Virtual Roundtable Series on COVID-19 Mitigation Efforts #7:
Making Adjustments: Collection Strategies, Credit Scoring and Regulatory Forbearance
May 7, 2020

Q&A summary

Question for Standard Chartered Bank:

1. *About how the different regulators/supervisors are offering Standard Chartered flexibility based on their past portfolio performance in different countries – the extent to which the flexibility which Valeria rightly noted is in the Basel principles, but which may or may not be in actual implementation in different countries.*

Standard Chartered has set a global standard of offering relief to our SME clients. While this standard defines the overall structure, local regulations supersede this standard wherever necessary. Where local regulators have defined criteria for selection of SME clients for relief offering, Standard Chartered adopts the defined criteria. These criteria typically rely on the past performance of the client. Wherever required, the bank uses past performance to allow relief to these clients only if the data reflects that the client was not already stressed.

Question for Experian:

1. *Do you believe that there will be ex COVID models, and that this situation may merit separating industries and getting "COVID resilient industry models" and "COVID sensitive models"?*

Question for WeBank:

1. *What is the platform of data sharing you've mentioned? How can we join this initiative?*

A lot of the data we look at is pulled from disparate sources and we use our strengths in technology to aggregate and then analyze the data. For example, we look at the legal person and the entity itself to get more complete picture of the borrower when we look at SMEs. We are not requiring SMEs for documentation uploads and for KYC we pull data from government institutions, and for the legal person, we go to daily data sources to assess the overall risk to handle a particular case. In our experience, most of the data we use is available to all banks, they just haven't built the model to do the processing as we have done.

Questions to all:

1. ***What should one do about the official classification of loans provided under COVID measures and the reporting on those loans?***

Questions from chat:

- *Some regulators permitted that loans are not reclassified regardless of DPD which helps with freeing capital/ provisions. Any comments on that and how that may impact models?*
- *Credit scores consider recent month performance history (in most cases), If so, when we increase score cut offs, it would impact TTDs. While the need of finance may be in lower credit ranges. How should we plan to accommodate that?*

ICCR: The ICCR is very concerned about the continued accurate reporting of loans. The ICCRs principle goal is to provide guidance on credit reporting which is one of 3 key pillars of effective financial infrastructure. Coming out of the crisis, it will be important to maintain the integrity of credit data. If there is a loss of confidence in credit information, then financial systems could fail and lead to bigger problems. It is paramount to safeguard the integrity of credit reporting systems such that data is as accurate as possible and used with confidence by lenders as they go through this crisis, and into what is expected to be a recession.

While easy to say and hard to implement – we need to make sure there are sufficient safeguards that individuals and SMEs are not affected by consequences of the pandemic outside of their control. For example, we should not have a moratorium on reporting data, but continued reporting with agreed codes or flags that can be used to contextualize a borrower's ability to repay.

We saw after the financial crisis in 2008 that such a flag or code could hurt an individual or SME rather than being well understood by the lenders so it is important to understand what the flags and code are and what they mean so lenders don't automatically decline potentially credit worthy individuals and SMEs. Additionally, the Regulators and Supervisors of the financial system need to understand the situations and provide advice to the financial industry on how it is going to treat certain behaviors.

World Bank: We are concerned with the safety of the banking system as the banking system needs to remain resilient to provide countercyclical support. The challenges are enormous as measures have been taken very quickly and are not standardized even within a region. Risk assessments should continue to be done despite the challenge and an FI's balance sheet should reflect risk embedded into the system.

Any relief measures need to be targeted and time bound. We advise against relaxing asset classification and flexibility. Segregate loans that were subject of relief measures whether regulators or banks chose to apply relief or not.

2. Who will recover better or quicker?

Questions from chat:

- *While clients take up short / medium term relief offers - the big unknown is the credit behavior of the clients when the relief period is over. How does one model this, ie how does one predict the propensity to default post relief?*
- *FIs are looking for a way to identify the industries which are less impacted by Covid-19 and the others which are impacted more. and differentiate the risk among them. However, data about this area is limited. how do you see the way out?*

Experian: We have to deliver to lenders accurate, reliable data so they can make good decisions, so policy can't be manipulated at the credit registry level. Data sharing platforms will be key, where lenders can bring their own data or third party data so they can see the client holistically. We will need to look at data overlays, for example, looking at geo data and health data to see where businesses are most vulnerable from a geographical perspective; we need to look at the velocity of social media interaction as an indicator; and look at resiliency factors that are above and beyond a credit score, to ascertain what is the likelihood that a business will succeed.

