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Publication

COVID-19 outbreak: lessons learned from early observations

Roland Kuhn and Martin Bonnet

The outbreak of COVID-19 early January 2020 in China and the rapid expansion of the pandemic to the other parts of the world lead to an unprecedented disruption in the normal course of the business for the financial industry. The pandemic and its economic consequences continue to rage, as those lines are written. Yet, some observations can already be made about the speed with which financial institutions did react and the extent to which Business Contingency and Crisis Management Plans were deployed. Leveraging on those observations, early take-aways can be drawn, although very prudently from the recent COVID-19 outbreak.

Indeed, while recent disruptive events in the financial sector such as massive data leakages or cyber-attacks have attracted regulator and public interest, those have typically been confined to short-term issues affecting a particular service or product which, once identified, could be directly addressed in a timely manner. By contrast, the Coronavirus outbreak is a multifaceted event likely to last for a prolonged period of time. Disruption have come not only from the disease itself but also from government-mandated containment measures varying day to day and country to country. As a result, financial institutions will need to think holistically about the way their operations were impacted, and the learnings will be reaching far beyond adjustments on Business Contingency or Pandemic Plans.

This article aims first at gathering concrete observations made within financial institutions in Switzerland on their reaction to COVID-19. Measures taken, either planned or reactively, can be clustered along the traditional resource enablers necessary for ensuring business continuity in such a disruptive event: Technology, People, Premises and 3rd parties (Suppliers). In the second part, we will attempt an early prospective analysis on the consequences of the current crisis to the operating model of financial institutions. The third part gives an outlook on the post-Corona landscape for the swiss financial industry. For the sake of clarity, the purpose of the article is not about handing out "bouquets and brickbats" but rather stressing out the positive ad-hoc or planned reactions to the crisis. By leveraging best practices that institutions were forced to adopt, often in the rush of the event, the whole industry can benefit and become better equipped to face the next epidemic or any similar disruptive scenario further down the road.

How Swiss banks were affected and how did they react?

"To expect the unexpected shows a thoroughly modern intellect" – Oscar Wilde

Organizations that have been through a disruption in business before, can testify of the incredibly negative impact of being unprepared. By not having a plan in place to respond to such events, getting the business back up and running can prove quite a challenge.

Fortunately, this is not the case of the financial industry. Regulatory, governmental and industry standards and guidelines[1] have indeed led regulated entities of the financial sector to design, implement and test Business Continuity Plans for the occurrence of "black swans" (e.g. terrorist attack, natural disaster...) over the past two decades. Most of those plans even explicitly contain an "Infectious Disease Planning".

However, due to its sheer speed and dimension, the COVID-19 crisis has rendered an interactive, empirical and unbureaucratic reaction in most instances necessary to complement the existing Business Continuity Plans. The financial sector in Switzerland has adopted prompt and commensurate responses to the outbreak of COVID-19. Most swiss financial institutions are truly globalized actors, often possessing a large footprint in Asia, where the epidemic outbreak started. As such, they were able to leverage on the first measures (quarantine, travel bans and split operations) taken early on in the financial centers of Hong-Kong and Singapore at the onset of the crisis. As the epidemic grew to a pandemic and reached Europe and the US, banks had an array of ad-hoc and additional measures to the existing plans at disposal which they could quickly deploy for their domestic operations.

Let us have a look at those impacts and measures along the four major business enablers: (i) Technology, (ii) People, (iii) Premises and (iv) 3rd Parties.

Figure 1:
Key Business Enablers in disrupting events.

Footnote:
1. For Switzerland (as examples): FINMA Circular: (2008/10) Self-Regulation as a Minimum Standard - Swiss Bankers Association: (2013) Recommendations for BCM

1.Technology

Bank-wide and rapid deployments of Home Office arrangements have been the most tangible measure in this area. Institutions were able to set-up dedicated IT task forces which made employees up-and-running for remote working in record time. Divisions, in which Home Office arrangements could not be rolled-out on a short-notice, such as Sales &Trading departments, have introduced split operations arrangements to maximize the odds of business continuity by reducing the risk of team-wide infection.

Core banking systems and trading platforms have operated normally and no massive disruptions have been reported. Even the surge of trading activities, which could be observed during the concurrent market swings, especially in Asia[2], did not lead to noteworthy disruptions. Business Continuity Plans seem to have worked properly to that extent, even disruption in the workforce availability due to closure of schools for instance could be absorbed without significant impact on the normal conduct of operations.

Of course, due to time constraints, remote access arrangements may have been deployed without extensive safety and usability testing. Data security when working from home is an area where banks will need to focus their efforts now, as the number of cyber-attacks is expecting to grow amid the disruption.

