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From pandemic to economic shock:

Responding to COVID-19

The impacts and outlook for consumers and lending markets

Macro-Economic Update

While the global economy was already witnessing signs of a slowdown, the arrival of the virus and the introduction of social distancing to slow its spread have undoubtedly worsened the global economic outlook, causing significant disruption to activity. According to current predications the pandemic could cost the global economy $2 trillion to $4.1 trillion. Growth in Asia is forecast to fall sharply to just 2.2 percent in 2020. The figure is a downward revision from the original 5.5 percent growth for this year that the ADB (Asian Development Bank) forecast in September before the coronavirus pandemic broke out.

In response to the pandemic, most governments across APac have taken unprecedented measures, not only to bring down infection and mortality rates, but also to alleviate the impact of the economic slowdown.

From where we stand today, it's expected that the economy may recover in the medium term and exhibit a strong rebound in 2021. Growth could rebound by ~6.2 percent for 2021, assuming that economic activity were to return to normal and the deadly pandemic ended.

In this paper, we'll explore some of the key global trends emerging from the crisis, including its impact on consumers and credit. We'll look at these alongside the likely macro-economic scenarios and examine the KPIs that need to be tracked as the world works towards a stronger and more stable economic future.

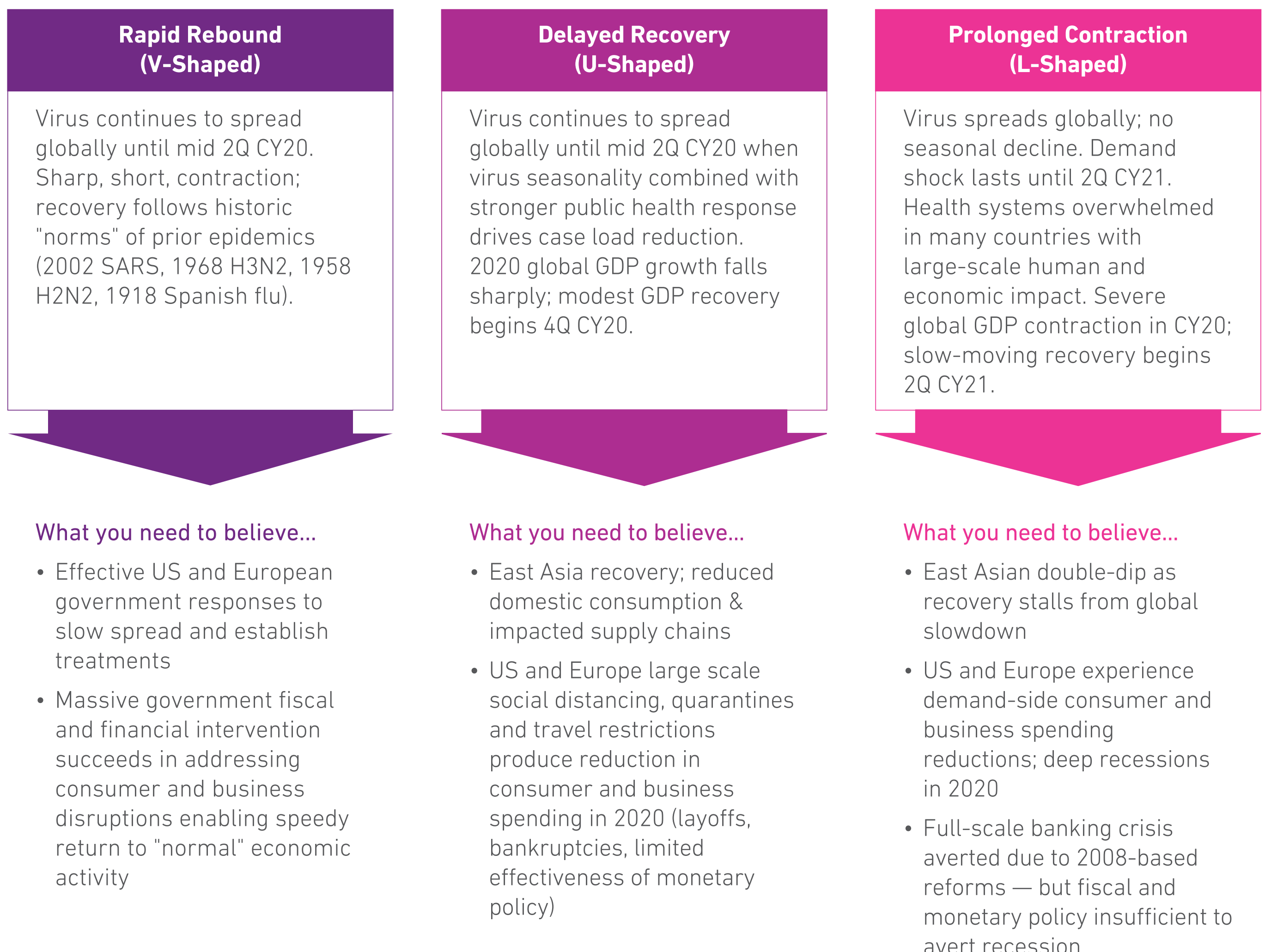
The Economic Impact of COVID 19

Analysis of the current macro-economic climate points towards a large fall in output in the second quarter of 2020. Consumer demand will also suffer as social distancing and low confidence lead to a big drop in discretionary spending, especially for big ticket items like recreation, leisure and travel.

On top of this, investment is likely to decline as the pandemic hits business confidence and cashflow, leaving projects postponed or cancelled, and export demand limited by lockdowns overseas.

While the short-term contraction in output is set to be large and result in some long-term scarring to the economy, Experian's central economic scenario projects that output will probably rebound swiftly in the second half of the year. The analysis assumes that the outbreak is brought under control within the next five-months as presented by some leading research houses. It charts a V-shaped recovery in investor, business and consumer confidence, where financial markets stabilise and tightening credit conditions prove to be relatively short lived.

Economists and Public Health leaders are evaluating a broad range of scenarios



*Experian Current View

Economic Stimulus

Governments across APac have announced a string of measures to support the economy since the start of the outbreak. The policies announced include loan moratorium periods, initiatives to protect SMEs, announcement of stimulus packages and funding to the healthcare sector, lenient recognition of non-performing assets and many more.

