COVID-19: implications for the GCC banking sector

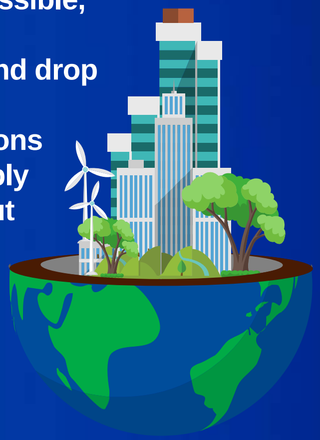
An analysis of key implications and potential countermeasures

—

April 2020
KPMG in Qatar

The Qatar perspective

The COVID-19 pandemic is having an unprecedented impact on financial markets globally including in Qatar, with implications for banking: businesses, employees, suppliers and customers. This has been coupled with the effects of the drop in oil prices, which together create a unique situation we live in today. While the State of Qatar government has taken a number of proactive measures to ensure that the financial system and wider economy are protected, as far as possible, from the effects of the COVID-19 pandemic and drop in oil prices, there are nevertheless implications that banks will inevitably face. This slide sets out some of these key challenges, along with a summary of possible considerations for banks in Qatar:



Current challenges

Liquidity pressures

With the drop in oil price and COVID-19 pandemic liquidity pressures are expected in the short, medium and long term, particularly in USD, while the need to keep the economy moving remains.

Operational risks

As a result of the new norms in working practices, both for employees and customers, there is greater operational risk being faced by banks, including cyber security and AML threats.

Revenue compression

Given the recent interest rate cuts and subsidized lending expected from banks for the private sector, there will be a squeezing of margins and revenue compression faced by banks.

Digital acceptance

Banking operating models are evolving and becoming more digital as the situation demands, and this will require the pace of customer acceptance of such banking channels to also increase and move away from the historical preference for ‘in person’ banking.

Credit quality

As businesses struggle with cashflow and profitability, and while real estate sector valuations and activity continue to be challenged, we expect to see an increase in non-performing loans and credit quality deterioration.

Possible considerations

Customer interaction

Effective digital delivery of services, with minimal disruption to customer interaction, is essential while banks deal with staff shortages, office closures and other public health protection measures.

Liquidity & capital analysis

Banks need to thoroughly understand their available capital and liquidity resources and to assess the resilience of these core pillars. They will need to maintain a balance between supporting the wider economy at a time of need, with governmental support, and ensuring their own stability.

Scenario planning

Using scenario modelling and contingency planning expertise, incorporating the impact of COVID-19 and the drop in oil prices, to help make sound decisions in the face of a highly volatile operating environment.

Employees

How you treat your employees now will have a massive effect on their wellbeing, and consequently on their loyalty and productivity. Banks all over the world are making significant changes to working arrangements and this is helping them continue to deliver services to their customers.

Communication & transparency

As the business and the economic impacts of the crisis begin to bite, banks will need to ensure that they are communicating effectively with multiple stakeholders: employees, customers, shareholders and regulators.

Qatar perspective

While there are wide-ranging views on how this situation will affect the financial markets, one point over which there is unanimous agreement is that we will be dealing with the effects of the COVID-19 pandemic for the foreseeable future, and the banking sector as a whole will most certainly evolve as a result of this. Those banks that are agile, flexible and willing to transform business models will be the ones that succeed, and secure their financial strength for future growth, while those that rest on their laurels will be left behind in an increasingly more competitive sector.

We are here to help

COVID-19 is in the first place a pandemic with potential serious implications for people's health. The wellbeing and safety of our people, clients and community at large is our number one priority and we will do everything we can to ensure this is maintained where possible.

It is an unprecedented challenge for our modern societies and health systems. The consequences of the pandemic for our global economy and financial sector are unpredictable. Economists are convinced that we are heading for a significant economic downturn; however responses from Governments and Supervisors have been prompt and different measures have already been taken to sustain the economy, the banking sector and, ultimately, the people.

At KPMG we have analyzed the current situation and pointed out some specific topics the banking sector should be considering and addressing while taking the necessary measures to cope with this “new normal”. This document wants to offer you some additional tools to navigate through turbulent waters and in a faster than ever changing environment.

