CRIF AUSTRIA STUDY: CORONAVIRUS CAUSES CREDIT RISK TO RISE

- 84% of banking experts expect credit risk to increase in 2021
- Similarly pessimistic forecast for 2020 did not materialise in retrospect
- Risk grows equally in the private and corporate client segments
- Planned investment in risk management primarily in technologies

Whether for building a house, buying a flat or for making business investments – due to low interest rates, credit is highly attractive as a form of financing for both private individuals and companies. However, the Covid-19 pandemic and its consequences increase the risk that borrowers will not be able to repay the loans granted to them in accordance with the contract – this is the result of a current study by CRIF Austria, in the context of which banking experts were surveyed on the development of credit risk. According to this, 84% see the credit risk as increasing in 2021.

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Comparing the expert opinions of the past years, the negative influence of the health crisis becomes clear: At the beginning of 2020, i.e. before the outbreak of the Covid-19 pandemic in Austria, 51% of the respondents expected a growing credit risk; in 2019, it was 44%, and in 2018 only 17%. A survey of bank representatives after the first lockdown in 2020 showed a similar picture as today: 82% expected credit risk to pick up at that time. After the end of the year and the corresponding evaluation, however, this expectation has only come true for 46% from today's perspective. In retrospect, 32% assess the risk as remaining the same, 22% even as decreasing.

"The critical assessment of the situation is hardly surprising, since the coronavirus pandemic has far-reaching consequences for the economy and society. Even though the government's aid packages and short-time work are keeping businesses afloat and many employees are receiving continued salary payments, the economic effects are already being felt and unemployment is also at a record level. This increases the risk that companies and private individuals will not be able to repay their loans on time or at all", explains Jürgen Krenn, the Head of Financial Sales at CRIF Austria.

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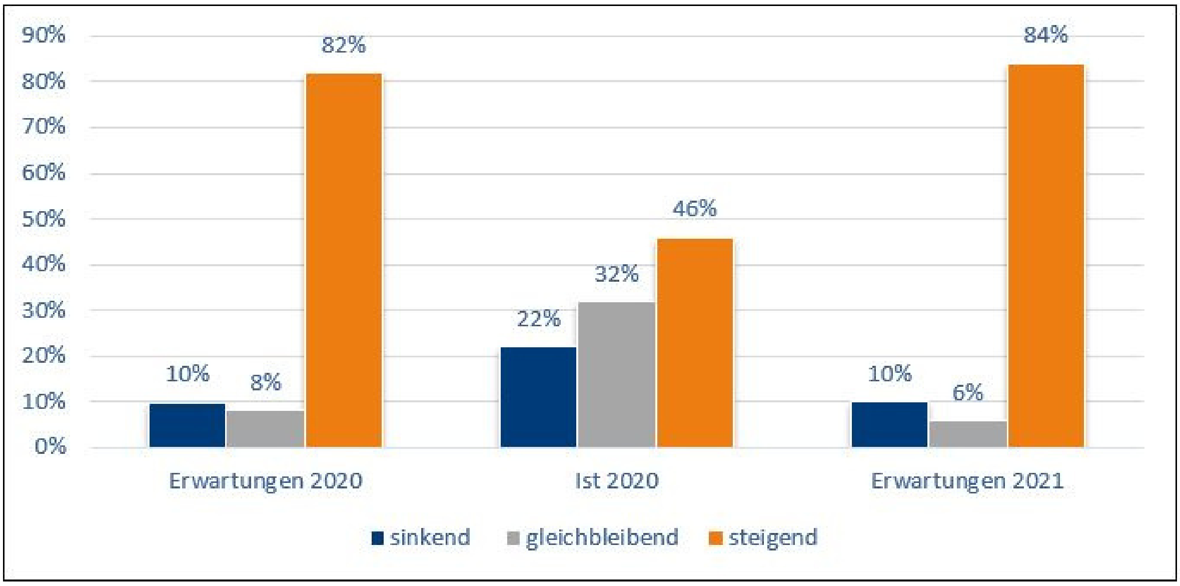