Consumer confidence

According to the well-regarded Growth from Knowledge (GFK) measure, consumer confidence has been decreasing since March when most countries started seeing the impact of COVID-19. The research was carried out during the first two weeks of March, before the full extent of the crisis was clear, however consumer perceptions of the economy and personal finances were both already deteriorating.

The major purchases index, a good forward-looking indicator of consumption of big-ticket items, has also contracted heavily. With a large % of households across APac now under lockdown, next month's report is likely to show further substantial falls.

If China is a good representation of the way things will be post lock down and if the policies brought in by the various governments are successful in containing job losses and business closures, consumer confidence is likely to bounce back strongly in the second half of the year. However, with confidence well below historic averages and households adopting social distancing measures, short-term discretionary spending is expected to fall markedly, especially for luxury items. This may be offset partially by increased sales of essential items due to stockpiling, but not sufficiently to prevent an overall contraction in spending.

What does this mean for credit providers' portfolios?

Before COVID-19, overall spending growth was starting to slow, debt was on the rise and savings rates were seeing some reduction, with consumers taking on more and more debt to buy their homes.

Furthermore, analysis reveals that term extensions have been widely used to make credit affordable. Over time, this has consumed spare capacity in the lending market, making the overall market more susceptible to economic shocks. The COVID-19 outbreak has accelerated these trends, creating a much starker economic outlook for the economy.

As the pandemic progresses, the continuous monitoring of credit providers' portfolios will be critical not only to help identify stress, and therefore pre-delinquency, but also to protect vulnerable consumers and businesses. Being able to perform customer profile checks 'in-life' will bring the value of foresight – something that's needed at speed, and scale.

Significantly higher outstanding debt due to job losses and income shocks

As the impacts of the outbreak deepen over the coming weeks, a large number of consumers will lose their incomes. As a result, banks are likely to see higher levels of outstanding debt from the same borrowing base, leading to higher risks of credit default across their portfolios.

According to the World Bank group, SMEs represent more than 95% of registered firms worldwide, accounting for more than 50% of jobs, and contribute more than 35% of Gross Domestic Product (GDP) in many emerging markets. Experian's analysis of SME current account data indicates that even at 50% of their usual income levels, nearly 50% of all SMEs will fully deplete their cash reserves within 1-2 months.

