U.S. Risk, LLC

# Considerations for Banks and Financial Institutions in a Time of Pandemic

Banking and financial institutions have faced unique risks since their very beginnings. Those risks are compounded by the effects of the global coronavirus pandemic. As economies the world over have ground to a halt, individuals, companies, and communities face significant financial hardships. These hardships have an outsized impact on banking, capital markets, and financial services firms. Although financial institution insurance is designed to protect against many risks, financial managers can help manage risk exposures better by gaining an understanding of the unique challenges uncovered by the COVID-19 crisis.

## Financial Concerns Related to COVID-19: The Survey

The novel coronavirus pandemic required drastic emergency measures to contain the potentially deadly disease COVID-19. Official stay-at-home and self-quarantine orders forced businesses of all sizes and types to close their doors or to transition to a remote working environment to maintain operations. Within months, millions of people were out of work, and many are unable to pay their bills. These strains compelled PricewaterhouseCoopers (PwC) to gauge the impacts financial professionals were experiencing. With the COVID-19 CFO Pulse Survey, PwC found that concerns related to the pandemic included:

- Financial impacts, including liquidity, capital resources, and operations (71% of survey respondents).
- Global recession (64% of respondents).
- Workforce effects/loss of productivity (41% of respondents).
- Decreasing consumer confidence/declines in consumer spending (40% of respondents).
- Interruptions to critical supply chains across industries (23% of respondents).

These concerns have already made an impact on businesses around the world. There remain many unknowns as lockdowns and stay-at-home orders continue to affect communities. In the coronavirus pandemic, financial institutions may witness increases in expected risks as well as emerging risk exposures.

## Managing Financial Institution Concerns During the COVID-19 Crisis

As with any far-reaching crisis such as that presented by COVID-19, clear and honest communication is the key to overcoming challenges. For banking operations and financial institutions, communication with stakeholders, clients, and regulatory agencies allows for the sharing of information. Financial firms should let their clients know how they are addressing concerns, particularly as they apply to risks.

One aspect where communication helps to produce positive outcomes is that of cybersecurity. As more people work from home or are under self-quarantine orders, financial companies are experiencing a sharp uptick in remote access of banking tools. Unfortunately, this has attracted the attention of cyber criminals seeking to exploit vulnerabilities in online banking systems. Communicating cybersecurity best practices with clients as well as adopting robust remote access policies can help to avoid the expenses and reputational damage associated with an unlawful data breach.

Many financial firms have had to move to remote working situations, placing unexpected impacts on employees and customers. From an employee perspective, working from home has created new challenges as workers try to achieve work/life balance. Some employees may still need to work on-site; concerns about the virus have led to increases in stress and anxiety among essential employees, including those in the banking field. Creating flexible working arrangements and preparing risk mitigation plans to protect those employees is crucial.

In areas where the coronavirus has had dramatic impacts in the number of infected individuals, financial institutions may experience sharp declines in credit quality. Changing market conditions, such as significant declines in manufacturing, transportation, and consumer spending, have overwhelmed models like Current Expected Credit Losses, which banks use to forecast market trends. Drops in interest rates may also negatively influence credit availability, pricing, and funding. It is critical that financial institutions prepare for the required disclosures to regulatory agencies like the Securities Exchange Commission (SEC), especially in reporting how COVID-19 has affected business operations and financing.

As the economy continues to decline, financial institutions will see an uptick in the volume of foreclosures, repossessions, uninsured real estate, and uninsured collateral on loans in portfolios they manage. U.S. Risk Financial is uniquely situated to assist banks that need to purchase lender-placed coverages quickly. A range of other insurance options can help to protect financial firms, including professional lines like Directors & Officers (D&O) liability, financial institution bonds, and financial crime coverage. These coverages may be difficult to source for struggling financial institutions; a partner like U.S. Risk can bring a world of insurance markets to the table to quote these difficult-to-place risks.

## Summary

Financial industry analysts suggest that as the coronavirus infection rate drops and businesses can reopen, economic recovery will not happen overnight. Banking operations must prepare for a long-term decline in profitability. Here, the role of business continuity plans, including insurance protections, cannot be overstated. With a bit of foresight and the development of comprehensive risk management plans, financial institutions are better able to weather the challenges of COVID-19. Eventually, these plans will help to stabilize business operations as the economy begins its recovery process.

### Sources

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