Recession Plan - Be Prepared

performance business customers risk management

Summary: A January 10th survey of economists by the Wall Street Journal finds on average a 25% chance of a recession within the next 12 months. So, what can you do to better prepare?

The National Oceanic and Atmospheric Administration (NOAA) posted an interesting article on what causes ocean tides. It notes that the gravitational attraction of the sun and moon is a major force. But because it is closer to Earth by a longshot, the moon plays a greater role. Given the Earth's rotation, high tides occur 12 hours and 25 minutes and it takes 6 hours and 12.5 minutes for the water at the shore to go from high to low (or low to high).

While bankers can count on exactly when the tide will go out, things are not so certain when it comes to predicting when economic growth will cede to recession.

That means community bankers must monitor economic flows to be prepared for the next recession whenever it may surface next. For now, we note that a January 10th survey of economists by the Wall Street Journal finds on average a 25% chance of a recession within the next 12 months.

So, what can you do to better prepare? Here's a checklist to consider when developing a recession preparation plan:

Monitor your own performance metrics & trends. For banks, this means not only monitoring nonperforming loan ratios, but also new loan volume, as well as prospective deals in the pipeline. If new business begins to taper off, check with your commercial customers about how their sales and operations are performing to get an early warning.

Make a list of "what-if" downturn scenarios. Knowing in advance how bad things can get and specific actions to take to rectify the situation is healthy and helpful. Plans should include triggers for action, such as when nonperforming loans hit a certain ratio to trigger a possible increase in loan loss provisions.

Flesh out steps to take for important scenarios. Such scenarios could include when certain highly profitable customers experience slowdowns in business that hinder their cash flow. Should you alter their loan terms? Go after new business in other industries? Curtail your lending in certain categories? These are reasonable questions and hopefully good reminders too.

Develop contingency plans. Remember that things rarely work out as originally planned. Thinking through carefully ahead of time how to best cut costs, when needed, will help. Indeed, companies that focused only on cutting costs by laying off employees had an 11% chance of achieving "breakaway performance" coming out of a downturn, according to a Harvard Business Review study. It is important to think about proper staffing/customer support while managing costs to both survive the recession and thrive afterwards. You may also move to boost employee training during a recession, particularly on how to be more empathetic to customers who may be suffering financially. This not only improves morale, but also delivers better service to customers - enhancing performance and loyalty.

Find ways to thrive in a downturn. Banks that maintain strong balance sheets can go after new business when competitors are tightening up. You can also expand by buying other banks at lower prices, provide the acquisitions make sense and bolster the business model, of course.

No matter when the next tide in the economy goes out, take heart that as you know bankers are certainly better prepared.

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