



BUSINESS BAILOUTS - MORE THAN A STORM

David O'Connell, Senior Analyst, Aite Group

Aite

ARTICLE

FIS

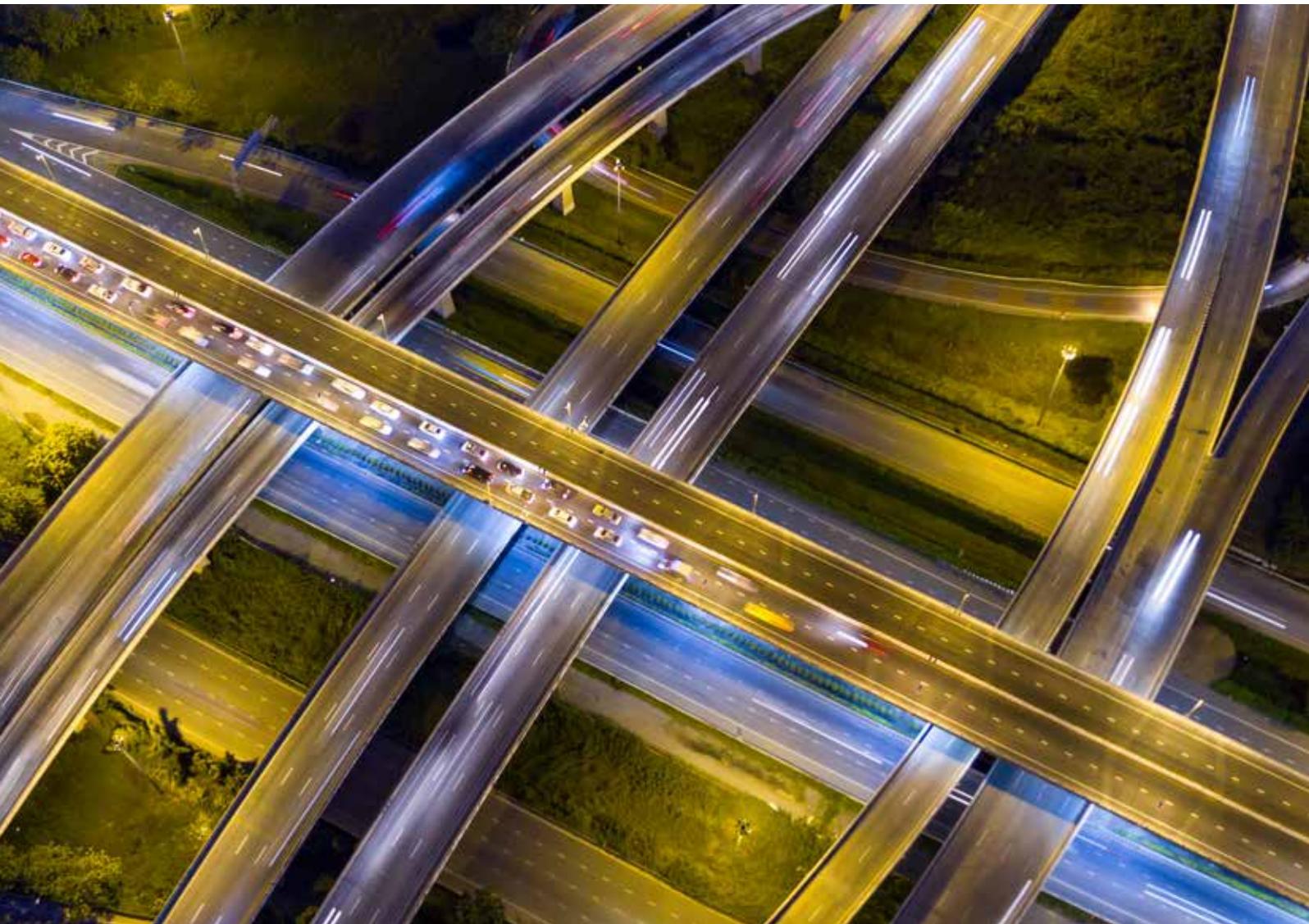
Epic in their scope and storm-like in their demands, business bailouts such as CBIL in the U.K. and PPP in the U.S. are more than just one-time events that are survived. These business bailout programs, of which there are currently dozens across the globe, are opportunities for lending institutions to learn and change. To date, business bailouts have been crucibles in which lenders achieved scale and process complexity heretofore barely possible in response to the transformative demands of the Covid-19 pandemic in general and the resulting business bailouts in particular. And these programs are by no means a local phenomenon. Multinational lenders are required to be able to rapidly embrace and respond to the many terms and ambiguities of the business bailout programs on their global footprint. According to the IMF, dozens of business bailout programs exist across the globe for countries hit, with varying severity, by COVID-19. Add to the pandemic the damage inflicted by the recent decline in oil prices to some countries' economies, and disaster-driven bailouts are indeed globally pervasive.

