likely to occur. Total call volumes will be just as high, because people who called in the first wave will call back in the second wave - when their existing payment holidays unwind. In the second wave, though, average handle time (AHT) is likely to be many multiples higher than in the first wave.

Why? Because advice in the first wave was quick to dispense – when payment holidays or moratoria were the standard solutions to suggest. Now, though, each call becomes far more complex because to give customers further assistance, firms must first conduct I&EX assessments and then work out the next course of action.

Digital collections solutions can help in two ways

1. Facilitate self-service for some low risk yet common collection activities, such as change of address, filling in I&EX forms, and making automated payments.
2. Diverting volume of calls from call centres to banking apps and webpages, where specific collections tools appropriate to customers circumstances are promoted i.e. repayment plan, changing repayment date, term extension, etc.

There are important conduct risks associated with increased use of digital channels. Managed well, though, the upside is that customers are now becoming more familiar with the idea of interacting with their banks digitally, even regarding sensitive issues such as arrears and affordability.

If managed poorly, however, the impacts on the firm's collections performance could be severe – with knock-on effects for the firm's conduct, compliance and reputational risk profile.

Here, technology can help mitigate risk and improve efficiency via better compliance and conduct monitoring (for example, through the use of voice or chat analytics to detect risks or behaviour triggers).

Enhanced customer relationships

The tragic impacts of COVID-19 on the lives of both individuals and nations will be felt for many years to come. By responding correctly now – at this time of unprecedented need – firms have the chance to demonstrate their true values of pragmatic service to their customers.

For many customers, the coming months will be the first time they have gone into arrears. The banking system exists to help us resolve mismatches in maturity and to spread financial risks.

The banks who respond to today's challenge flexibly, and who serve their customers with imagination and distinction will be the banks those customers remember when they next come to take out a loan.

How Deloitte can help

Our clients are facing unprecedented demand for support from their customers who are facing once in a lifetime hardships. We are already helping many collections teams across the world respond quickly, safely and strategically – across each of these ten critical steps

Risk and Compliance Management

- COVID-19 and remote working are fundamentally changing the risk profile within collections functions.
- We are helping firms review, amend and roll out new collections policies, strategies, tools and controls so that these are compliant with both the latest in regulatory guidance and the firm's own risk appetite.

Reporting & Analytics

- We are helping clients speed up reporting cycles for operational and credit risk data.
- Tailored analytics help clients work out what's working and adapt strategies quickly where it's not.
- Our analytics are helping banks to pro-actively monitor and identify customers' circumstances, so that when their existing payment holidays unwind, they can determine which collections tool will be offered next.
- By proactively offering this tool via digital channels, firms can reduce the burden on call centres whilst complying with risk and compliance requirements.

Call Monitoring and Outcome Testing

- Large numbers of newly trained staff dealing with high volumes of newly vulnerable customers during the pandemic heightens the importance of monitoring calls and testing that customer outcomes are suitable.
- We can do this manually or through automated solutions such as TrueVoice to proactively identify and address potential problem calls.

Capacity Management

- We are supporting frontline and back office collections teams in banks, often at very short notice.
- If needed, we can stand up virtual call centres to triage collections cases, deal with FAQs, discuss forbearance options and carry out collections activities in line with the firm's risks appetite and collections policies.

Technology Support

- We are helping clients design and build virtual collections functions, supporting remote working in a way that mitigates the associated risks, as well as developing and implementing chat-bots and app functionality to divert call volumes from the call centres and serve customers 24/7.

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