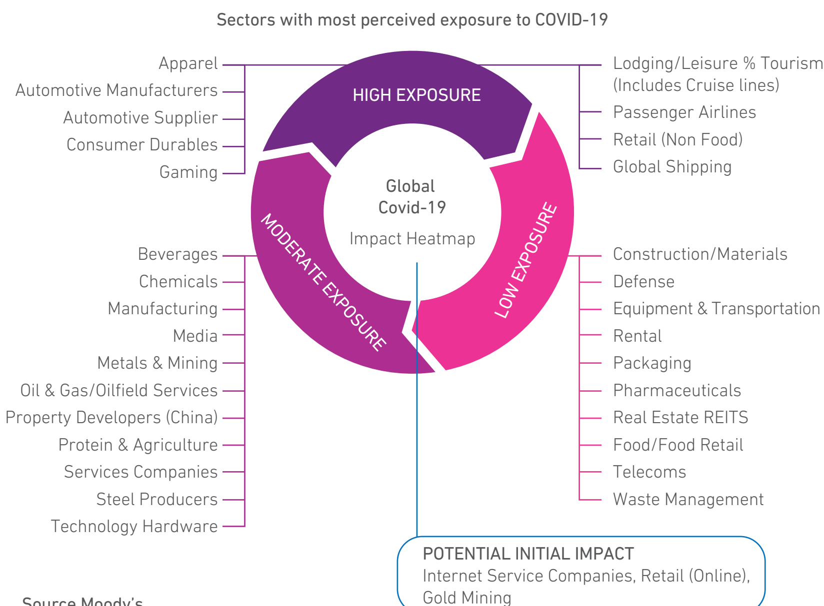
Since SMEs account for more than 50% of the workforce, this is a strong indicator that there is a huge risk that a large population set are likely to lose their jobs and increase their borrowing in the short to medium term.

Furthermore, as a larger proportion of this existing consumer base takes on higher levels of debt, the classification of that debt may change, leaning towards more sub-prime lending due to affordability-related challenges.

Asset quality deterioration as more consumers become at-risk or vulnerable

At this stage, certain sectors appear more at risk than others (e.g. aviation, travel, leisure and retail). Furthermore, accounting rules (specifically IFRS 9) have the potential to front load losses (because losses are now calculated as expected rather than incurred).

Consumer-oriented sectors are facing the most immediate impact. Businesses are making moves to adapt.



Source Moody's

Examples of impact / actions

Sector	Examples
Retail & Restaurants	• Heavy store closures or reduced hours • Shifting customer focus to digital channels • Restaurant/bar traffic down sharply
Travel & Leisure	• Flight cancellations and reduced traffic • Hotel and theme park closures • Cruise lines, Las Vegas casinos closed • Movie chains, sports, live shows closed
Auto	• Suspending new vehicle productions • Reduced dealership volumes • Impacted by supply chain disruptions
Financial Services	• Retail branch closures & service reductions • Relief measures for borrowers • Slowdown in SME and cross-border payments

Fast, immediate intervention and an ability to identify and implement the best next action is critical if credit providers are to safeguard their consumers and their businesses in the short, medium and long-term.

Changes to portfolios due to rapid shifts in underlying borrowing characteristics

The COVID-19 pandemic will impact different sectors and geographies in different ways, but one thing looks clear – changes to consumer incomes will be swift and significant. It will therefore become increasingly important for credit providers to understand these rapid changes in as close to real time as possible, so they can protect both their customers and their loan portfolios.

We anticipate credit providers' performance will be impacted across a multitude of dimensions – account-related fees, changes to interest revenue, credit losses and higher expenses.

However, these impacts will vary greatly by sector and customer segment, with the probability and impact of potential risks depending heavily on how the pandemic ultimately unfolds. We believe this presents credit providers with the following challenges in the coming weeks:

Identification: Credit providers need to identify which customers are most at risk across industries and segments based on economic impact, then monitor this data for early warning signals. This data layer will also allow you to iteratively build a fuller view of the 'during' and 'post' pandemic economic landscape.

Stress testing: Whether they're determined by regulatory bodies or designed by credit providers themselves, current stress-testing techniques are based on specific scenarios from the pre–COVID world. However, the unprecedented scale and impact of COVID-19 will push credit providers to the limits – meaning they'll need to immediately calibrate the outer limits of possible actions with new data to support their customers.

