2021 update

COVID-19 EXIT STRATEGY PLAYBOOK: AN UPDATE

SEPTEMBER 2021 COVID-19 UPDATE

Early in the pandemic, we published a COVID-19 Exit Strategy Playbook, which looked at how organisations had coped since lockdown began and provided recommendations about what to consider in the near term.

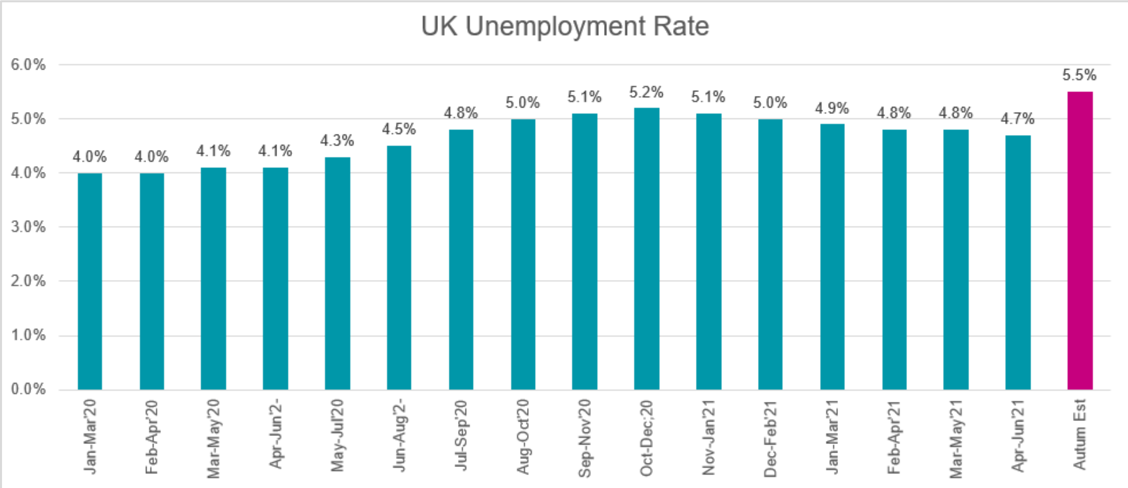
‘Freedom Day’ sees better than expected economic outlook

Since our playbook was published, the landscape has continually changed with various lockdowns, second waves, and extensions of furlough, all of which resulted in uncertainty (particularly in sectors such as travel and hospitality). However, with legal restrictions effectively being removed in July 2021, and with furlough starting to unwind, the early thoughts on economic impacts are not playing through as expected, yet.

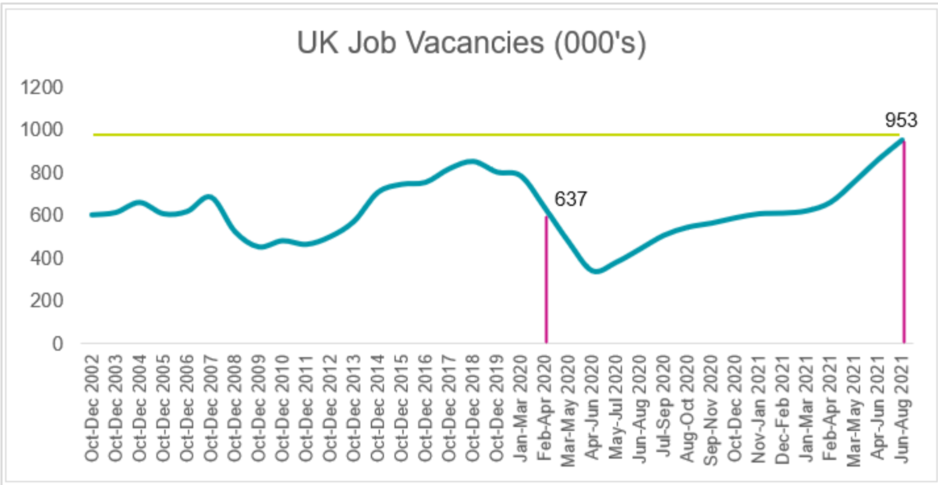
Furlough un-wind and unemployment

With the Chancellor announcing furlough will end on 30 September 2021, we have since seen various changes in the government’s contribution to the furlough scheme. Most recently, effective from 1 August 2021, the **government will pay 60% of wages up to a maximum cap of £1,875** for the hours an employee is on furlough. On the one hand, this could be seen as positive, in that employers are now able to support an employee’s wage because of the easing of lockdown restrictions and improved trading conditions. On the other hand, many businesses are still struggling, many with commitments to repay a BBLS or CBILS facility, and the reduced contribution from the government will have a real impact on the ability of many businesses to sustain jobs.

In the three months to June 2021, the **unemployment rate improved slightly to 4.7%,** with the Bank of England forecasting that this will increase to 5.5% in the autumn. On 29 July, the government reported that the latest ONS BICS statistics (which are based on fortnightly surveys), reported that approximately **1.1 to 1.6m people were still on furlough**.



It is thought that the most Britons still on furlough are likely to be arts and creative workers, and despite the various lifelines provided by the government to workers and businesses alike, **one in 16 firms say they are at risk of closure, which puts one million jobs in jeopardy**. Firms in certain sectors are struggling to hire new staff and to keep existing staff due to serious competition, and at the same time **annual regular pay growth has increased by 7.4%.** Some firms just cannot compete with the higher wage demands.



Despite the uncertainty around the unemployment rate, job vacancies are showing a positive trend. The ONS reports that **953,000 jobs were on offer** between June and August 2021, 168,500 more than the first three months of 2020, with a single month record high of over one million vacancies in July. These vacancies have surpassed pre-pandemic levels with the rise driven by vacancies in hospitality and retailing (as reported by the BBC).