Omar

Omar Mahmood
Partner, Head of Financial Services

Agenda

01

COVID-19: Scenarios Landscape

COVID-19: Global economic outlook

- On March 15, 2020, FED announced a 100 bps rate cut in wake of rising COVID-19 cases
- S&P Global expects the epidemic to slow U.S. GDP growth to a 1% average sequential rate in the first two quarters of 2020
- S&P Global Ratings forecast China to grow by 4.8% in 2020 with a plausible downside scenario of below 3%;
- Euro-area growth could be lower by 0.5 ppt and Italy by 0.7 ppt

Financial Markets Indicators

Indicator	13 – 19 JAN	16 – 22 MAR
S&P 500 (%diff. from pre-outbreak)	0.0	- 27.1
EUROSTOXX 50 (%diff. from pre-outbreak)	0.0	- 34.6
SHANGAI SEE (%diff. from pre-outbreak)	0.0	- 12.2
VIX (%diff. from pre-outbreak)	12.3	74.6
BRENT OIL ($ per Barrel)	64.5	28.1

Global Supply Chains

Indicator	13 – 19 JAN	16 – 22 MAR
DOW JONES GLOBAL SHIPPING INDEX	0.0	- 40.6
MAERSK STOCK PRICE (%diff. from pre-outbreak)	0.0	- 35.9
BALTIC DRY INDEX (%diff. from pre-outbreak)	0.0	- 18.3

Hotel Occupancy Rates

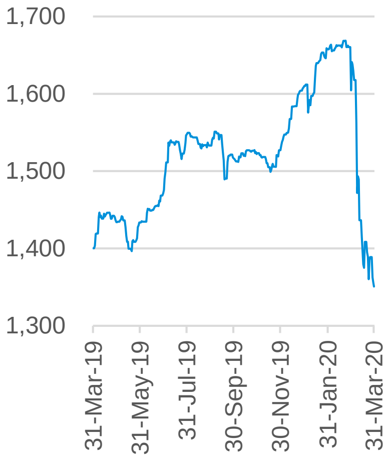
Region	13 – 19 JAN	9 – 15 MAR
CHINA (relative to a year ago)	89.2	28.2
ASIA PACIFIC (relative to a year ago)	94.2	44.8
EUROPE (relative to a year ago)	99.6	58.2

Source: Oxford Economics, Research Briefing Global – Coronavirus Watch: Policymakers ramp up support – 23 March 2020

COVID-19: Middle east outlook

- Oil prices have plummeted due to falling global demand (less use caused by lock-down measures adopted by Governments) and rising supply, which in turn triggered a price war between suppliers
- Equity markets are down across the Middle East since February and Sovereign spreads have widened, with global risk resentment at a historic high
- Production and manufacturing are also being disrupted and investment plans put on hold.
- These adverse shocks are compounded by a plunge in business and consumer confidence, as observed in economies around the world, with rating agencies closely monitoring sovereign level ratings.

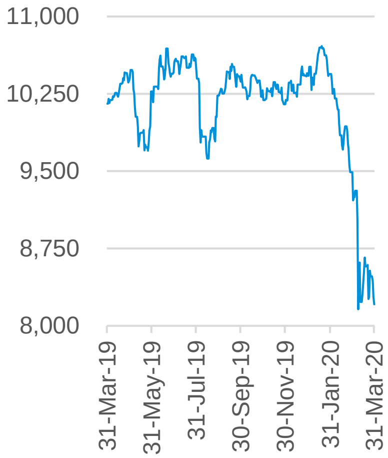
BAX (Bahrain)



TASI (KSA)

MSM (Oman)

QE (Qatar)



DFM (UAE)

Source:Investing.com

General approach used to curb virus dissemination and impacts

Drastic measures of containment are scheduled until early-April but they are likely to be extended in the weeks to come. At the same time **economic stimulus** are provided to soften as much as possible economic impacts and favor economic recovery.

Key Economic Repercussions Of Containment Approach

Tourism

Hotel occupancy rates have been tumbling, suspension of majority of passenger flights and travel restrictions will certain take a toll on travel and tourism contribution to GDP.

