



Technical Assistance Package

BFC COVID-19 Response

BFC is actively engaged in supporting our client lending institutions in this challenging time with concrete actions aiming to mitigate the impact from the crisis.

We are in contact with several international partners who are actively working on providing support to MSMEs and financial institutions, so some below actions could be co-financed by partners.

Below we have grouped these actions by timescales (immediate to long-term) and by areas of the key potential measures:

- Governance and Finance
- Back office and Operations
- Customer Service and Sales

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IMMEDIATE COVID-19 SUPPORT

Short-term focus. BFC online help is available considering travel restrictions

GOVERNANCE AND FINANCE

Setup of in-house Crisis Management Teams

This measure envisions establishing a “central task force” (Crisis Committee) empowered to make informed, rapid, and critical decisions. This needs to be limited in size (circa 5 people) and include:

- Top management representatives (who have authority for emergency decisions)
- Staff with experience specific to the type of crisis, who may communicate well with local or national authorities (e.g. medical units) and have active contact or monitor updates from such authorities
- People who have a good reputation/trusted by staff, have active regular communication with employees, ensure transparency of decisions made and are able to convey sensitive information
- People who have no conflicts of interest with respect to the institution or possible emergency decisions

An internal memo on the setup of such a task force needs to be shared within organizations asap; this should include their names, contact details, and authorities.

GOVERNANCE AND FINANCE

Analyze COVID-19 impact on the institution

An express risk analysis from a senior international financial expert is recommended to highlight MFI vulnerabilities to current market changes. This includes focusing on multiple areas, including:

- Operational Risk
- Credit Risk Exposure Ratios: concentration by sector, clients, geography
- Asset Liability Management: currency-interest rate spreads, maturity gaps
- Earnings
- Capital and liquidity buffers

BFC is in contact with various international experts with extensive experience in taking mitigation measures, having worked through the world economic crisis of 2008–2009, and local financial crisis in developing marketing of 2014–2015.

GOVERNANCE AND FINANCE

Conduct Emergency balance sheet management

Greater market volatility is to be expected now. Efforts on managing capital, funding, liquidity, interest rate risk, FX risk exposures in crisis are all relevant now. A senior expert with such experience may be assigned to help financial institutions remotely.

It is important to pay attention on the financial items suffering from COVID-19, which will require adjustments in financial projections:

- Net interest incomes, fees, commissions
- Loan loss provisions
- HR and non-HR operating costs
- Mark to market related costs
- Liquidity coverage ratio

BACK OFFICE AND OPERATIONS

Ensure occupational safety and health (OSH) measures

Institutions need to prioritize the protection of their employees and clients in the offices that remain open. According to the [WHO's advice on getting workplace ready for COVID-19](#), there are several pillars, which help to prevent the spread of infection in the workplaces:

- **Thorough cleaning** of workplaces, transit and contact areas, equipment used by employees and customers, and all surfaces and objects
- **Protective equipment** for personnel: face masks, protective gloves, and sanitizers
- **Social distancing**: minimum 1.5-meter distance between people, plastic/glass screening shields (separators) between employees and customers, and limited number of meetings and visitors in the premises
- **Social awareness**: billboards promoting good hygiene, cashless payments and distant services

BFC observes that many institutions have already implemented such measures early in March 2020, and therefore have adequate OSH protocols in place. For institutions that have not done so yet, it is highly recommended to follow national or WHO recommendations and updates.

BACK OFFICE AND OPERATIONS

Setup of remote operations

For continuity of operations, where feasible, employees may need to work from home for some period. This implies operational and technical challenges that institutions need to address.

