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Managing Through the COVID-19 Pandemic: How Financial Firms are Responding

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Overview

As COVID-19 (Coronavirus disease 2019) continues to spread across the globe, financial firms are focused on serving clients, customers and communities and supporting the broader economy. This includes a variety of measures and activating continuity plans to safeguard operations during a period of heightened disruption. The focus of this IIF Staff Paper is on how the financial services industry has been responding to date to the pandemic with an emphasis on the role of business continuity plans[1] – which include measures for possible pandemics. While it is still early to know what the eventual full impact of COVID-19 will be, the financial sector is preparing for the different possible outcomes.[2]

Box 1 – Paper in brief

Firms are taking preventative measures – and in some cases, recovery measures for those impacted - to safeguard their workforce and clients, and to prepare for possible further and continued disruptions to their operations.

COVID-19 presents unique challenges where ongoing adjustment is needed even though it has spread quickly across many countries and territories.

Financial firms have comprehensive policies, procedures and processes in place for ensuring that critical operations can be maintained or recovered through disruptions – including pandemics.

Regulators are currently considering operational resilience frameworks and industry guidance regarding the importance of anticipating and testing for a wide range of disruptions. The recent focus by regulators and supervisors on operational resilience is aimed at ensuring the ability of firms and the financial system as a whole to identify, detect, protect, adapt and respond to, as well as recover and learn from, operational disruptions.

This paper will also examine how firms are approaching these fast-moving developments and what specific actions firms have been taking in the past few weeks as concern around this

[1] The focus of this paper is on business continuity from the operational perspective and not on financial consequences, including supporting the clients, communities, and the economy. Information contained herein represents what is known to the IIF as of the publication date and may change and evolve as the pandemic develops.

[2] As COVID-19 spreads across the globe, it is too early to know the eventual impact on human life, communities, business and the global economy. See for a discussion of various scenarios: McKinsey & Co.: "Coronavirus COVID-19: Facts and Insights" March 2020, and Oliver Wyman: "Coronavirus (COVID-19) Primer. March 2020.

infectious disease continues to grow. As the outbreak evolves, financial firms will continue to focus on their business continuity and operational resilience while adapting to new developments.

Managing Around COVID-19

COVID-19 presents unique challenges where ongoing adjustment is needed as the disease has spread quickly across many countries and territories.

COVID-19 is a new disease that, so far, has grown quickly, spread across the world, and caused more extreme symptoms than seasonal flus. COVID-19 emerged in December 2019 when the first case of the illness was reported in Wuhan, China. Because it is a new virus, relatively little is known about the disease or its severity and symptoms.

But the new coronavirus has grown quickly and in a relatively short time has spread across the world.[3] It is not clear how fast and how widely the virus will spread but scientists and government officials have warned that it could potentially impact a large part of the global population if measures are not taken to slow the contagion. The extensive impact on the financial world has also been recognized by commentators: "At no point in the modern economic era – in this globalized and heavily financialized world – have we seen something bring so many countries to a grinding halt simultaneously."[4]

How Firms Have Been Responding

Firms are taking preventative measures – and in some cases, recovery measures for those impacted - to safeguard their workforce and clients, and to prepare for possible further and continued disruptions to their operations.

Banks, insurance companies and other financial firms are proactively taking numerous measures to address the challenges stemming from COVID-19. These measures can generally be grouped across three categories: firms are taking preventative measures to protect their employees and customers; firms have taken recovery measures when employees become infected; and firms are taking forward-looking actions to ensure the effectiveness of their contingency planning, to strengthen operational resilience and to support the broader economy. Financial firms are not alone, of course, in taking these actions, as organizations around the world are responding to the crisis. Any company-specific initiatives are overridden by government requirements that have been or may be put in place in specific jurisdictions.

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[3] As of mid-March 2020 there are more than 200,000 cases and 8,200 deaths worldwide. The disease has spread across 170 countries and territories. See worldometer for detailed information about the outbreak: https://www.worldometers.info/coronavirus/ Johns Hopkins University also has a detailed map showing confirmed cases by country and region: https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

[4] https://www.nytimes.com/2020/03/17/reader-center/coronavirus-economy-reporter.html

Preventative measures are in place to avoid the further spread of COVID-19.

Firms are taking preventative measures to protect clients and employees and to contain the spread across communities. Many companies have contingency plans that are relevant in tackling general pandemics and that include an emphasis on social distancing, quarantine periods, alternative working arrangements, additional health care, dividing teams and stepped-up security. Plans also include actions across the wider community to help prevent the spread of the disease and to limit social interaction.

Companies introduced social distancing by working remotely, limiting travel and cancelling events. Many companies in the U.S., Europe and Asia are requesting or mandating that employees refrain from attending meetings, conferences or events that may involve contact with groups of people. Many institutions and companies are canceling or postponing events until at least mid-April. Companies have also announced restrictions on business travel. including banning non-essential travel and/or asking employees to seek extra approval for business travel.