Expenditure

Demand might decrease especially in non-essential goods, considering income reduction and possible unemployment increase. Offer of some goods and services (particularly leisure's ones) has been put on hold by the temporary lock-down

Solvency

Demand reduction, restrictive measures and increase of payment life-cycle will cause an overall decrease in corporate sector revenues which could potentially lead to default for some business

Liquidity

Income reduction will lead to an increase of savings utilization, putting pressure on the deposits side. Potential delay in payments couple with defaults might also reduce inflows for financial institutions.

The above scenario materialization is likely to happen starting the beginning of April

Key Measures Taken By The Government / Qatar Central Bank For Banking Sector

Support To Borrowers

Deferment of payments for loans in affected sectors for six months without any additional fees or penalties

Reduced Rates

New loans for affected sectors to be granted at a maximum rate of 1.5% with no repricing for the next 6 months

Zero Cost Funding

Provision of zero cost repo facilities to compensate the banks for funding affected sectors

Other Measures

- Guarantees to banks for support to affected sectors within soft loan and waiver package
- - No fees and commissions on POS / ATM transactions

The consequences of containment plus the impact from the current global situation will likely generate a U-type recession, with a longer "_" of the U; not necessarily a slower 2nd leg

02

Banking Sector New Challenges

The question for the banking sector is how to respond to its operational and regulatory challenges while contributing in a positive way to the economic recovery.

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Banking Sector New Challenges

01 **Credit Portfolios deterioration / staging criteria:** getting a thorough understanding of the most affected sectors, particularly in the corporate space (hospitality and real estate). Review current SICR criteria

02 **Capital impact:** recalculate provisions according to current and predicted scenarios and assess the effect on the capital position.

03 **Liquidity repercussions:** analyze potential impacts on government deposits in relation to reduced oil-prices as well as potential deposits run-off / unusual withdraws from corporate and retail.

04 **Cyber Risk:** phishing attempts related to Covid-19, insecure remote connections to the office and increased personal use of office equipment

05 **Contingency plan activation:** KPIs might get breached activating escalation mechanisms protocol who could limit business-as-usual / preventing new business

06 **Banking services:** Regardless of coronavirus containment measures, customers will need banking services. Banks should therefore continue branch and ATM operations where possible

Banking "new normal" topics

COVID 19 Scenarios

- Preparation of different stress scenarios taking in consideration products, segmentation and duration
- Preparation of "new ways to serve"

Assessment of potential impacts

- Identification of sectors and geographies exposed to COVID 19
- Identification of profiles affected in terms of revenue at risk
- Understand the supply chain and identify in-house stakeholders
- Branch Limitations (staff protection)
  - No cash handle
  - Areas delimitation
  - Services limited
- Create Models and run simulations on portfolio and individual cases based on potential impacts on revenue
- Deliver more digital services
- Assessment of Bank Balance sheet, Liquidity and Capital
- More pressure on the digital channels
- Improve the role and capability of call center

Potential Action Points

Classification of Clients and Counterparties

- **Low Risk**: Stable clients with low default probabilities, create commercial campaigns to estimate the economy
- **Medium Risk**: Clients able to overcome the crisis, Assessment of longer term debts and new financial support
- **High Risk**: Clients in trouble before the crisis and stressed sectors, provide restructuring instructions, write-offs ,etc

Keep track of customer experience

- Readjust processes and procedures
- Evaluate alignment front to back
- Revisit priorities on Digital Project
- Assess resilience of IT architecture and People teleworking (SLAs, performance, incentive models)

- Perform adjustment in the pricing, risk, impairment model
- Alignment of the Governance Model to the business requirements
- Redefine and assess partnerships,supplier relationships and third party dependency
- Assess impacts on Bank Strategy and Business Models
- Assess impacts on Liquidity
- Assess impacts on regulatory requirements (risk, capital)
- Keep proactive track of clients claims
- Define Communications and transparency Plans

Make adjustments on the Bank's Security processes, tools and policies (cyber, fraud, AML, etc)

Overview of key impact on banks: financial and non-financial risks

REPORTING

Ad-hoc reporting's necessary for internal stakeholders as well as regulators to continuously monitor and understand the situation