Most typical challenges:

- Lack of proper equipment at home
- Requirement of extra software
- IT security protocols not updated

In response to the challenges, it is important for financial institutions to:

- Scale and test VPN concentrators/gateways required for remote employees
- Evaluate the help desk capacity experiencing an increase in inquiries
- Assess needs in upgrading software by internal IT capacity or external vendor
- Fix possible gaps in video and audio teleconferencing bridges/size limits of the cloud-based storage
- Ensure compliance and update requirements for remote customer identification

BFC estimates that most financial institutions will be able to set up such measures individually. Guidance and gaps identification is potentially available.

BACK OFFICE AND OPERATIONS

Conduct Emergency portfolio management

Financial institutions should expect that many clients will find it difficult to meet their contractual obligations. Due to this, many financial institutions have already introduced emergency grace periods on loan repayments. Many governments have also followed with temporary relief on such payments.

At the same time, BFC believes that while temporary decisions have been taken, an extra emergency portfolio management measures should be started in parallel:

- Risk assessment of the portfolio – understanding concentration of the highest risks, stress-testing on possible defaults for particular customers or customer segments
- Evaluating extra efforts needed based on the conducted analysis - this is relevant for both efforts of staffing, and extra costs that may increase due to growing NPLs
- Defining a pool of standardized actions to be applied for various segments with similar risk profiles

It is important to follow tactics but not a rigid strategy – portfolio decisions made nowadays should be short-term and flexible for their adjustment based on changes in the market.

BACK OFFICE AND OPERATIONS**Undertake Emergency HR management**

Health risks associated with the current crisis, as well as expected economic impacts affecting jobs, call for a number of emergency HR actions and active communication with employees. Apart from addressing health risks (see separate recommended actions), there are several priority measures that MFIs need to take to ensure efficient distance working and dealing with staff that is unable to work in this period:

- Development of an internal communication strategy during the crisis
- Ensuring effective exchange of management decisions and employee feedback
- Emergency analysis of staff activities and identification of “functional gaps”
- Re-defining of staff duties and responsibility delegation principles
- Establishment of temporary KPIs or efficiency assessment criteria
- Having clear procedures and communications for staff that gets infected
- Communicating to employees about potential part-time work and/or forced vacations

CUSTOMER SERVICE AND SALES**Manage external communications (updates to clients & stakeholders)**

In the beginning of the crisis or lockdown, financial institutions may experience thousands of claims, requests, or inquiries from their customers. Addressing these could be quite challenging and overwhelming for front offices.

BFC believes, that first step towards lowering the communication workload of the employees is **information updates**:

- On branch operations and alternative means of communications
- On (temporary) product and services changes (e.g. grace periods on loan repayments)
- On government measures taken related to the banking sector

The second measure is the **unification of customer's request** and equipping employees with centralized decisions on how to address these inquiries:

- Identification of most probable customer requests and questions
- Development of clear guideline and script for all the employees communicating with customers

BFC estimates that most financial institutions will be able to coordinate such communications individually. Support in developing communication checklists and script writing is potentially available.

BUSINESS CONTINUITY & RESILIENCE

Short and Medium-term focus. Some activities will require traveling to clients

GOVERNANCE AND FINANCE

CEO Mentoring Program

A senior consultant with previous FI, CEO and/or Board Member experience is proposed to serve as a mentor to existing FI management. This is seen as a short/medium-term support initiative that would cover multiple topics as things unfold in the following weeks/months.

This form of consulting has been practiced by some of our available experts for many years. It can also be adjusted to start with online support, with other onsite support later. An external senior expert would therefore serve as an extra feedback loop for CEOs (in addition to board members).