The business-bailout stew

Not readily understood by industry outsiders, PPP in the U.S. — as prototype of a business bailout program — was hard to describe in the peculiar demands it placed upon on the SMB lending industry. Used by the author to describe a business

bailout program — vast, rapidly deployed and somewhat loosely structured — was this analogy: if big-government policy and agile software development somehow got married and had a baby, it would be something like a business bailout program. PPP in the U.S., for example, had within its scope more than 7 million small businesses, their many employees, thousands of banks and \$350 billion in capital to be distributed as loans. Despite this epic scale, PPP was highly fluid in many of its characteristics. Launched on a Friday, PPP had many terms that on the following Tuesday were clarified, modified or reinterpreted.

Difficult about the stew invoked by a storm such as a business bailout program — be it a natural disaster anywhere on the planet, or a government's rapid fiscal reaction to a crisis — is its combining of things that tend to coexist poorly: the epic and the agile. Loans booked on a Monday, subject to terms that were modified within hours or days, would have to be substantially modified within days, no matter their in-flight state. Under the PPP program in the U.S., millions of loans were booked in just days and dozens of program parameters were clarified after the program was launched. With its PPP still under way as of this writing, the SBA regularly published updates, in legalese, to its ever-lengthening list of FAQs, which grew to the dozens and were highly granular in their guidance. The result of a vast business bailout program is no less than an industrywide crucible.



What business bailout plans require of lenders

In the crucible of an event such as COVID-19, or a government's reaction to it, required of lenders by a bailout of this type were qualities that, though terrific to acquire and possess, are not readily summoned:

Agility. Lenders, often relying on their vendors had to find ways to proceed with the booking of loans at scale with the full knowledge that their capability for PPP, like PPP had been poorly defined at its outer edges and required was a readiness and ability to fill in those edges when the requisite terms, conditions and regulatory legislation became available from the administration.

Tenacity. The demand of agility, especially where it involves scale, risk and the borrower experience can be hard to tolerate. After all, lenders — on the one hand — want to book as many low-risk loans as they can in a regulatorily compliant way. But this wasn't actually possible, given PPP's fluidity at scale in its opening days. Required of organizations then, was something like organizational fortitude in the need to deliver agility and an openness to fluidity when neither had rarely ever characterized lending in the past.

Resilience. With PPP as an example, a business bailout program requires of lenders sustained agility, tenacity and scale. The program started on April 3, had two rounds of funding, and placed sustained demand spikes on every SMB lending line of business for virtually every bank in the country. It became a storm that banks had to weather, and not just for several days or a week, but more than a month. And there was risk. Nasty headlines were a challenge for banks that cherry picked PPP opportunities or favored their own borrowers for the program, both upheld as legal under the legislation.

Remoteness. The nature of COVID-19 in general and the social distancing it's required of all of us meant that under a business bailout program, millions of loans were to be onboarded without in-person interactions.

Openness. Business bailout programs, by requiring that loans applications be accepted and processed at scale, rapidly, and with workflows that were relatively high touch, tend to stymie SMB lenders. Many are accustomed to building their own systems for such market challenges, but have never done so in days, rather than weeks or months. Others are accustomed to throwing large counts of administrative personnel at such challenges, which is also was too slow. In the end, required for success is the opening of lending enterprises to capabilities from providers that are treated more like partners than vendors.

Learnings

Rapidly deployed small-business bailouts, no matter where on the globe they occur, require something like preparation for a tornado where tornadoes never happen. Except instead of hiding in a properly structured basement with the right supplies, banks must embrace digitalization. Problematic here can be two factors. The first is organizational habits; SMB lenders and their borrowers, both tending to be based in local communities, typically to do most of their business in face-to-face interactions, leaving many principles and technologies for digitalization poorly adopted. The second factor is speed: for success with a business bailout program, digitalization must be embraced and adopted within days, if not hours. Interestingly, many vendors are delivering terrific capabilities that were rapidly embraced by agile lenders.

Conclusion

In the end, no matter the location on the globe and no matter the local particularities of a business bailout scheme, such events tend to invoke two learning experiences. First, and not optional, was the operational embrace of digitalization: how to use technology to complete complex and high-touch processes at scale while minimizing frustration in the borrower experience. Second — and very optional — was the organizational embrace of the principals required to succeed with digitalization: the business case for its adoption, its ability to let lenders focus on being the trusted advisor rather than process enabler, and how to overcome cultural resistance to a technology incorrectly seen as a threat to lenders' jobs and relevance. What's important about business bailout programs is that organizations that emerge with both bodies of knowledge will be those that emerge from the pandemic stronger, smarter, and possessing the distinct competitive competencies required to thrive in a highly digitalized and socially distanced post-pandemic world.

LET'S SOLVE THE LENDING LIFE CYCLE.



About FIS

FIS is a leading provider of technology solutions for merchants, banks and capital markets firms globally. Our more than 55,000 people are dedicated to advancing the way the world pays, banks and invests by applying our scale, deep expertise and data-driven insights. We help our clients use technology in innovative ways to solve business-critical challenges and deliver superior experiences for their customers. Headquartered in Jacksonville, Florida, FIS is a Fortune 500® company and is a member of Standard & Poor's 500® Index.



www.fisglobal.com



getinfo@fisglobal.com



twitter.com/fisglobal



linkedin.com/company/fis

© 2020 FIS

FIS and the FIS logo are trademarks or registered trademarks of FIS or its subsidiaries in the U.S. and/or other countries. Other parties' marks are the property of their respective owners. 1041320