

FinTech in the Time of COVID: What Financial Services Companies Need to Know

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Since the beginning of the COVID pandemic in early 2020, consumers and the business community have had to navigate new realities. The pandemic has dramatically changed the ways in which we interact, presenting challenges that were rarely, if ever, previously contemplated. Some industries have been affected profoundly, while others are naturally better suited to withstand the evolving pandemic landscape.

Financial technology (FinTech) companies are a good example of an industry well positioned to thrive in this environment. Given the reduction of in-person interaction across society now and for the duration of the pandemic, the virtual nature of FinTech business models plays to its strengths. FinTech offers solutions in a business environment that now needs to operate while socially distanced. The ability to provide secure financial services with the click of a button was gaining traction before the pandemic, and this trend is not likely to reverse anytime soon.

Macro-Economic Trends

The state of the economy is always a factor in financial services, as is the ability of people to pay for the goods and services they are financing. The unemployment rate stood at 7.9 percent at the end of September 2020, according to the [U.S. Bureau of Labor Statistics](#). While this is an improvement from unemployment's all-time high of 14.7 percent in April, it still is more than twice as high as it was at the end of 2019. In addition, the economy added only 661,000 jobs in September, suggesting a slowing recovery.

Another economic factor to consider relative to FinTech is that charge-offs for unsecured debt are projected to increase due to economic conditions, although that may depend on the nature of future government intervention and how the economy recovers post-pandemic. In response to these projections, however, some companies are expected to curtail new originations and lower credit limits to reduce the risk of credit lines being drawn to their maximum by people who relied on credit as their incomes were reduced or eliminated. The other wildcard here is the government stimulus, which replaced lost income for many consumers earlier in the year. How to interpret the effect of this cash infusion on consumers' ability to make future payments should be considered, along with the possibility of further government stimulus.

Social Distancing

While many business models have suffered terribly as a result of losing the ability to interact with customers physically, FinTech companies largely never sought to exploit that dynamic. Consequently, there has not been a huge disruption here outside of FinTech companies that provided digital services to industries that rely upon in-person interaction.

FinTech is designed to be an entirely online experience for the delivery of financial services products. Conversely, some financial services businesses that blend FinTech and traditional approaches in more document-heavy areas may need to work with authorities who require either hard copies of documents with wet ink signatures or notarized documents. In the face of the restrictions mandated by social distancing, this is a real disruptor, but for pure FinTech companies, much less so.

The User Experience

The COVID-19 pandemic and the ensuing reduction in discretionary spending that it has caused for many families nationwide highlights one of the clearest advantages of the FinTech model: an enhanced virtual user experience made possible by transactional efficiency and integrated financing. Sellers of goods and services that were not historically concerned with integrated financing now are highly interested in this option because offering blended financing or integrated point-of-sale financing offers a real opportunity to increase conversion rates and overall sales volume. Streamlining the process and reducing the number of clicks greatly enhances the probability that a user will complete the transaction without distraction or delay. The more buttons, the more clicks, the more breaks in the process, the lower the conversion rate. Fewer distractions equal more sales.

For many businesses, application flows that were not as streamlined may have worked well enough in previous years. However, current economic environment has increased the pace of change of customer behavior and expectations in this regard. The heightened competitiveness of the marketplace strongly suggests that businesses should continue to refine their user experience so that it reduces the number of clicks and offers a smoother process to avoid losing customers. This is especially true when financing is tied to goods and services.

The key here is that a streamlined system must also be a compliant one. Federal and state regulatory agencies have expressed concerns about heavily streamlined application flows, depending on the structure. This is not a new tension, however, and it can be navigated with proper drafting and layout.

Preparing for a Bumpy Road

A further challenge presented by the COVID crisis is the issue of debt collection. It is expected that the economic fallout from the pandemic will result in a greater number of defaults than underwriters anticipated. This will lead to a greater number of collection actions and an increase in recovery activity. The issue for the financial services industry is that regardless of whether a loan is secured or unsecured, creditors and their agents will be highly scrutinized. For regulatory authorities, it is politically convenient to criticize debt collectors, regardless of whether they are adhering to standing legal requirements and procedures. The fact that the current economic crisis has no causal connection to the financial services industry does not change this criticism.

It is expected that there will continue to be political and social pressure on the financial services industry to avoid or limit aggressive collection activity. Interventions, in the form of deferments and forbearances, likely will continue to be encouraged. Coalitions of multiple states are continuing to advocate for their residents in crisis. Moreover, additional federal oversight might be expected with the change in presidential administrations come January 20, 2021.

Consequently, companies should be very careful about acting too aggressively on collections and asset recovery. There will be a lot of second guessing of these actions, particularly if the optics are questionable. A proactive intervention plan is far more advisable.

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