



Strategies for coping with the COVID-19 crisis



Desjardins

Développement international



Working together

FOR COPING WITH THE COVID-19 CRISIS

On May 5, Développement international Desjardins (DID) held its first international webinar on strategies to better cope with the COVID-19 crisis.

During the event, representatives of Desjardins Group's senior management gave an overview of the organization's response to the crisis. Experts from DID also presented lessons learned and areas for reflection based on their experience in the field. Webinar participants, hailing from 27 countries, were asked to complete a survey on measures implemented by their organization during the crisis. An analysis of the various scenarios adopted around the world was also conducted by DID to get a more complete picture.

In this document, we've summarized the best practices and essential tools to adopt in the face of the current crisis and provided an overview of the inclusive finance sector and the measures in place across the globe.



Inclusive finance sector put to the test

Despite the wide disparity in responses to the crisis, the survival of many inclusive finance institutions is clearly at risk, and they will need show a great deal of creativity and resilience to ensure their viability while meeting the needs of their beneficiaries.

It's also worth pointing out that 46% of survey respondents rank maintaining a suitable level of service for their beneficiaries at the top of their priorities, while 35% favour preserving the organization's solvency and capital. Protecting employees and meeting the requirements of regulatory authorities are considered priorities for 15% and 4% of respondents, respectively.

The degree of preparation in the face of a crisis such as COVID also varies: while 81% of respondents have a business continuity plan, 61.5% have implemented a crisis committee and 58% have established crisis-related scenarios.

How have the regulatory authorities responded to the crisis? Only 11.5% of respondents say that they haven't seen a response on their part, while 61.5% report measures that have proven restrictive for inclusive finance institutions, and 27% say that relief measures have been implemented.

Here's a snapshot of the measures taken by regulatory authorities:

- Most countries have encouraged loan rescheduling: in some cases, this is a mandatory measure and affects all beneficiaries, while in others, it's being deployed on a voluntary basis.
- Some authorities have required financial institutions to reduce the interest rates in effect.
- Others have prohibited the seizure of assets pledged as collateral.
- In some countries, microfinance institutions have had to close their doors while banks have been able to stay in operation.
- Flexible conditions have been offered with regard to capital and liquidity reserve requirements.
- Extensions have been granted for disclosing reports to the authorities.
- Relief measures most often cover a 3- to 6-month period, and sometimes extend to the end of 2020.

A NEGATIVE IMPACT FOR FINANCIAL INSTITUTIONS

These measures, most of which aim to protect beneficiaries, can accentuate the negative impact of the crisis on microfinance institutions' portfolios. In addition, their IT systems don't always allow for changes to granted loans to be integrated. This highlights how important it is for these institutions to invest in their digital transformation.

In this regard, 69% of survey respondents indicate that the crisis has helped accelerate their digital transformation by encouraging them to prioritize initiatives planned for the medium to long term. A wide range of changes have been reported, such as:

- Implementing collaboration tools to enable telecommuting and virtual meetings;
- Increased collaboration with telephone operators and fintechs;
- Implementing transaction platforms and virtual payment systems;
- Adding new online services and operations;
- Greater use of social networks.

Other measures or strategies put forth during the crisis include:

- Strictly managing liquidity and spending;
- Requesting creditor payment deferrals;
- Maintaining staff in many respondents' institutions;
- Adopting physical distancing and hygiene measures;
- Reorganizing services and reviewing employees' roles based on needs and priorities;
- Rotating staff to ensure service continuity;
- Offering psychological assistance and flexible work schedules to employees;
- Reducing the amount of credit granted and suspending long-term loans;
- Communicating with members to identify which ones are able to continue to make their payments, in part or in full;
- Offering emergency loans at reduced interest rates;
- Adopting strategies to minimize deposit withdrawals by members or clients.



SUPPORT FOR VULNERABLE CLIENTS

Lastly, half of the respondents claim to have taken special measures to support their most vulnerable clients, particularly young people and women, by:

- Maintaining ongoing communication with clients in order to identify the most effective ways to help;
- Introducing new support and guidance products with less costly conditions
- Granting moratoriums and reduced interest rates;
- Offering assistance and training to individuals who are unable to use the digital services available;
- Offering services at home;
- Offering financial education;
- Offering food and financial assistance.