NON-FINANCIAL RISKS

“Stress” on the implemented internal control system due to home working (Bank, Third-Parties) and other crisis driven measures -> change NFR Profile that has to be managed together with 1stLoD. Outlook: Implement Operational Resilience Concept

CONTINGENCY PLANS

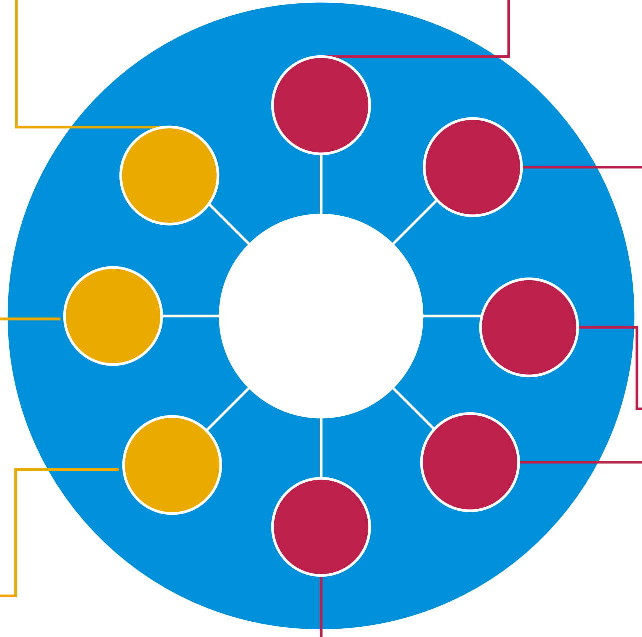
Triggering of RAS indicators and activation of escalation protocols – effectivity and efficiency of plans now seen under real circumstances.

ERM and CAPITAL

Financial market crash, volatility and worsening of credit quality put significant strain on capital adequacy – key challenge is to identify current capital position and to provide reasonable forecasts

High impact   Medium impact

Details in appendix



CYBER RISK

Remote working conditions have **expanded the attack surface** of organization’s IT network with **cyber threats** trying to exploit any remote access weaknesses with **new attack techniques**.

CREDIT RISK

Increased defaults and credit risk provisions ahead of banks, governmental support and supervisory reliefs should be optimally made use of by banks. Focus areas: Rating / NPE / IFRS 9 and strategy and resources in restructuring/workout

LIQUIDITY RISK

Increasing liquidity outflows due to large facilities drawn- by customers and stressed equity and bond markets; **pressure on government deposits** due to low oil prices – **uncertain cost of funding**

MARKET RISK

Increased **volatility in market data**, **haircuts increase** leading to limit breaches**. Possible ‘flight to quality’** phenomenon inducing bid-ask spread on certain securities

OPERATIONAL RISK

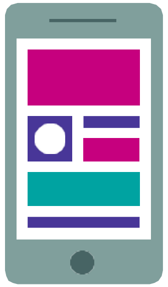
Continuity of business operations and new processes for running operations – key challenge is to identify areas of business disruptions and to address how processes, people and systems can be adapted to these changes.

Overview of key impact on banks: digital banking

The COVID-19 pandemic crisis will also be a test to all Banks' Digital Transformation Programs, digital interaction with Banks will be the first option for clients.

The high demand of digital assets will be a challenge for Banks, more mature Banks may have an advantage

Banks must keep offering services and products to stay alive, without branches this will be a big challenge



e.g. Speak to your bank through a smartwatch or using WhatsApp

Fraudsters are becoming more sophisticated and are taking advantage of this situation (Cyber and AML)

The digital transformation plans are put it into test and this situation may require **banks to revisit the priorities and try to launch new services with new products** in order to stay alive.

This situation will create a live **test of the Customer Experience, customer digital requirements, omni channel functionalities and capabilities, mobile app functionalities and internet banking**.

To get advantage of the situation Banks must be **sensitive of this opportunity and create mechanisms to collect, analyse and identify all the improvement opportunities** that results out of this massive use of digital banking.