Establishing mandatory quarantine periods. Financial companies, similar to other sectors, have asked their employees to stay home when they have flu-like medical symptoms. Some companies have announced that their employees will need to stay at home even if they have shown no signs of symptoms, when they have traveled to select countries with a COVID-19 outbreak. The isolation period varies but is typically set at two weeks or when their medical team approves.

Implementing alternative working arrangements. Increasingly, firms are closing their buildings and encouraging, or insisting, that employees work outside of their office, preferably at home using telework, remote work and other solutions. Some other companies have encouraged employees to use staggered working hours to avoid peak time commuting to reduce the chances of getting infected.

Providing additional employee benefits. Many companies are alerting and educating their staff about COVID-19 and providing general health care tips to prevent the spread of the virus. Some companies have provided health kits, including masks and hand sanitizers, to each employee. Some institutions are requesting their staff wear masks when they interact with other people. Some firms have announced that they are allowing employees to take additional annual leave without penalty, particularly where governments have announced the shutdown of schools, or made it easier for employees to work remotely.

Avoiding inter-plant contamination. Some companies have divided their internal workforces into separate teams and introduced shift working hours to limit direct contacts within an organization. Some firms, including in the U.S. and Europe, have announced they are physically dividing teams to two or more separate locations to prevent contamination among employees. Some firms have announced that they are using disaster recovery sites, while others have chosen remote work locations.

Additional security levels. Some companies have started testing temperatures at the door, to check entrants with a fever.[5] Some companies also have prepared masks and sanitizers for guests and customers to be used to avoid contamination. There are other companies asking for travel history and/or staff members' contact with people who have been to select countries before approving their entry.

Recovery measures are taken when an employee becomes infected.

Firms are taking recovery measures when an employee becomes infected. Recovery measures often follow procedures set forth under a contingency plan but also allow some room to flexibly act to respond to specific incidents. Recovery measures can include the prevention of further contamination among employees, customers and other affected people, ensuring those infected receive medical and mental support, determining who had close contact with infected individuals and/or tested positive, and reporting to health authorities and seeking advice.

Additional medical and financial support for infected employees and their families. Many companies have announced that they are providing infected employees and their families with additional medical and financial support. Some also include daily living support, including delivering food and daily needs.

Mandatory quarantine periods. Many companies announced that employees who had close contact with another employee who tested positive will need to stay out of the office for a period of at least two weeks.

Shutting and sanitizing premises. Some financial firms have announced they will temporarily shut their operations in select areas. In other locations temporary closures of certain floors were announced. Banks reporting that an employee tested positive have sanitized the entire premises after employee evacuation.

Sanitize/destroy physical cash. The Peoples Bank of China has ordered banks to sanitize all physical money before handing it over to customers. When cash is collected in higher-risk environments such as hospitals, banks will destroy the cash to avoid further contamination.

Firms are taking forward-looking actions to ensure the effectiveness of their contingency planning and to strengthen operational resilience.

Testing and activating business continuity plans. Many firms have started testing and activating their continuity plans, including temporarily moving staff to back-up facilities and making wider use of remote access networks. Firms have been investing in these resources for the past decade or so, and many firms have now asked all employees to work remotely. Financial firms are activating their business continuity and pandemic plans, often in close coordination with regulators and supervisors. A wide range of actions are being taken, including closing facilities, sending staff home or to alternate sites, reassuring customers and using more digital channels.

Increasing investment in digital tools. Organizations have invested in additional laptops, computers, telephones, videoconferencing tools, software, applications and other digital tools.

[5] There are differences between what is legally allowed in different jurisdictions. This would apply in cases where that is legally permissible.

Processes are also being increasingly digitized, and firms are making more use of the cloud for additional capacity. As increased remote working became common among the industry, firms are continuing to evaluate the situation, addressing the need for additional network capacity, and managing security issues, including network and data security.

Continued resilience testing. As COVID-19 develops further, firms will continue to test their operational resilience across the enterprise, taking into account additional interruptions, possible third-party impacts, including supply chain challenges, and the impact of new digital tools and processes. Firms are currently taking necessary steps to further develop their business continuity planning, including reassessing their assumptions, and adjusting strategies and procedures, to manage through this ongoing crisis and to strengthen operational resilience.

APPENDIX: Business Continuity Plans are in Place

Financial firms have comprehensive policies, procedures and processes in place for ensuring that critical operations can be maintained or recovered through disruptions – including pandemics.

Business continuity is a top priority for financial industry participants and for financial authorities. Over the years, the financial industry has responded to major acts of terrorism, outbreaks of Severe Acute Respiratory Syndrome (SARS) and the Avian Flu, and with various natural disasters and incidents. The Basel Committee on Banking Supervision (BCBS) published "High-level principles for business continuity" in 2006 that build upon traditional concepts of effective business continuity management. [6] These principles include sound business continuity management, the need for firms to incorporate the risk of a major disruption into their business continuity plans, the need to develop recovery objectives, procedures for communications (both internally and with key stakeholders), the need for testing plans, and the need for authorities to periodically review these frameworks for adequacy.

