Treating Customers Fairly During COVID-19

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Within turbulent times financial services firms should remain focused on treating customers fairly.

The spread of coronavirus is impacting everyone and organisations of all sizes are scrambling to meet the challenges that the COVID-19 pandemic is throwing at them. Although financial organisations won't have the same challenges as, for example, restaurants and pubs, there are significant second and third order consequences which need to be tackled pro-actively.

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In the end a large number of your customers might be directly impacted by redundancies- as already seen within the aviation, retail and hospitality industries. As a view of the scale of the problem, Goldman Sachs recently predicted that 2.25 million people would file for unemployment redundancy claims in one single week in the US - that's around 1.5% of the total workforce and over three times the last historic peak of weekly claims in 1982! This prediction was wrong though, and the number was closer to 3.28 million people who filed an unemployment claim. Closer to home in the UK, jobcentres are reporting that they are struggling to cope with the sheer volume of people looking to claim benefits due to loss of jobs from the pandemic already. As of 1 April 2020 almost 1 million people have applied for Universal Credit in the UK.

For me, FCA regulated organisations can play a part in the solution by ensuring that they continue to abide by CONC guidelines and keep treating customers fairly (TCF). Recently they asked banks to freeze loan and credit card payments for customer. In the current pandemic the concept of TCF might need to be re-interpreted, meaning that processes and approach will need to be tailored for the current situation. Below I outline a couple of considerations for creditors and lenders.

Access to Credit

Access to credit for people who, due to the circumstances, might find themselves in financial difficulties will be very important. Zero hour contracts and gig-economy workers within certain industries such as hospitality are likely to be significantly impacted. With the UK savings ratio being at one of the lowest levels in over 20 years many of these customers will need credit to meet their short term living costs.

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For creditors this will mean an increased risk profile for the portfolio, and in the medium to long term lead to increased bad and default rates when customers struggle to meet their payments. For existing credit lines it will be hard to proactively tackle this, aside from credit limit reductions for at-risk demographics. As a result of the overall increased risk a next order consequence is likely to be that many creditors elect to combat this risk by introducing more stringent acquisition and affordability assessments, and reduce overall lending by restricting credit to people who need it most.

This in turn might lead to a rise in subprime and high-cost short term lending to fill the market gap, overall costing the customers more and potentially leading to longer term financial hardship for them. With a recent exit of a number of high-cost short term providers from the UK market this credit might not be readily accessible, especially if these lenders in turn tighten their credit policies due to demand and increased rates. That in turn might result in non-regulated lenders and loan-sharks stepping in to fill the gap. Amigo loans, the UK's largest guarantor loan provider, has suspended new customer loans during COVID-19.

Another option to manage risk is to increase interest to reflect the potentially higher rates. If this is an option you are considering then look to find innovative solutions that could support accurate affordability assessments, such as Open Banking.

You can also choose to go the other way, and offer these customers extended credit limits which some banks have elected to do here in the UK. However, giving more credit isn't always the best solution, especially if it is not affordable - so make sure you have robust affordability checks in place. Remember what happened in the high-cost short term sector where affordability wasn't assessed properly?

When making decisions to manage the risk profile of your portfolio you should carefully consider these second and third order consequences before taking action. All decisions made should focus not only on the business but also on ensuring that customers are being treated fairly. Removing a credit line, for example, or reducing credit limits might help you manage the risk profile but might end up causing the customer long-term financial difficulties. Extending credit limits might not be the right solution either in all circumstances - make sure you keep the customer's interest at heart, and focus on delivering fair outcomes.

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Practical implications

To ease the financial stress put on households as a result of the current pandemic, the government announced that mortgage lenders will have to offer struggling customers a three month mortgage emergency payment freeze, and more could come. To me this is an acceleration, and slight extension, of the government's already planned breathing space scheme but specifically for mortgages at this time.

- What happens at the end of the three months if the customer still cannot afford to pay?
  - Will your normal collections process kick in? Or do you need to design new processes - as it could be argued that these customers should be classed as vulnerable?
  - Is your organisation setup to handle potentially increased volumes of vulnerable customers within collections? Do you have contingency plans in place, for example the use of third party debt collection agencies to help? If yes, how do you ensure that these customers will be treated fairly?

- How will you report these customers to the credit reference bureaus?
  - Working with the other Credit Reference Bureaus and a number of industry organisations there is agreement that any customer being granted the three month emergency payment freeze should see their current credit data position maintained or frozen for the duration of the emergency payment freeze period, i.e. you should continue reporting the same status code that was provided before the freeze period commenced
  - If a consumer falls behind without a payment freeze, then the usual CRA position will apply - read the Equifax response (https://www.equifax.co.uk/about-equifax/press-releases/en_gb/-/blog/equifax-uk-committed-to-supporting-consumers-and-businesses-impacted-by-covid-19)

What else can you do to support your customers?

- Payment holidays might not always be the best solution where customers are facing long-term financial problems
- Should you waive interest for some customers and remove other fees in the short term? Some banks are already offering this
- Sign-posting and offering debt advice needs to be considered - do you have a partner such as StepChange you can work with?
- Should you change your collections practices at least in the short term?
  - Will the government step in and put restrictions on what you can do within the space, if so how will you implement these?
  - Should you consider a full stop of outbound activity? If so, what will the impact be on your business?

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Collections

The virus will impact the ability for people to meet their financial obligations due to things like forced redundancies or reduced hours. This, coupled with people working from home, might change the nature of the people you engage with. People on the brink month-to-month might be tipped over the line and need support, whereas steadily employed and salaried people might be in a better financial situation now enabling them to pay more due to decreased outgoings such as transport and recreational costs. This will likely lead to an increased pressure on your collections function and will impact your overall profitability, especially if you are not set up to cope with the increased volumes.

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A larger proportion of customers will be in real financial difficulty, and you need to be equipped to handle this. Below are some considerations you should take to prepare yourself;

- You will very likely face increased call volumes as already reported by Santander and other big banks
- Call centre staff will spend more time doing income and expenditures, driving up handling and wrap times impacting not just collections but other call centre services creating a capacity issue and increased waiting times
  - What tools and help (such as additional training or digital solutions) can you offer your employees and customers to deal with this?
  - Can you bring in additional resources for example retraining in-branch staff, or bring in additional external resources to handle tasks such as income and expenditure completions?
- Do you need help from external third parties to manage volumes? Do you already have suppliers to help you with this and can they handle increased volumes? How do you ensure these third parties adhere to your policies and TCF standards?
- More customers will be considered vulnerable and might need special treatment - are your teams set up to offer this on a broader basis?
  - Are these processes fit for purpose for the current situation?
  - Do you need to train and move more staff to specialist teams, or if you don't have specialist teams should you consider forming some?
  - There are specialist providers who specialise in managing vulnerable customers. As one of the largest placers of debt in the UK, TDX Group have seen some great results working with a select panel of providers to offer differentiated treatment paths to manage highly vulnerable customers
- With potential capacity issues are you able to adapt your strategies by offering more digital and self-serve options to your customers?
  - If you are able to, how will you communicate this to your customers?

When considering these issues organisations need to effectively manage the impacts of both financial and non-financial vulnerability and recognise the need to apply specialist differentiated treatment to truly meet TCF obligations.

Find out more or get in touch with us:

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