Footnote:
2. https://www.channelnewsasia.com/news/business/coronavirus-asia-private-banking-clients-trading-covid-19-12509166

2. People

The direct impact of the COVID-19 crisis on people has been far much larger than in any other disruptive event so far, including the 2008 financial crisis. In the financial sector, employees were first impacted by travel bans to countries where the epidemic initially broke out such as China, South Korea, Hong-Kong or Singapore. Quarantines measures were enforced for employees returning from those countries as the situation worsened. Employees were requested to report any past or planned trip to risk countries. This well before mass border closure and global spread of the pandemic. In the first times of the outbreak, end of February/ early March 2020, productivity and normal course of business remained largely unaffected despite massive and rapid deployments of Home Office and split operations arrangements. The largest move in workforce deployment came after Federal Council declared extraordinary situation on March 16th and took further containment measures such as closures of schools and universities. To offset the effects of containment and self-quarantine, new modes of collaboration and management such as virtual meetings have been rolled-out in record time. While the first feedbacks about new business habits have been largely positive, the larger consequences of social distancing measures in terms of employee productivity, mental and physical health are still unknown for the time being.

Simultaneously, intranet pages, hotlines and FAQ have been made available swiftly to address employee's concerns and communicate information in a consistent and timely manner. Hygienic measures remained quite basic with dispensers of hydroalcoholic disinfectants at building entrances. The postprocessing phase will tell whether the distribution of face masks or other healthcare measures should have been considered to preserve the safety of the workforce.

Financial institutions reacted proactively to the new course of business by reducing the employee's workload or inviting their workforce to reduce or compensate overtime. Reduced working hours arrangements have been also massively deployed, especially after the Federal Council softened the regular eligibility rules.

3. Premises

Before the COVID-19 pandemic was declared as an "extraordinary situation" in Switzerland, some institutions such as Credit Suisse had already deployed business continuity measures in form of "split work" for business-critical units such as Trading, IT and Compliance with staff dispatched across several locations[3]. Measures which might have been considered as overaction at the onset of the crisis have proved wise with hindsight and certainly contributed to the avoidance of massive shut-downs in the business.

After the declaration of the "extraordinary situation" by the Federal Council on March 16th and the introduction of more stringent measures to protect the public, banks decided to perform adjustments on their branch network. UBS for instance, decided to temporary close some its satellite branches and reduced the opening hours of the primary branches that remained opened[4]. Dedicated COVID-19 pages have been deployed to encourage clients perform the banking operations online and make more extensive use of cashless payments. All in all, facility management functioned relatively well along Business Continuity Plans in place with further adaptive measures taken on a case-by-case basis. With Home Office arrangements becoming the norm as the crisis unfolded, the requirements for ensuring safety and health at the workplace became anyway less relevant.

Footnotes:
3. https://www.finews.com/news/english-news/40200-coronavirus-drastic-measures-at-credit-suisse?_ga=2.203320657.1588823364.1584970077-1647945871.1551272818

4. https://www.ubs.com/ch/en/help/branch-info.html?intCampID=HPPROMOTEASER-CH-BRANCHINFO200319-P1

4. Third Parties

As pure service provider, the financial industry has been relatively unaffected by shortages in product supply from China or other manufacturing hotspots. Suppliers of the Swiss financial industry, be there domestic or off-shore have apparently been in a position to ensure business continuity towards their clients in the financial sector.

Conversely, banks have diligently passed on their own quarantine and containments measures to their suppliers with staff on their premises. There have been no reports of supplier failure due to workforce disruption so far. However, the post-crisis impact assessment in the next months will certainly reveal the extent to which suppliers invoked force majeure for non or partial delivery of services.

COVID-19 crisis and operating model consequences

Figure 2:
Bank operating model building blocks

While the crisis is still unfolding with its long-term impact remaining unknown, we can catch a first glimpse on the lasting consequences on the operating model of financial institutions. Some of the developments we observed over the past few weeks, might have been around for a long time but never fully actioned, this is for instance the case of systematic and bank-wide Home Office arrangements. Some others might be completely new and constitute material for a lasting "paradigm change".

a. Organization

Top-down leadership combined with decentralized initiative taking depending on the criticality of the local situations has proved a clear competitive advantage during the crisis.

Besides, the word agility has gained major significance during the outbreak of COVID-19 as organizations were left with no other choice than reacting on a day-to-day basis to the evolution of the health situation or announcements of containment measures by the local authorities. Workforce flexibility and mobility were key in that context.

Hence, in the future, organizations are expected to further foster labor reallocation in similar situations, for example from non-vital business activities to business continuity planning. Also, across the organization, a general mapping of jobs should be performed between (i) jobs requiring physical presence in the workplace (ii) those which can be done, at least partially, remotely and (iii) the grey zones, where split operations might be an appropriate solution.