Desjardins: A swift and strong response to the crisis

Below are few of the measures that led Desjardins to be recognized by the United Nations as a responsible financial institution in the context of the COVID-19 pandemic, a recognition only given to three North American financial institutions.

BUSINESS CONTINUITY PLAN AND CRISIS UNITS

At Desjardins, each business sector and support function has a business continuity plan that is activated gradually, depending on how the situation evolves. The organization also has a pandemic plan that includes prioritizing critical activities to ensure business continuity. Crisis simulation exercises carried out at least once a year and the most recent stress tests showed that Desjardins Group's capital and liquidity levels were sufficient.

At the very start of the crisis, Desjardins implemented additional units to bolster its efficiency with regard to management, products, distribution, communications, etc. These units, which work closely together, have made Desjardins more agile in terms of governance and decision making while ensuring that priorities are aligned.

EMPLOYEE PROTECTION

Maintaining the morale of employees and ensuring their long term engagement is a real challenge. Desjardins has therefore kept in regular communication with its employees and supported those who are having a difficult time. For example, the President and Chief Executive Officer meets weekly with the organization's nearly 50,000 employees, managers and board members via conference call to maintain direct ties with them. Dedicated websites have also been designed to facilitate ongoing access to crisis-related information and offer advice of all kinds.

This has enabled more than 85% of Desjardins Group employees to continue to work from home and avoid any service interruptions. For employees who have to go into work, physical distancing and hygiene measures have been put in place, and additional compensation has been offered.

Business hours have also been adjusted and a number of points of service have been closed.

PROTECTING MEMBERS AND CLIENTS

To support its members, Desjardins has deployed a number of relief measures and relaxed certain procedures. To date, it has received close to one million requests for relief measures and payment deferrals. In addition to these measures, Desjardins has been proactively offering advice and support.

For entrepreneurs, this support has been in the form of easier access to the various types of assistance available. Desjardins has helped them not only get through this difficult and crucial time, but to position themselves to play a key role in restarting the economy.



ACCELERATING THE DIGITAL SHIFT

Progress made in terms of the digital transformation underway at Desjardins has clearly made the situation easier during this crisis. Last year alone, teller transactions dropped 68%. Prior to the pandemic, nearly 92% of interactions were already being carried out independently and online. That percentage is now close to 97%.

Desjardins has also offered short training sessions to those who need to become more familiar with technology, particularly seniors, and has continued to streamline procedures and tools offered via its digital channels (e.g., secure data exchange and e-signatures).



AN ACTIVE PLAYER IN THE ECONOMIC RECOVERY

Lastly, Desjardins is preparing for the reopening of the economy and the gradual lifting of restrictions on the population and workers so that it's ready to go when the time comes. The organization's back-to-business plan has three main components:

- Relaunching operations in a gradual and orderly fashion.
- Prioritizing major initiatives and strategies (reviewing the 2020 plan, setting priorities and exploring new business opportunities).
- Providing socio-economic leadership in supporting the economic reopening and recovery.

To support the reopening, Desjardins will dedicate a range of funds to projects that reflect the community's priorities, such as employment, economic vitality, education and the environment. This contribution will primarily be in the form of donations to businesses.



DID: Lessons learned and areas for reflection

MANAGING LIQUIDITY DURING A CRISIS

For the last two months, we've experienced an unprecedented global situation, and no one can predict its outcome. However, we've already learned a number of lessons during this time:

- Unlike the 2008 crisis, confidence in financial institutions hasn't been shaken, and we haven't seen massive capital outflows.
- Revenues have dropped and will continue to do so. Spending by organizations will be impacted by this.
- Financial institutions need to focus on two aspects of management: human resources and clients.

PROTECTING ASSETS BY ESTABLISHING A CRISIS COMMITTEE

In the current climate, every institution must prioritize managing liquidity in order to survive the crisis. The first step is to establish a crisis committee, which is a small group armed with decision-making power and a mission to protect the organization.

