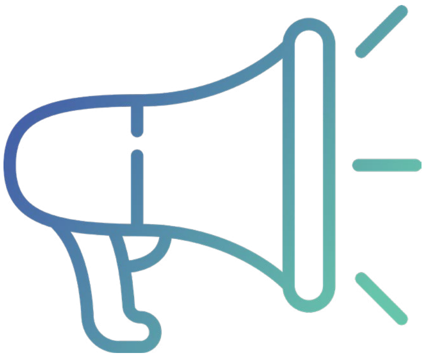
5 Tools for Proactive Recession Mitigation

When faced with economic uncertainty, financial institutions (FIs) must make challenging decisions, commonly employing short-term, broad cost-cutting measures. In a recent article, Jim Marous, CEO of the Digital Banking Report questioned whether this remains the best strategy.[1]

Marous emphasized that, when streamlining operations, there is potential for inadvertent negative impact on FI's long-term strategies. Amid extensive digital banking transformation efforts and a fluid status quo, FIs must clarify what is strategically important and should shield their margins by prioritizing investments in those areas.

Through early and selective cuts in spending and tactical investments to head off credit losses, resilient banks should pull ahead of those competitors who react only after the economy and credit quality start to fade.[2]



Bankers on recession - 96% say yes!

96% of recently surveyed bank executives stated a recession would occur this year or next.[3]

WEATHER THE STORM

FIs should build a war chest to invest in growth. During the last two recessions, the companies that reinvested in the downturn grew significantly faster than those with a lower investment.[4] When losses start to appear, banks need to mitigate them through better underwriting, a reinvigorated collections approach, and intelligent hedging.[5]

FIs can prepare by preserving income through greater efficiency, strengthening the balance sheet through portfolio moves, tactical changes, and funneling investment dollars toward growth.[5] By investing at scale to boost their capabilities, FIs can exceed client expectations using advanced technologies, digital collaboration tools, and new sources of rich data.[6]

- Jettison or liquidate underperforming assets
- Emphasize high-quality holdings that provide liquidity and resilience
- Revisit debt levels
- Assess capital capacity
- Explore investment options
- Reassess cash usage
- Review dividend policy
- Evaluate share repurchase programs
- Prepare for M&A opportunities
- Expand fee-income sources
- Diversify reserves
- Consider wholesale opportunities (for funding and investment)

[2, 4, 7, 8, 11]

No one comes through a recession unscathed, but history teaches us that the best banks dramatically outperform the worst and set themselves up for greater success when the cycle turns again.[5]

DATA

Deriving practical insights from data is crucial when planning for economic disruptions. FIs must take a proactive approach, using data and analytics to anticipate trouble.[5]

In a recent interview with McKinsey & Company, James Bickerton, HSBC Global Head of Client Development, discussed using data and analytics to power HSBC's transformation. "A big proportion of the change we're implementing is bringing data and analytical capabilities into every part of the business operating model," said Bickerton. "Data underpins pretty much everything we do. The front line... [uses] data to understand their clients—the transactional history, how they operate, where they operate. So what we decided to do was to double down on that agenda."[6]

HUMAN CAPITAL

Investing in evolving digital capabilities and talent (e.g., enhancing employee skills through education initiatives) helps FIs build a more collaborative, technology-enabled operating model.[9]

Organizational adjustments, technological advancements, and streamlined credit processes can increase productivity and reduce expenses—boosting efficiency ratios. The resulting improvements to the bottom line allow FIs to address earnings gaps and create cash reserves for priority investments.[2]

TECHNOLOGY

FIs should avoid the temptation to pare back priority digital and IT modernization efforts.[2] According to McKinsey & Company, scale in tech spending is projected by many to become a major differentiator in US banking over the next decade.[10]

COLLECTION & RECOVERY

Since the last economic downturn, technology has transformed consumer behavior. FIs must leverage modern tools for these functions to maximize recoveries and collections.

FIs can more effectively manage risk by ensuring comprehensive information is accessible in the collections workflow ecosystem. A scalable, configurable platform can help deploy automation, streamline communications, and segment accounts to reduce charge-offs and improve customer retention.[11]

CX

Optimizing customer service teams and coverage approaches based on a 360° look at customers' strategies and needs helps maximize investments in the customer experience (CX). FIs that embrace the digital landscape typically provide frictionless service at a lower cost than those not prioritizing digital advancements.[2]

In a report explaining the "Goldilocks economy" (neither too hot, nor too cold—just right), Deloitte points out that, "to the extent you can start that journey now, there can be more effective levers to pull when times are more challenging." Choosing the right partner and embracing technology, data intelligence, and automation can help FIs mitigate the adverse effects of a recession.[9]

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