The crisis has also stressed out the importance of non-bureaucratic structures and fast top-down decision-making processes. The quality of the response to the current crisis will be largely judged in the light of the speed and outreach of the decisions made. Best practices coming from institutions having put in place early on a dedicated task force including senior management representatives are expected to be replicated in some form by the whole industry.

b. People

Should organizations do more in similar situations, by providing masks and disinfectants to their employees and enforcing strict social distancing as the first signs of an epidemic appear? Should they promote and incentivize vaccination campaigns even further? Those questions will necessarily arise in the postprocessing phase.

In light of the major disruptions in workforce availability, triggered by the crisis, contingency plans will need to address home working and staff absenteeism properly. In the nearer future, Home Office and HR policies and sickness rules will certainly need to be revised to account for the occurrence of similar exceptional situations where large parts of the workforce are suddenly unable to work, at least partly.

Responsibilities of employers in relation to compliance with public health requirements will be profoundly re-assessed as interactions within the company premises represent major contamination sources. Here, lessons can already be learned from China. The March 2020 Harvard Business Review quotes the largest kitchenware manufacturer Support[5] which published specific operational guidelines and procedures for its employees, such as instructions for limiting exposure while dining in canteens and emergency plans for extraordinary situations.

Cyber security, but also health and safety risks associated with employees working from home, need to re-assessed as this might become the norm further down the road, even during normal business situations. In this area, companies will necessarily be confronted to the "Why don't we do this all the time?" question and need to have adequate answers.

Footnote:
5. https://hbr.org/2020/03/how-chinese-companies-have-responded-to-coronavirus

c. Governance

Existing Business Continuity Plans should be assessed to make sure they contain a crisis management team and a list of key people which is up to date, as the current pandemic may have evidenced outdated data. If not already existing, banks will need to assess the opportunity of publishing a crisis management policy and design a "pandemic plan" just as the Federal Council did in 2018[6].

Key personnel may need to be better prepared and kept updated while ready-to-use handover notes in case they cannot perform their duties anymore should be available at all time.

In the Risk Management area, holistic assessments are expected to be performed on the resilience of control performance, for the case when the vast majority of staff is working from home. Generally, risk management practices will need to be adapted to account for the occurrence of similar crisis in the future.

Eventually, at the "top of the pyramid", the impact of travel bans and social distancing on board governance will need to be assessed as strategic and business decisions should continue to be made during a disruptive episode.

Footnote:
6. https://www.bag.admin.ch/bag/en/home/krankheiten/ausbrueche-epidemien-pandemien/pandemievorbereitung/pandemieplan.html

d. Products and Services

The crisis will certainly have a lasting impact on the sales channel mix. For instance, can client facing-employees be redeployed from branches to become online advisors leveraging digital tools? Can social medial be further leveraged to engage partners and customers finding new ways of communication when social distancing makes physical meetings impossible?

Questions may also arise on the communication around service delivery; have you communicated timely and openly about potential service disruptions, e.g. in the forms of banners on your websites or mobile applications?

At product generation level, the demand for your products in stress scenarios will have to be assessed. Do you need to modify your product and service mix during business disrupting events? Do you need to introduce discounts or indemnify your clients who suffer from service disruptions? Your revenue generation model as a whole, also needs to be challenged. Have you put enough efforts in the digitalization of your value chain in the past? Weaknesses in this area become particularly detrimental in situations where conduct of brick-and-mortar business is not possible anymore.

On the contractual part, the post-processing of the crisis should contain an assessment of the contracts in place with your clients and suppliers to identify how the outbreak of an epidemic affects the ability to comply with contractual obligations. Firms should also assess whether they can rely on force majeure clauses to excuse non-performance.

e. Technology

New Home Office arrangements are here to stay; hence your IT team should arrange to check remote access to ensure the right level of security. Especially in cases where those arrangements were made in the rush of the crisis with deployment speed prevailing over extensive security assessments. In this area, the key question should be: does your current workplace/communications technology allow you to reduce travel and enable remote working permanently?

Once the dust settles, assess the comfort level of your workforce with remote working place related applications, such as video conferencing and other collaboration/communication platforms. Mass ad-hoc mastery of new virtual tools by your workforce is unrealistic; identify the gaps and provide training and opportunities for practice wherever needed. Midterm, identify devices owned by the organization that people could use at home and further clarify acceptable “bring your own” phone and laptop options.

f. Processes

Have your crisis management processes worked properly? Do your existing processes rely too heavily on physical presence or involve manual steps where employee action is required? The current crisis evidences the necessity to accelerate process automation and digitalization to mitigate the impact of further disruptions. For instance, institutions still relying on paper-based contractual documents may take this opportunity to accelerate their move towards smart contracting. The current crisis is also a good opportunity to accelerate large-scale adoption of electronic signature.