BREAKDOWN OF A CRISIS COMMITTEE AND MEMBERS' ROLES

- The general manager is leading the committee and ensures the participation of the entire team.
- A board member is responsible for informing and obtaining the approval of the other board members for decisions made by the crisis committee.
- The communications manager plays a key role during a crisis by helping to properly structure various messages.
- The financial manager ensures optimal liquidity management.
- The credit manager is responsible for limiting the deterioration of the portfolio's quality, which is virtually inevitable.

CONTINUITY PLAN AND CRISIS COMMITTEE PRIORITIES

- Establish a budget for the next three months and forecasts for two scenarios, a realistic one and a pessimistic one. Review the scenarios on a weekly basis.
- Determine how long the institution can manage the situation.
- Inform staff about decisions made and work to be done.
- Communicate with all clients.
- Reduce expenses by focusing on those that won't have an impact on day-to-day operations: postpone investment projects (e.g., opening branches and developing IT tools), reduce payroll, decrease the number of hours worked (if possible, maintain ties with employees), discontinue external services (consultants, etc.), negotiate the lease, etc.

NEXT STEPS

- Collections (income) – Most state-owned banks are entitling clients to a grace period of 4 to 6 months. You may be able to offer your clients a discounted interest rate or other advantages if they make their payments.
- Financing – Contact lenders in order to:
 - Inform them of your plan;
 - Discuss reviewing loan conditions.
- Evaluate government programs: lines of credit, guarantee funds, etc.
- Stay abreast of reopenings in certain economic sectors, make a list of clients that are active in those sectors and determine their financial needs.

AFTER THE CRISIS

There will be opportunities to assess and needs to meet, as some of your clients will have benefitted from the crisis.



5 STRATEGIES TO HELP RESTART THE ECONOMY AND BUILD THE RESILIENCE OF MFIS

To speed up your recovery from the crisis, help restart the economy and increase your resilience, below are 5 strategies based on DID's experience.

1. Improve planning and scenario simulations

During and even after the crisis, you will need to carry out planning and simulations. This must be coordinated at the highest level of the institution by a steering committee, with an emphasis on employee safety, relationships with members and clients, financial health and supply.

3 mistakes to avoid during a crisis: :

- Adopting an optimistic bias in establishing scenarios and evaluating impacts.
- Referring to a past experience to address a new and unknown situation.
- Waiting to take action until "all the facts are in".

2. Mitigate repercussions on capital

Several measures can be taken quickly, such as:

- Developing a stress test for the institution's portfolio;
- Establishing a contingency and business continuity plan;
- Contacting and entering into discussions with the MFI's stakeholders;
- Focusing loan operations on well-known and less risky sectors, geographic areas and client segments;
- Reassessing and prioritizing operational and investment spending, and suspending non essential spending ;
- Reducing the overall cost of financing by renegotiating with lenders;
- Examining the possibility of lenders implementing a line of credit or guarantee fund.



3. Reinvent relationships with beneficiaries

In transitioning towards remote interactions with beneficiaries, it's important to explore new approaches, partnerships or work methods. For example, you can develop communications via social media, offer text-to-speech technology or use chatbots to improve remote customer service.

4. Promote certain products and services that are essential to financial security, particularly for the most vulnerable

The crisis has highlighted the importance of several financial and non-financial products, such as:

- Insurance and savings products, as well as bridge loans, which protect clients against disasters;
- Digital financial services, which improve access to services and can even save lives during a pandemic;
- Financial education and support for entrepreneurs, which promote long-term loyalty and help clients stay afloat.

5. Accelerate the digital transformation

Below are 7 measures aimed at speeding up the digital transformation:

- Test the robustness of existing digital channels, and don't hesitate to invest in infrastructure and IT tools.
- Develop a training plan for employees and clients.
- Quickly prioritize the opening of new digital channels to allow for loan disbursements and repayments with limited physical interaction.
- Upgrade digital communication channels to support clients remotely by using messaging tools such as WhatsApp, social media or videoconferencing systems.
- Provide additional support for data to evaluate borrowers remotely.
- Don't overlook cybersecurity, particularly when creating access for users remotely and developing digital solutions.
- Improve access to information, digital education and financial education, particularly for women.

DÉVELOPPEMENT INTERNATIONAL DESJARDINS

**Active partnerships for strengthening
inclusive finance in 30 countries on four continents**