Illustrative checklist to navigate the crisis

Governance & operations | Financial & external factors | Business impact

NON EXHAUSTIVE

Clients	– Have you identified and classified your clients? Do you know the more risky clients? – Do you know the immediate clients needs? How much is the exposure and provisions? Is it possible to offer them new products or do they need to be restructured?
Suppliers	– Do you know where your key suppliers are located? Do they have contingency plans in place to ensure the continuation of supply? – Do you have key outsourced services? Are they sufficient? Do they have contingency plans?
Physical logistics	– Do you have clear instructions for you employees in teleworking, clear rotation schedules for employees in the central services? Have you establish extra hours policies? – Have you create clear instructions for the branches? Do you have define branches safety instructions?
Contracts	– Have you reviewed your contracts with key customers and suppliers to understand your potential liability in the crisis events, and how best to manage your legal risks? – How will you respond if suppliers invoke force majeure clauses?
Inventory	– Have you assessed your inventory cover? Do you need to ring-fence inventory for particular customers in the case of shortages? – Do you have the ability to track shipments in real time and therefore manage customer expectations?
Customer loyalty & demand	– How will you set expectations with customers? How can you recover the experience in the future? – How well do you know your customers? Are you likely to loose customers to competitors/alternatives? – How will a drop in consumer demand impact your long-term growth plans?
Awareness & Communications	– Do you have a communications plan? – Have you communicated with the relevant customers, employees and suppliers?
Workforce availability	– How will you deal with the impact on your workforce? How can you ensure the safety of your employees while trying to maintain business as usual activities? Have you assessed the cyber security and health and safety risks associated with employees working from home?
Technology & system resilience	– Have your 3rd party IT suppliers been impacted? Will this impact your SLAs and system support? – Does your workplace/communications technology allow you to reduce travel and enable remote working?
Commercial plans	– How will your change plans and programs be impacted? Will project deadlines and investments need to be delayed? What impact does this have on your strategy and Business Model?
Governance	– Adhering with travel bans, how will this impact your board governance, meetings and the way you run your business? – Do you have the technology in place to support remote working? – For legal coverage, have you identified how to document the additional requirements to meet commitments? – Have you establish crisis reporting processes? – Have you updated the delegation of authority framework? – Have you create business governance backup plans?
Cash Flow	– Have you reviewed and revised cash flow, working capital management and demand predictions? – Have you performed simulations of the liquidity regulatory indicators? – Have you reviewed your contingency plans and have you update it with the new market restrictions?
Financial stability	– How will your financial stability be impacted from further stock market declines and restricted funding? – Will the completion of your financial statements be delayed? Is this likely to cause a delay to your audit opinions and therefore market communications? – Have you analysed the Central Bank and other Government banks stimulus?
Gov't & Public health requirements	– Do you have dedicated resource(s) reviewing public health requirements and other related Government announcements and ensuring that you stay informed? – Have you assessed your obligations as an employer for the health and safety of employees?
Economy disruption	– How will you maintain trust with your customers and assure them that Financial Institutions are still safe? – Are you prepared for massive withdraws? – How will a drop in cash inflows will affect your cost base and profitability? – Are you able to support your clients with new products? – Are you able to offer clients the government stimulus? How much?

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Main next steps

1. Perform a gap analysis to the "new normal" - today, short term and on-going

Perform a Gap analysis on the crisis management framework and the operative needs, considering the different time horizons

- Financial & external factors
- Business impact
- Governance & operations

2. Be prepared for the government stimulus

Preparation of the systems, organization structure, products, digital assets in order to offer government stimulus supports to clients

Deferment of payments for loans in affected sectors for six months	**New loans for the affected sectors at capped rates compensated with zero cost repo facilities**	**Cancellation of fees imposed on point of sale and ATM withdrawal fees**
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3. Review the Digital Transformation Plan

Review the actual Digital Transformation Plan in order to reassess the priorities and assess the launch of new services and products

03

Economic Support Measures

Economic support overview

	Planned stimulus	Stimulus % of GDP*		Planned stimulus	Stimulus % of GDP
Bahrain	$0.011 trillion	30%	Italy	$0.049 trillion	2%
KSA	$0.013 trillion	1%	Portugal	$0.002 trillion	1%
Oman	$0.020 trillion	28%	Spain	$0.219 trillion	16%
Qatar	$0.020 trillion	10%	UK	$0.400 trillion	14%
UAE	$0.070 trillion	17%	US	$2.000 trillion	10%
Canada	$0.057 trillion	3%	EU	$0.480 trillion	3%
France	$0.049 trillion	2%	IMF	$1.000 trillion	N/A
Germany	$0.608 trillion	16%			

source for GDP – world bank

Main Approach

The government of Bahrain has announced a BD 4.3bn stimulus package to support the country's citizens and private sector and counter the economic impact of the coronavirus outbreak (COVID-19).