Standard Chartered: In the absence of any other structured data, we have been focusing on segmenting the SME clients based on the first and second order impact. We will have structured discussions with each client to elicit the impact of the crisis on their business and use that to predict who may need what kind of help and for how long. We realize that bureau data may not offer the complete picture of the financial position of the clients because there is a likelihood that clients have availed relief offerings from all their banks during this period. We foresee that this challenge with the data will not improve immediately and that's what makes it difficult to predict how the clients will behave during and after the crisis.

IFC: Having suffered a few financial crises as a banker in emerging markets, I have memories of running 19 different stress scenarios on our Consumer and Commercial portfolios. The question is how do you foresee that performance data from this period has to be handled so that it does not lead to biased decision making? I remember discussing that we cannot punish and "charge" crisis risk levels and interest rates to the whole population.

3. ***How to deal with non-regulated sector, e.g. MFIs and nonbanks. How do you deal with them in this time as it is not part of their obligations? MFIs are depending on frequent payments and if moratoria are in place, what do you do in that situation?***

Question from chat:

- *How to deal with financial entities that do not report to the public or private credit services providers? For example, the fintech ecosystem or microfinance institutions in Argentina*
- *Do you think that digital collection is important for this segment at this time or is it more important to have a personal relationship with customers?*

World Bank: Regulators have to assess the impact of any measure they want to suggest/implement, yet they need to be speedy too so there is a balance that has to take place. Banks are regulated to ensure liquidity is in place and there may be some fiscal measures by governments to step in for MFIs.

ICCR: We have already seen a shifting of the credit information ecosystem since the 2008 recession and this crisis will result in a further drive for changes in data. There is demand for changes in the credit reporting infrastructure with open data, open banking initiatives for example. Lenders will find a need for much more data and in real time in order to respond to this crisis and subsequent recovery. Existing credit bureaus are working hard on that data and approaches, exploring the exponential growth in technology such as artificial intelligence (AI) and machine learning (ML), which we will see come into play a lot more quickly.

Experian: Can we get to data that predicts the future? We need to see real time data, so can we marshal open data platforms to get to that? We need the ability to solve the affordability issue e.g. does the client have the ability to pay, do they have cash flow information?

WeBank: In China, when we look at SMEs we look at the legal person and the entity itself to get more complete picture of the borrower. Tax bureau data which is updated quarterly, is a key data source. We actively manage the credit line and contact specific clients for payment referrals and extensions based on our assessment using all the data sources we use.

From Gonzalo Gonzalez from Accion:
In some countries regulators are ordering debt moratorium for MFIs' borrowers, but MFIs depend on those payments from their borrowers, to repay their lenders. Regulators should consider MFIs' borrowers, but also the commitments MFIs have with their lenders.

4. ***As we move to real-time data and evaluation in the long term, what are the implications of regulators and supervisors for setting standards?***

World Bank: Prior to this crisis, some banks had niche clients and could be very effective in managing their portfolio, so that challenge has been there before. Regulators and supervisors need to understand the bank's model and their business for effective risk rating of the bank. If a bank has data from myriad sources, and it's organized and robust, and they can demonstrate the sources and how it is being applied, and can demo that they understand their business and monitor and manage it, then that can be taken into account by the regulator and supervisor.

5. ***Where do we draw the line on personal data privacy? Or has this ship sailed already? And at what cost? Will we see better and affordable products and services as individuals and institutions, or are we involuntarily giving it for free?***

ICCR: Privacy question – privacy is being challenged as a result of the pandemic with initiatives like tracking apps. We need to maintain a balance between these initiatives and privacy; privacy should l not be ignored as it is a fundamental requirement for a better society; going forward there will be a change from credit risk assessment to assessment of affordability – credit risk looks at past and affordability is more present and looking forward– there will be a big shift in ecosystem and those countries that recognize that and take advantage of that and respect privacy will do better in the recovery

Resources provided during the session:

- World Bank Policy Note from April 2020 "Borrower Relief Measures in ECA Region"

http://pubdocs.worldbank.org/en/993701588092073659/Borrower-Relief-Measures-Note-for-ECA.pdf

- Guidance on treatment of credit reporting data

https://www.worldbank.org/en/topic/financialsector/brief/international-committee-on-credit-reporting

- World Bank Group "Financial Sector Support Measures in Response to COVID-19"

https://dataviz.worldbank.org/views/FS-COVID19/Overview?:embed=y&:isGuestRedirectFromVizportal=y&:display_count=n&:showAppBanner=false&:origin=viz_share_link&:showVizHome=n