Fig.1: Credit risk in general

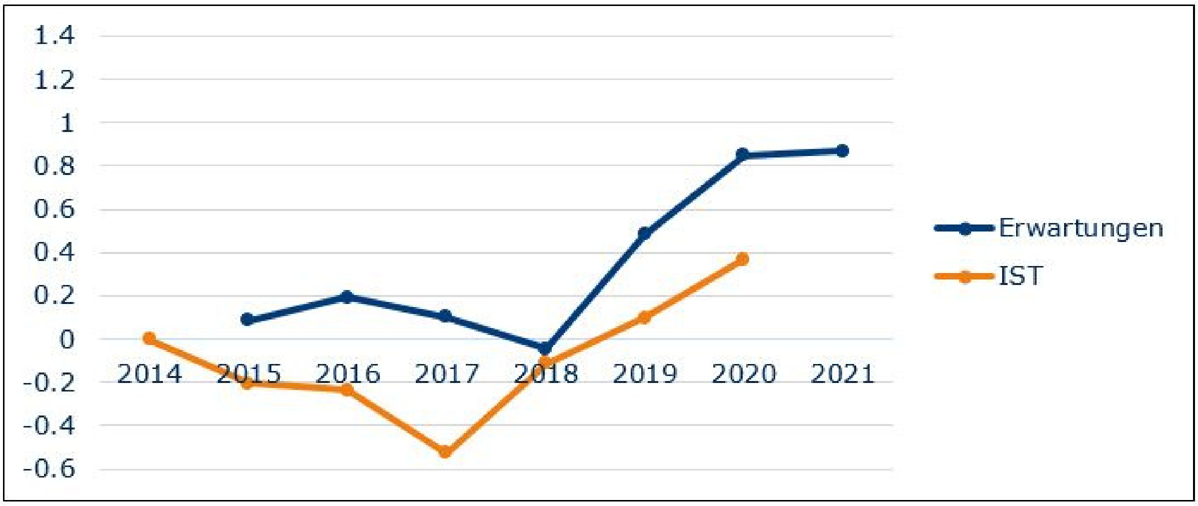

Fig.2: Credit risk trend in general

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Increasing credit risk in the private and corporate client segment

The experts do not see a big difference in the private and corporate client segment: 82% of private clients and 85% of corporate clients expect credit risk to grow in 2021. The forecasts were also almost identical in the previous year after the first lockdown, when 81% saw an increasing risk in the private and 84% in the corporate client segment. However, this prediction actually came true for only 43% of private borrowers, while 32% say in retrospect that the credit risk has remained the same and 25% even see it as decreasing. Similar figures also apply to corporate clients: From today's perspective, the credit risk was only increasing for 43% of the banking experts, for 33% it has remained the same and for 24% it has decreased.

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Planned investments mainly in technologies

Since risk management is of enormous importance, especially in times of crisis, CRIF also asked the banking experts about planned additional investments in this area. The result: Investments in 2021 will mainly be made in technologies and expertise (93%). 39% plan to invest in external data and 15% in employees. A comparison of the figures with those from the previous year shows that the willingness to invest in technologies decreased somewhat after the first lockdown.
Accordingly, 86% of the experts planned additional investments in new technologies before the lockdown; after the lockdown, it was only 73%. Interest in data, on the other hand, increased. 37% wanted to focus particularly on this before the lockdown; after the lockdown, it was 57%. 14% of the experts said they would invest in employees before the lockdown; after the lockdown, it was 19%.
"The digital transformation does not stop at risk management. Those who do not follow suit here will be left behind by the competition. To remain competitive, it is essential to invest in suitable technologies and data strategies. These investments pay off. Coronavirus has emphasised this need once again: Those who are digitally well positioned are now more efficient in crisis management", Krenn explains.