Furthermore, sourcing processes should be re-assessed wherever continuity in the provision of goods and services necessary to the normal functioning of your business could not be guaranteed.

g. Communication

The COVID-19 outbreak has evidenced the importance of timely, transparent and decisive communication. Judging by previous enforcement action in the operational resilience space, financial institutions should expect regulatory watch to focus strongly on communications with customers, regulators and the wider market where a pandemic or any other internal or external disruption event affects the provision of services.

To this extent, communication part of crisis management plans may need an aggiornamento. Has the regularity of updates been appropriate during the crisis? Have you communicated promptly, clearly and in a balanced manner with the relevant customers, employees and suppliers? Where the primary communication channels (e-mails/Intranet...) appropriate and could you reach all affected stakeholders? Have you put early on an FAQ and hotline in place? Have your client-facing employees been properly briefed on how to respond to customers?

Pandemic-related communication should contain practical hygiene and safety recommendations; be sure to check the validity of your recommendations with experts, should they go beyond what authorities recommend.

Outlook – Beyond the COVID-19 crisis

“Plans are nothing; planning is everything.” – Dwight E. Eisenhower

The current crisis is not one of survival for banks; overall they have fared relatively well – however it is one for their small- and mid-sized business clients. Several banks have realized this and pledged quick help: canton-backed ZKB for instance has put aside 100 million Swiss francs to assist firms facing liquidity troubles[7]. Generally, we see banks eager to restore their image in the public opinion with the announcement of large support measures for the real economy.

Even if financial institutions take on the role of solution finders rather than victims, none of them is to remain unscathed. The shifts which the COVID-19 outbreak bring in the financial services industry will likely persist beyond the crisis, leading to a new paradigm. It is too early to say which new habits will stick in the long run, but some strong possibilities include a leap from offline to online sales channels and a massive adoption of Home Office and Video Conferencing arrangements.

COVID-19 is not a one-off challenge. We should expect additional phases to the current pandemic and other epidemics in the future. Observations on the effectiveness of organizational responses to dynamic crises indicates that there is one variable which is most predictive of eventual success – preparation. Preparing for the next crisis (or the next phase of the current crisis) now is likely to be much more effective than an ad hoc, reactive response when the crisis actually hits.

Efforts and time should be allocated in the recovery phase to gain valuable learning opportunities. Responses and impacts documented during the crisis need to be reviewed and adjustments to existing contingency or crisis management plans brought wherever needed. The airline industry, where every incident, from minor misfortune to tragic crashes, is thoroughly analyzed and root causes investigated in detail with conclusions, then flowing to binding protocols and recommendations for the whole industry, should serve as an example.

Footnote:
7. https://www.zkb.ch/de/gs/lp/rede-martin-scholl-2020-03-25.html

Determine the course with TALOS

TALOS has long-standing experience in the analysis and implementation of Business Continuity and Crisis Management plans. We have been alongside our clients during the COVID-19 crisis and could observe "from the inside" best practices put at work in record time but also some areas of improvements.

We can help your organization in the post-crisis assessment by identifying improvement areas in Business Continuity and Crisis Management. We can leverage on our TALOS Health Check procedure to quickly identify critical areas for improvement along the building blocks of your business model. This analysis usually takes from 4 to 6 weeks. Based on the insights gained, we design actionable solutions to close the gaps in business continuity and crisis management, incorporating the lessons learned from the current crisis to further increase your business resiliency. To mitigate the impact of similar disrupting events in the future, we can also support in the implementation and monitoring of risk mitigation measures or framework testing activities.

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Zurich
TALOS Management Consultants
Bleicherweg 45
CH-8002 Zürich
Tel. +41 44 380 14 40

Luxembourg
TALOS Management Consultants
6, Rives de Clausen
L-2165 Luxembourg
Tel. +352 26 20 23 54

www.talos-consultants.com
www.shapenewstandards.com

Your Contact

Roland is Associate Partner at TALOS and has joined the company in 2014. His areas of expertise include Project- and Transformation Management, but also Supply Management & Procurement, with more that 10 experience in several Supply Management roles (in his last position as Head Sourcing of a leading Swiss Insurance Company)

Roland Kuhn
Associate Partner
roland.kuhn@talos-consultants.ch

Martin is Senior Manager and joined TALOS in 2014. Previously, he worked for two years in the asset management division of a global insurer. Martin has seven years of practical experience in risk and project management as well as regulatory affairs.

Martin Bonnet
Senior Manager
martin.bonnet@talos-consultants.ch