The economy and Brexit

Elsewhere, we have experienced impacts of the NHS COVID-19 ping scheme alerting hundreds of thousands of people to self-isolate, and this, coupled with Brexit impacts and the movement of goods across borders, has led to empty shelves in the supermarkets again.

Changes have been made to the ping algorithms, and workers such as supermarket staff, as well as double-jabbed people, now no longer need to self-isolate if they have come into contact with an infected person.

It will be interesting to see how the change to the movement of goods across borders as a result of Brexit, which has impacts in its own right, will further be impacted by the government's "traffic light" system and the additional restrictions that are in place for workers (truck drivers) from other countries.

Meanwhile, there has been record increases in holiday bookings, with **flight bookings up by 400%** for some companies and **staycation searches up by 511%**. Despite the lifting of restrictions though, there is still an element of a gamble in international holidays with some countries being relegated to the "red list", meaning holiday makers will need to self-isolate in a hotel on their return to the UK (£2,250 cost to the individual) and with minimal notice to arrange return flights to beat the deadline for isolating. The latest example of this was Mexico.

There are some positive signs about the future economic outlook. The Organisation for Economic Cooperation and Development (OECD) has revised its prediction to a likely growth of 7.2% in 2021, versus an earlier prediction of 5.1%, with **Gross Domestic Product (GDP) expected to return to its pre-pandemic level in early 2022**. However, Brexit is now predicted to start to bite on the UK economy due to increased border costs impacting foreign trade.

We have observed banks posting impressive profits after an improved economic outlook / overly cautious provisioning, has led to bad debt provisions being released.

Lloyds Banking Group records £2bn profit after pandemic slump

Source: The Guardian

Barclays posts £5bn profit as economic outlook brightens

Source: The Telegraph

HSBC restarts dividend as profits soar to £7.8bn

Source: The Telegraph

Impact on credit and collections

Despite these positive indications, the Bank of England's quarterly Credit Conditions Survey, published on 16 July 2021, requires us to remain cautious:

- The length of interest-free periods on credit cards had increased on the previous three months
- Suggestions that banks expect default rates on unsecured lending to jump in Q3 / Q4, with the number of borrowers defaulting on secured lending also expected to rise
- The end of furlough and payment holidays over the summer will lead to job losses

Other impacts on people's pockets, such as the 15% increase on energy bills due to increased wholesale costs, will also add to payment stress.

Adoption of digital has been critical for creditors

Creditor's capabilities have come a long way since the first lockdown in March 2020. We are all aware of the significant pressure creditors were under then, due to increased customer demand for forbearance and payment holidays. It was an uncertain time for everybody.

However, creditors, by and large, have responded admirably to the challenges they faced. What was apparent was that organisations that already had digital capabilities faired far better than those that didn't. This led to a rush for digital solutions. **McKinsey reported in May 2020 that digital adoption "vaulted five years forward in consumer and business digital adoption in a matter of around eight weeks".**

However, not all creditor organisations have adopted digital at the same pace. There are many organisations that are still lacking in effective and efficient digital capabilities. Some have relied on legacy digital channels whilst others have used the pandemic as a vehicle for increasing investment in digital but lack the experience and insights on how to invest in digital wisely.

In other areas, creditors are now battling with introducing an effective work balance: home / office / or a mix? Whilst we observed productivity soar during the pandemic because of home working and the removal of commuting, lockdown created other problems including employees who had no space to work effectively at home, those who need contact with other people outside of their own family or if they live alone, domestic abuse and, it has to be said, a reduction in productivity for those organisations who did not have effective performance management frameworks in place which work in a remote environment.

It remains to be seen what the general direction will be for returning to the office. Some organisations have taken the opportunity to let employees work from home full time with a view to reducing real estate costs. Others recognise that office working is healthier for a lot of employees and helps with their mental health. However, despite the country re-opening, **fewer than 20% of UK city workers have returned to the office**.

How can Arum help?

Digital

- Assessment of digital technology and customer journeys
- Develop robust business case and financial ROI model for change
- Recommended digital roadmap report
- Design of collections customer journeys with a focus on UX
- Mobilise digital delivery team
- Market and vendor capability assessment
- Digital proof of concept champion challengers

Operations

- Collections Excellence Assessment to improve operational execution, collections strategies, contact strategies, use of data, performance management, organisation, policies, controls etc

Technology advisory and transformation

- Technology selection acceleration to enhance automation, self-serve and capacity
- System implementation support of 30+ collections & recoveries systems

Interim management

- Interim resourcing and staff augmentation to help expedite project deliverables
- Experienced resources to augment your management team

ABOUT ARUM

Arum is the only truly independent company offering services across the credit management lifecycle, partnering with both theprivate and public sectors.

We have over 20 years' experience helping our clients achieve their strategic objectives by improving their regulatory, credit risk and portfolio performance, whilstmaximising returns on their technology investments. We provide a blend of professional services, consulting and unrivalled knowledge of the collections and recoveries software landscape, including benchmarking analysis across 30+ systemvendors.

Within public sector, we aim to build better outcomes for citizens by improving thecollection of local and central government revenues that fund public services.

Our team includes highly experienced operational and programme directors, projectdelivery leads and implementation experts, the majority of whom started their careers within the financial services and government sectors and have a passion forsharing their knowledge and expertise.

Headquartered in London and with clients spanning more than 20 countries worldwide, we work across financial services, utilities and telcos, central and localgovernment, and the debt purchase and recovery supply chain.

Arum is here to help and support you through these challenging times

We can share ideas and create a plan that is tailored to your specific needs

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