Scenario testing: As credit providers try to mitigate the impact of COVID-19, scenarios led purely by macro-economics may no longer be successful. The scenarios that are created and tested in the coming weeks will need to be built around the spread of the virus. That means developing a range of possible scenarios based on the progression of the pandemic, regulatory response, shifting supply and demand, and how the virus affects different parts of the economy.

Increased stress on collections processes and a new picture of vulnerability

As the COVID-19 crisis intensifies in the coming weeks, the stress on credit collections will become challenging. The current situation is unprecedented, with both firms and customers experiencing unique problems:

Rapid changes to millions of people's personal circumstances will make it difficult for credit providers to assess vulnerability and identify customers who need support.

The ability to sustain operations as demand grows but resources reduce will cause significant internal challenges. For example, handling inbound calls, capturing income and expenditure details, identifying vulnerability etc. With limited IT resources, implementing new systems and approaches through APIs will also be challenging.

Vulnerability and persistent debt:
As the pandemic spreads, a large number of people may exhibit signs of vulnerability. Credit providers will need to better understand and address the relationship between physical health and personal debt, with large numbers of employees self-isolating and moving onto statutory sick pay. Furthermore, indicators of vulnerability will change, as the tables below show:

Pre-COVID-19 indicators
- Consumer spending without funds
- Increased or faster spending
- Excessive use of overdrafts
- High appetite for short-term borrowing
- Increased ATM withdrawals

Changes to indicators due to COVID-19
- Loss or reduction in personal / HH income
- Shift in spending to high-priority items
- New or unauthorised use of overdrafts
- New or increased appetite for high-cost loans
- Greater reliance on savings

Some regulators have also issued norms around regarding persistent debt (credit line removal) have been postponed for some time. That means credit providers will need to support customers who meet the criteria without removing credit lines, increasing risk for their business and extending bad-debt challenges.

With regulations changing frequently to protect consumers, reporting and customer identification will become more important for credit providers.

Forbearance and interest moratoriums:
Emergency payment holidays are being announced, across many APac markets, for consumers and businesses needing help. These payment holidays will freeze credit providers' borrowing data for weeks or months, leading to challenges in both credit reporting and evaluation.

Processes designed to give people breathing space will experience high volume and come under increasing pressure. They'll need to be managed properly to ensure cases are followed up effectively and customers understand their obligations.

Credit providers will also need to flag customers who are within moratorium periods and identify the impact of these moratoriums on the credit facility being used. This will lead to significant increases in operational overheads.

What does this mean for credit providers' new lending?

A noteworthy decline in new applications as the pandemic unfolds

During March, Experian saw an overall decline in credit searches against this time last year. With many countries under official lockdown and many more introducing nationwide stay-at-home policies for citizens, businesses have been forced to slow down and consumer demand for credit is being re-evaluated.

While it may be too soon to predict the medium-term trend, we expect demand for sub-prime credit to grow (driven by need) and demand for prime credit to reduce (driven by choice)

As ever, it will be important for credit providers to assess affordability as part of the onboarding process. However, with the pressures of COVID-19 on consumers' incomes, it will be crucial to determine whether extending credit is affordable for the customer – not only now, but also over the coming months as the pandemic spreads and contracts. To accurately make these evaluations and inform better lending decisions, data will need to be gathered more frequently and at greater depth.

Newer, richer data will also help consumers understand not just what they're eligible for given their new circumstances, but also what's affordable. In turn, this will empower them with both choice and knowledge. It will enable them to access suitable products and prices, as well as building a better awareness of how new credit lines, or a product switch, will affect their overall financial health – which may well be changing week by week.

A rapidly changing applicant mix, driven by disproportionate effects

Experian analysis shows that during the initial pandemic-shock stage, the most vulnerable consumers will pull away from the credit market (as evidenced by the improvement in Delphi scores across the new applicant mix - indicating retraction of borderline or vulnerable customers from the market). However, as the effect of the pandemic deepens, and we enter the economic-shock stage, we expect the overall profile of the applicant mix to deteriorate, with even those consumers who have never before struggled financially starting to face challenges.

Credit providers will need accurate, timely data and sector-specific insights so they can make the fast, fair credit decisions.

Rising need for digital processes

COVID 19 is perhaps going to force the largest shift in working habits of humanity with most organizations adapting to work remotely. The direct benefits of this is the forced adoption of technology and digital processes. Humankind has been nothing if not inventive in the face of necessity. Consumer banking historically has been struggling with digital adoption at low levels across most markets for several years now. APac today has an estimated digital acquisition percentage in its early teens despite the growth in telephony, infrastructure and changes in consumer habits.