Besides the topics related to everyday and operational activities of the financial institution, there are also specific ones that should be considered by FI's management:

- Plug into government programs
- Increase awareness about donor-funded projects and alternative fund-raising
- Exchange on fraud prevention examples and insights

GOVERNANCE AND FINANCE

Implement efficiency improvement measures (costs, processes, products)

Any crisis does not only impose the need to be more efficient, but may also be seen as a good opportunity to implement some measures that will have long-term efficiency benefits. Some common areas where BFC recommends a more focused analysis for efficiency gains are:

- Credit cycle with a detailed breakdown into associated processes
- Net and gross time needed for employees to perform their duties
- Cost of products and analysis of margins, which could now change due to new circumstances
- Proper allocation of expenses to each operation
- [Comprehensive operational analysis](#)

GOVERNANCE AND FINANCE

Adjust business planning and budgeting

New challenges call for a revision of previous business plans. This may also require multiple development scenarios given that the full impact of COVID-19 on various markets is hard to predict. Nevertheless, BFC is confident that adjustment of the business planning should start as soon as possible by focusing on:

- Review of significantly affected financial indicators
- Estimation of the possible operational losses in mid-term and long-term perspectives
- Analysis of the liquidity position and forecasting its fluctuations and gaps
- Modelling crisis scenarios and their implication on the balance sheet of the financial institution

BACK OFFICE AND OPERATIONS

Conduct portfolio segmentation & re-classification of risks

COVID-19 will have different impacts on various types of industries and borrowers. In order to identify risk clusters in the loan portfolio and estimate the level of the effort required from financial institutions to work on mitigation measures, BFC is ready to support with the following measures:

- Portfolio analysis and identification of risk hotspots
- Risk mapping and risk classification of the borrowers
- Forecasting of losses in different customer segments
- Stress-testing of the loan portfolio
- Development of the projection scenarios

BFC's experts have applied these approaches during past crises during 2008-2015 in numerous developing markets and have accumulated a comprehensive background applicable for the challenges in 2020.

BACK OFFICE AND OPERATIONS

Restructure loans and consider refinancing options

Restructuring of the loan portfolio is the next important measure after completion of portfolio segmentation and classification. A typical challenge for financial institutions in crisis periods is the need to provide full-scale support for numerous borrowers experiencing problems with loan repayments. Using BFC's expertise in addressing these needs, financial institutions may receive advice to:

- Develop a wide range of restructuring and refinancing tools
- Identify the most suitable tools for groups of borrowers based on their risk classification
- Implement prompt and standardized decision-making models and authority levels

An important condition to be maintained in this process is ensuring that the level of effort needed for restructuring actions is manageable, unified and does not overload financial institutions with making case-by-case decisions.

***Note!** Restructuring tools are not limited to "typical" grace periods and changing the repayment schedule. Any approach related to structure of collateral, guarantors, financial covenants, legal obligations, structuring of the financing facilities might be applicable.*

BACK OFFICE AND OPERATIONS

Optimize collection approach

When anticipating an increase of delays in loan repayments, a financial institution has to find the right balance between supporting customers in trouble and recovering the loan portfolio. Collection strategies that successfully worked in the past will not be applicable for the challenges in 2020.

An upgraded and redefined "[soft collection strategy](#)" should be considered. BFC is ready to support here with:

- Collection strategy development
- KPI and incentive system development
- Selection, training and coaching of soft collection staff
- Reporting and monitoring of the collection process

On a separate note, BFC would highly recommend to revise the existing collection scripts with the borrowers, and develop scripts which consider the special features of this crisis and pain points suffered by customers.

BACK OFFICE AND OPERATIONS**NPL management**

Financial institutions will likely face a deterioration of borrower repayment capacity, which will likely increase the level of non-performing loans (NPLs). BFC is ready to assist MFIs with the following measures for managing the portfolio at risk:

- Checking available reporting capabilities and their adjustment
- Overdue portfolio analysis and appropriate segmentation of sub-performing and non-performing loans
- Classification of the NPLs according to various breakdowns
- Identification of measures that should be taken for each classified NPL segment

Development of the scope of actions required for each NPL segment and approval rules for their undertaking

BACK OFFICE AND OPERATIONS**Optimize IT support and infrastructure**

Strengthening the IT infrastructure and overall digitalization of the processes has now become a vital necessity for financial institutions to continue business. BFC with its significant experience in developing loan processing applications, tablet lending and CRM, would recommend financial institutions to invest efforts into the following urgent measures:

- Optimisation and/or development of loan application software with the purpose to reduce manual activities and accelerate loan processes
- Introduction of the remote promotion and sales channels addressing the needs of target customer segments
- Implementation of the CRM and ensuring proper tracking of any contacts with customers and strengthening leads generation
- Review and upgrade internal communication channels

BACK OFFICE AND OPERATIONS**Redefine KPIs and HR optimization efforts**

Since duties of the staff may be amended, it is important to update the requirements to employees and find new models, which meet new criteria of the assessment of staff efficiency. Likewise, a financial institution should be prepared for optimisation of staff without harmful impact on everyday operations and servicing of customers. BFC recommends ensuring the alignment of new business planning with the HR strategy by addressing next issues:

- Assessment of the workload per employee, business and regional units
- Identification of duties redefined as a first response to the crisis and quarantine restriction measures
- Evaluation of possible scenarios for staff optimisation, modelling full-time and part-time involvement
- Modulation of the staff optimisation impact to the key business using a few strategies (e.g. loan portfolio drop/growth, increase of the NPL)

Despite measures aimed on the staff optimisation, it is necessary to update approaches in HR management, including:

- Development and/or update of the job descriptions reflecting new tasks and duties
- Update of the KPIs and reinforce them with respective insensitive system

CUSTOMER SERVICE AND SALES**Enabling cross-sales and renewals for existing customers**

With an expected slowdown in sales during a crisis, financial institutions need to seek alternative sources of additional income. Moreover, financing shouldn't be stopped for borrowers that were less affected by the crisis. BFC's experience in overcoming the financial crisis 2008–2009 proved the success of several measures here:

- Identification of industries having the capacity to absorb financing
- Enabling of the available and potential customers database
- Increasing the share of customers using more than one product
- Ensuring liquidity to secure planned disbursements and renewals
- Adjustment of the sales approach of front office staff

In order to access the sales capacity of your financial institutions, we would advise an [online rapid sales process audit](#) internally developed by BFC.

POST-CRISIS SUPPORT MEASURES

Long-term focus

GOVERNANCE AND FINANCE

Conduct smart cost optimization

BFC usually supports “smart” cost optimization measures instead of just “cost cutting”. When considering cost optimization, some financial institutions start by reducing or even removing particular items of expenditures, including staff expenses, development and investment expenses. However, we trust that smart cost optimization should start from efficiency improvements in different aspects of banking business and operations:

- [Credit process cycle](#) (e.g. removing of duplicating operations, reducing manual efforts, centralization)
- Risk-assessment (e.g. replacing of human input where applicable, decreasing the number of decision-making layers)
- Sales process (e.g. improvement of customer retention rate, increase of lead conversion rates)
- Individual performance (e.g. reducing of the net/gross time needed for average employee to perform a typical tasks)

BACK OFFICE AND OPERATIONS

Optimize risk-assessment tools

Challenges triggered by COVID-19 are also an opportunity for financial institutions to focus on the development, upgrade and strengthening of the risk assessment tools. BFC recommends to start with the risk assessment of the whole portfolio addressing the following issues:

- Identification of the variety of the risk factors, which affect the loan portfolio
- Classification of the portfolio at risk by different criteria as decision-making authority, financial indicators in the pre-crisis periods, re-assessment of the collateral value, and other numerous criteria.

A key task for this exercise is to receive good statistical data on the loan portfolio. This data should be used for building and testing [credit scoring](#) or risk rating:

- For under-performing loans and NPL portfolio
- For portfolio at different levels of risks and the one impacted by lockdown measures
- For existing customers, which request renewals, limit increases

The outcome of these actions could be better risk assessment tools, which institutions may use both during and after a crisis.