Box 2 – Definitions

Business Continuity Management: *A whole-of-business approach that includes policies, standards, and procedures for ensuring that specified operations can be maintained or recovered in a timely fashion in the event of a disruption. Its purpose is to minimize the operational, financial, legal, reputational and other material consequences arising from a disruption. (Basel Committee 2006)*

Operational Resilience*: A continuous process whereby firms and the financial system as a whole prevent, adapt, respond to, recover and learn from operational disruptions. (Bank of England 2019)*

Uninterrupted critical services provided by the financial industry is important from both customer and financial stability perspectives. To ensure business continuity, proactive preparation is needed including the development and testing of a continuity plan. Some countries provide general guidelines for planning against catastrophic events[7], while other countries issue guidance on plans for a specific type of incident.[8]

Given recent industry experience with terrorist attacks, natural disasters, and epidemics, almost all institutions have business continuity plans or contingency plans in place to prepare for catastrophic events. Institutions already review and update contingency plans

[6] Basel Committee on Banking Supervision 2006. "High-level principles for business continuity" (August).

[7] The U.S. Federal Financial Institutions Examination Council (FFIEC) issued guidance in December 2007 highlighting the unique challenges to financial institutions from pandemics. The FFIEC called on firms to create business continuity plans that address pandemics and provide for a preventive program, a documented strategy scaled to the stages of a pandemic outbreak, a comprehensive framework to ensure the continuance of critical operations, a testing program, and an oversight program to ensure that the plan is reviewed and updated. On March 6, 2020, the FFIEC issued guidance reminding firms to include pandemic planning in their continuity planning.

[8] The European Central Bank (ECB) on March 3, 2020 issued a letter to European banks reminding them of the critical need to consider and address potential pandemic risk in their contingency strategies. "Supervised entities are expected to review their business continuity plans and consider what actions can be taken to enhance preparedness to minimize the potential adverse effects of the spread of COVID-19."

periodically, often in coordination with their supervisors, to ensure that they are well equipped with tools to respond to different types of incidents.

Effective business continuity management typically includes four steps: a) Assessment of risk, b) Planning recovery strategies and business plans, c) Training employees and testing feasibility, and d) Communication and disclosure.[9] The details and granularity of continuity plans vary depending on companies' priorities, cultures, and business and risk profiles. That said, continuity plans will generally be incorporated in their procedure, playbooks, and/or handbooks. Many companies will conduct a business analysis to determine key risks and critical services that need to be continued and to conduct case scenario analysis to form recovery plans. The plans will depend on how the company is impacted, will incorporate detailed procedures to support business continuity including remote working, and will provide for specific substitutes in the event of the disruption of basic infrastructure (e.g. backup generators). Employee training and the testing of plans help ensure that contingency arrangements can be implemented expeditiously and efficiently. Importantly, business continuity plans have a clear communications strategy that assigns responsibilities for the development and review of communications to key stakeholders and public disclosures.

Regulators are currently considering operational resilience frameworks and guidance, which also anticipate and test for a wide range of disruptions.

Operational resilience maturity includes identifying critical and important business services, setting impact tolerance levels and preparing for how to respond to external disruptions. Authorities across the world, with the UK taking the lead, have increased their focus on operational resilience issues, in part due to enhanced cyber risk and threats around data corruption. The Bank of England, Prudential Regulation Authority and Financial Conduct Authority released a joint discussion paper in July 2018 – "Building the UK financial sector's operational resilience" – which sets out a broad approach for how individual firms, and their regulators, could safeguard the continuity of services through a major disruption.[10] They define operational resilience as "a process whereby firms and the financial system as a whole prevent, adapt, respond to, recover and learn from operational disruptions. Operational resilience is not a specific process; rather, it is a journey towards an outcome and as such the path to maintaining it will differ between firms."

Other national and global authorities, including BCBS, are developing frameworks focused on operational resilience in the financial sector. There is strong regulatory interest in Operational Resilience and the Basel Committee has created an Operational Resilience Working Group to develop principles this year. BCBS principles on operational resilience will hopefully encourage global alignment of approaches, thereby avoiding market fragmentation, strengthening the global financial sector's operational resilience, and making it easier for firms and regulators to address disruptive events that cross jurisdictions. Other authorities have also indicated they will develop national approaches to Operational Resilience, once the Basel Committee's Principles have been released.[11]

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[9] Basel Committee on Banking Supervision 2006. "High-level principles for business continuity" (August).
[10] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/discussion-paper/2018/dp118.pdf
[11] Regarding the ongoing pandemic, these frameworks may be refined before they are published.