In recent history the largest shift into digital payments happened in India during the demonetization exercise they went through when necessity forced digital payment adoption – and these habits have stayed with the consumers. This could, similarly, be the biggest opportunity to make a major shift into digital acquisitions for consumer banking. The industry has been struggling to make incremental shifts into the space for years; this could be the time to make the big leap to designing processes for digital acquisitions. In a recent study of infrastructure across multiple countries in APac, the conclusion was that the systems had matured to allow for the full transition to digital over the last few years, but patchwork systems built on legacy applications were not allowing a clean shift.

Rebuilding the legacy applications for the cloud and moving to fully source digitally could hence be key while heading into this recession to reduce the cost of acquisition.

Rising fraud

The correlation between financially vulnerable and fraud has long been reported as a challenge. In today's climate with more people vulnerable, the likelihood of both first-and second-party fraud increasing is heightened.

One of the most pressing challenges facing fraud teams however is not an increase in applications needing assessment, but the inability of staff to access systems from home, and resource constraints as people self-isolate and are off work with illness. It is assumed that organised fraudsters are likely to take advantage of a perceived lack of readiness within Banks and Financial Services in order to get some fraudulent applications through.

As the current situation continues, even those on 80% of salary may see their finances stretched and may need to resort to credit. Worsening financial situations will also push some consumers to be more economical with the truth about their circumstances in order to obtain credit for which they would otherwise be refused. This trend was seen during the 2008 financial crisis.

This concern is not limited to first party fraud, there is an increased likelihood that desperate individuals will be induced into selling their ID or bank account for fraudulent use. This could manifest itself as increased ID fraud-related applications or money mule activities.

Reviewing how fraud referrals are prioritized will help limit the impact from fraud. While we see a decline in applications, this would be a prudent time to assess – as applications are poised to increase significantly over the coming months.

As less people are visiting banks, more consumers will be turning to internet and phone banking where they have not used it before. In some cases, this will result in consumers being more exposed to the standard bank account related scams, from phishing for login details to push payment frauds.

How Can Experian Help?

The circumstances we find ourselves in are unparalleled and changing daily. The way we prepare to weather the impact in the short term will be key to making sure its long-term effects are contained as much as possible – both for the customers in our care and for our own businesses.

We know that data has the power to protect and preserve economies, and that by monitoring the relevant KPIs and taking the appropriate actions, we can all work to limit the pandemic's impact. As your partner, we're here to help you do just that, by offering you the best of our experience and expertise through our expert consultancy services and suite of relevant solutions. We cover some of these in the following section.

Our initial analysis has highlighted the following 4 areas to watch:

Risk Calibration & Forecasting

Monitoring portfolio dynamics

Inevitably, your credit portfolios will feel the impact of the virus, and having access to the right tools and data including macro-economic trends & bureau data, will enable you to run more accurate stress testing and gain a clearer picture of what that impact is likely to be.

Due to the rapidly evolving impact of the crisis, scenario models that have worked in the past are unlikely to be relevant today. A new response is needed and at Experian we can support you in developing appropriate, effective models. These will consider the different variables in play, and allow you to tweak your loss forecasting models and other portfolio KPIs.

It's also fair to say that the assumptions made when calculating expected credit loss as part of IFRS9 will need to be rethought based on the latest insights to make sure that they're accurate and robust. Again, we're here to guide you through this process, with expert advice and practical tools.

Adjusting for declining levels of applications and credit quality

With a reduction in the number of new applications for credit, it will be important to look to the existing base for growth. Existing customer management strategies will need to be re-evaluated to understand what changes should be made to balance extra customer assistance with acceptable risk.

It's likely we'll see a shift in lending types, with the demand for sub-prime credit growing and demand for prime credit reducing. Therefore, a review of your scorecard and segmentation, together with analysis of your cut-off criteria, can help to make sure you're accepting the right customers for your risk appetite, even in a reduced pool.

Customer Management in an Economic Downturn

A need to identify customer profiles and affordability to take customer level actions across the lifecycle

Customers with historically good levels of affordability are entering new territory, with many seeing decreasing incomes either because they're self-employed or because they've been furloughed by businesses that can no longer operate. Understanding how consumers are being affected by the crisis is the key to proactively providing the help and care they need – both immediately and over the coming months.

