Point of View Paper

Be Prepared

Managing Credit Card Delinquency in Times of Consumer Angst

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Whether in the midst of an economic boom or a financial crisis stemming from a pandemic, financial institutions must constantly review their credit card portfolio performance and cardholder relationships to assess the status of their bottom lines.

During the COVID-19 pandemic, economic prognosticators and financial institutions are anticipating a rise in credit card payment delinquencies and charge-offs as a result of spiked unemployment. There's no emerging consensus on when the economic turbulence will abate.

With uncertainty permeating the financial landscape, financial institutions need credit card delinquency strategies that will work regardless of the economy's condition. So, what can financial institutions do to ensure continuous credit card portfolio stability?

Emphasizing professionalism, consumer empathy and strong relationships is the most durable approach financial institutions can take to maintain front-of-mind and top-of-wallet card status, ensuring their portfolios perform and their consumers value their affiliation with you.

1. Maintain Professionalism
2. Deliver Empathetic Guidance
3. Nurture Strong Cardholder Relationships

Maintain Professionalism

Making solid credit card portfolio decisions for consumers and your financial institution is a formidable task even in normal economic times. And when the economy sours, that task becomes especially difficult.

Be steady. Be watchful. Most importantly, be professional by making sure to have the necessary tools to derive insights that are essential to appropriately manage your credit card business.

Recent Fiserv research shows just how important the right strategy and tools can be. According to Expectations & Experiences: Consumer Finances During COVID-19, more than half of consumers experienced some employment change during the pandemic, with four in 10 reporting a job loss or reduced hours for someone in their household. The research also showed that 38 percent of banking consumers expect their 2020 income to be less than in 2019. In addition, 24 percent of consumers said they have charged more than usual to their credit cards since the onset of the pandemic.

Those are significant economic indicators, making it essential to prepare for a wave of potential credit card delinquencies and charge-offs. They raise the importance of implementing portfolio safeguards, including delinquency-management tools.

Predictive analytics tools can help in determining the likelihood of an account going delinquent. They ensure access to thorough data to identify at-risk accounts and provide one-source, professional, discrete direction and insight to proactively salvage account balances and client relationships.

Deliver Empathetic Guidance

The Expectations & Experiences research also showed that more than half of Generation Z, millennials and Generation X consumers experienced negative financial effects due to the pandemic, with millennials at most risk for late rent or mortgage payments. Among all consumers surveyed:

- Twenty-three percent chose to pay some bills instead of others
- Eighteen percent are likely to miss a bill payment within the next three months
- Fifteen percent have missed a bill payment
- Nine percent needed to take out a loan

A financial institution's delinquency-management approach should include hands-on, proactive management of at-risk credit card accounts. This strategy can help reduce the risk of losses from written-off accounts and signal when is the right time to contact cardholders to help bring their accounts current.

Consumers whose economic outlook is stark will appreciate a consumer-friendly, empathetic touch that provides guidance and assistance to help minimize any financial peril.

Determining the likelihood of a credit card account going delinquent enables financial institutions to actively advise and assist cardholders before they miss a payment. It helps preserve relationships with cardholders and positions financial institutions as partners and advisors rather than as disinterested debt collectors.

Nurture Strong Cardholder Relationships

Consumers place enormous value in their relationships with financial institutions. The Expectations & Experiences research found that 54 percent of consumers expect to return to in-branch banking within a month after reopening, second only to those who expressed a preference to return to their office or workplace when it reopens.

Cardholders value and understand the importance of their relationship with financial institutions, which are well-situated to provide people the products and services they'll need over the course of their financial lives. The fact that many want that interaction in person is a testament to the trust they have in financial institutions.

That only underscores the importance of remaining forward-thinking. Collaborating with at-risk credit card accountholders can preserve and solidify relationships.

Today's economic turmoil will eventually fade. When that happens, financial institutions will be thankful to have treated consumers respectfully and positioned themselves to work collaboratively when the economy improves.

Going Forward

No matter the economic conditions, using the right tools and partnering with cardholders will contribute to growth and success. Financial institutions can't control the economy, but they can always do everything possible to protect their credit card portfolios and ensure they are meeting the long-term needs of cardholders.

About the Author

Antwane Darby is the director of product strategy for credit in the Card Services division at Fiserv. He and his team partner with financial institutions to develop strategies to manage credit card risk and grow credit card portfolios.

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