BACK OFFICE AND OPERATIONS

Re-design lending operations

Existing lending processes and policies may be unusable now, requiring a significant re-adjustment. In previous projects affected by crisis situations, BFC focused on several re-design measures that we see relevant for current challenges:

- Set-up of centralized underwriting for micro and retail lending
- Separation of staff duties in order to establish a high-level of specialization
- Establishment of a “[credit factory](#)” approach
- Implementation of [centralized collection](#)

Each of the above steps should come a diagnostic of the existing operations, including:

- Credit process audit
- Decision-making audit
- Sales process audit

BACK OFFICE AND OPERATIONS**Train staff on adjusted business models and products**

BFC considers that a training approach should be implemented in close compliance with business requirements and specific operating models of individual financial institutions. In other words, employees should be trained for skills they will actually require, also keeping in mind general best practices.

- It is important to identify training channels. BFC has invested efforts into the development of an [e-learning solution](#). This approach allows to deliver training by efficient use of employees' working time, form a clear structure of the training topics, and to regularly monitor training and testing results.
- A [multi-layered training approach](#) should be established. This means that specific departments and business lines should have previously planned and scheduled particular training measures. The learning must be continuous, but not occasional.

BACK OFFICE AND OPERATIONS**Enhance digital transformation**

Even if digital solutions were previously not a priority, in the post-crisis business model, the financial institution has to redefine its IT strategy and identify the most needed solutions. New digitalization efforts have to be considered from two angles: solutions required for customers and solutions needed by the institution. BFC's experience in the implementation of digital tools has proved that well-timed solutions are helping institutions to be more resilient to unexpected challenges like COVID-19. Digitization examples may include:

- B2CB2B platforms for providing financing in partnership with vendors of different products
- Tablet and remote lending
- [Loan application software](#), which significantly increases efficiency
- Web-based technical cards for agriculture business
- CRM or other alternative leads-tracking and sales management tools

CUSTOMER SERVICE AND SALES**Enhance sales capacity**

Approaches that ensured an acceptable level of sales yesterday may not be relevant tomorrow. BFC has always consistently acknowledged the importance of [centralized sales management](#) and its alignment with dedicated marketing efforts and appropriate IT support.

Before a renewal of active lending, BFC would highly recommend conducting an "inventory" of the sales quality, including:

- Availability of tools and guidelines available for front-offices in communication with customers
- Assessment of the sales and service quality of any delivery channel by using Mystery Shopping approach
- Analysis of sales targets and confirmation of their alignment with business strategies and existing/potential staff workload

Based on obtained results, the financial institution may:

- Equip staff with up-to-date sale standards and communication scripts
- Track possible leads obtained from numerous sources
- Increase the awareness of front-office staff on the current positioning of the financial institution and competition

CUSTOMER SERVICE AND SALES**Conduct market analysis and targeting of new customer groups**

Business expansion towards new segments, new regions, and new customers may be one of the brightest opportunities for the “post-pandemic world”. The process of identifying the market potential should be started right now by:

- Analyzing the loan portfolio and portfolio of non-credit customers to identify industries and customer segments which experience a high resilience to the current crisis
- Analyzing the competition and identifying latest trends and updates, their readiness to continue financing their existing and/or new customers
- Identifying at least 3 priority target segments, which should be reached by the financial institution
- Defining a reasonable risk appetite to be maintained for new segments
- Setting targets for new customer acquisition and testing the approach within a small-scale pilot

CUSTOMER SERVICE AND SALES**Upgrade product line**

Product offers should equally reflect changes in needs and requirements of new and existing customers. Products successfully sold in pre-crisis times may no longer meet client needs or operating realities. BFC can support financial institutions with:

- Development of new products for several customers groups—dormant, existing and new customers
- Identification of potential purposes—borrower’s operational support, covering of the existing gaps, business “reanimation” measures, etc.
- Identification of most applicable delivery channels with a focus on digital solutions
- Adjustment of collateral policies
- Stimulation of cashless operations