As we've seen in this paper, the ability to profile customers, have a complete 360 degree picture of the customer and continuous monitoring of affordability will be critical not only for identifying stress, and therefore pre-delinquency, but also for protecting vulnerable consumers.

Armed with this information, you can proactively profile your customers, identify stress and pre-delinquency, support your customers' requests for interest reversals or change of loan terms keeping in mind the overall impact to the portfolio. It will be important for you to help these people understand their new financial circumstances and also keep extending credit to the less risky customer segments, helping take proactive limit increases as well as who additional cross sell offers should be given too, to support during these times. Once more, our teams are ready to discuss, advise and help you put the effective tools and processes in place.

Digital Hardship Management

Increased pressure on collections processes

Lenders are working hard to proactively help consumers, but it's inevitable that many people will fall into the collections process, putting stress on its existing resources.

While the volume of consumers pulled into the process will increase, the immediacy of their needs will be no less. It will, therefore, be immensely challenging to serve them fast enough, especially if the number of underwriters available to make manual decisions reduces further due to illness.

Automating current manual processes could help to alleviate this challenge, especially when combined with industry data from the bureau, real time triggers and other information sources. Together, these factors can help you base lending decisions on the best available data, in these rapidly changing times.

Strategies and collections scorecards that were applicable before the crisis may need to be recalibrated, and with a potentially reduced number of employees available to take and make calls, other digital ways of communication may need to be sought. Once more, our teams are ready to discuss, advise and help you put effective systems in place.

Next Level of Customer Engagement

Increased use of digital channels and a need to control costs

With the large shift in working habits as most organizations are adapting to work remotely, there is likely to be a direct benefit in the forced adoption of technology and digital processes. Financial institutions are already accelerating processes to try and move as many services as possible onto digital channels. This acceleration will help reduce the cost of acquisition as well as provide frictionless consumer services. There will be a need to be able to identify consumers, do KYC checks and drive automated credit decisioning through data, analytics and cloud hosted solutions which are easy to integrate with to increase speed to market.

Increasing cases of digital fraud

Fraud is likely to increase over the coming months and weeks as people try to navigate the unstable economy and job landscape. It is highly likely be show itself in two forms, 1st and 3rd party fraud.

In the case of 1st party fraud the potential for individuals to be tempted to commit fraud as their financial circumstances change drastically will be higher, so checking against known fraud data may help you avoid increasing credit limits if you believe there is a risk the person won't be able to pay back.

Fraudsters are fast, unrelenting, indiscriminate, inventive and opportunistic there is therefore an increased risk of more individuals falling victim to fraud. Fraud account monitoring against known fraud data at this time will be important, allowing you to not only identify on going fraud risks in your existing customers but highlight fraudulent new applications.

Here to help you get through this

If you'd like to discuss any aspect of this report, or find out more about how we can support you through this crisis, please get in touch with your Experian account manager today.

While the road ahead may be rocky, and there will be new developments to navigate, we believe that by working together, and bringing you powerful data and tools, we can help you and your customers come back from this crisis strong, secure and ready for a brighter future.

Contact Experian Greater China

Experian Beijing

6F, Office Tower ONE INDIGO
20 Jiuxianqiao Road, Chaoyang District
Beijing 100016 P.R.C.
T: +86 10 5926 7800

Experian Shanghai

Room 01-03, 30th Floor
SML Center Office Building C
No. 610 XuJiaHui Road, Huangpu District
Shanghai 200023 P.R.C.
T: +86 21 2356 8686

Experian Guangzhou

Unit 08-09, 10th Floor, Skyline Plaza
No.832 Middle Yuejiang Road
Haizhu District, Guangzhou
Guangdong Province 510220 P.R.C.
T: +86 20 3610 0100

Experian Hong Kong

Room 2604, 26th Floor
The World Trade Center
280 Gloucester Road
Causeway Bay, Hong Kong
T: +852 2839 5388

Experian Taiwan

Room 212, 11th Floor
Taipei International District of Commerce (TIDC)
No. 51 Hengyang Road, Taipei, Taiwan, R.O.C.
T: +886 2 2383 2268

Discover Experian
www.experianplc.com

Experian Greater China Websites
www.experian.com.cn
www.experian.com.hk
www.experian.com.tw

E-mail
RM@cn.experian.com

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