Source: Economic Development Board Bahrain & Central Bank of Bahrain

Kingdom of Bahrain

Key Solutions

— CBB requested the banks to **offer deferment for 6 months** to the borrowers without additional fees or interest on interest, unless the borrower agrees for a shorter period.

— CBB also **extended the Stage 2 DPD criteria to 74 days** (excluding deferrals) and **reduced the cooling off period for restructured facilities to 3 months** from 12 months to support the banks, along with **reduction in LCR / NSFR minimum ratios to 80%** and **reduction in risk weights of local SMEs to 25%** from 75%.

— CBB's **loan facilities will be increased to $9.8bn (BHD3.7bn)** to allow debt instalments to be deferred and extra credit to be extended. CBB will provide **concessionary repo arrangement** up to 6 months at zero percent on case by case basis.

— All **programmes by Tamkeen** – a semi-autonomous government agency that provides loans and assistance to businesses – **will be redirected to support adversely affected companies,** as well as toward restructuring all debts issued by entity.

— Other measures will include

- Doubling the Liquidity Support Fund to US$530m.
- Exempting all tourism-related industry from tourism levies for three months.
- Exempting all businesses from industrial land rental fees for three months.

Main Approach

The Saudi Arabian Monetary Authority (SAMA) has issued a series of measures and guidelines for banks and financial institutions in response to the coronavirus pandemic. SAMA has announced the introduction of Private Sector Financing Support Program with a total value of about SAR 50 billion.

Source: Bloomberg, Financial Times, Gulf News & SAMA

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Kingdom of Saudi Arabia

Key Solutions

- **Depositing an amount of about SAR 30 billion** for banks and financing companies to delay the payment of the dues of the financial sector **from SMEs for a period of six months as of its date.**
- **Providing concessional finance of about SAR 13.2 billion for SMEs** by granting loans from banks and finance companies to the SME sector to support business continuity and sector growth during the current stage
- **Depositing an amount of SAR 6 billion for banks and financing** companies to enable insurance entities to relieve SMEs from the finance costs of KAFALA Program for **the purpose of minimizing finance costs**
- **This is accomplished via supporting payment fees of all stores and entities in the private sector for a period of 3 months** with an amount exceeding in total SAR 800 million. SAMA will pay these fees to payment service providers participating in the national system.
- The authority recently **decided to suspend freezes on client bank accounts for 30 days** in specific situations, such as the expiration of identification documents, failure to meet the requirements of knowing your customer, and **changing the account status to inactive due to a lack of banking transactions.**

Main Approach

CBO has come up with a comprehensive stimulus package in addition to recommending a set of precautionary measures for the banking sector. Those measures are to inject additional liquidity of more than RO 8 billion to the economy.

Source: Bloomberg, Financial Times, Gulf News & The Central Bank of Oman

Sultanate of Oman

Key Solutions

— **CBO have issue guidelines with immediate effect, borrowers can ask for deferment of loan instalment payments for the next six months, particularly for SMEs.**

— **Interest rate on repo operations was reduced by 75 basis points to 0.50%, and the maximum period of repo operations was raised up to maximum period of three months.**

— **Licensed Banks with enhanced opportunities to invest their surplus funds beyond the stipulated lending ratio limit,** it has been decided to raise the maximum permissible limit on investment in the Sultanate 'sovereign Development Bonds (GDB) and Sukuk from 45% to 50% of a Bank's net worth with immediate effect.

— **CBO have allow banks to increase the Lending Ratio / Financing Ratio by 5 percent from 87.5** percent to 92.5 percent and to utilize the additional scope provided for lending/financing to productive sector of the economy including healthcare services.

— **CBO have ask Banks to consider reducing existing fees** related to various banking services and to abstain from introducing new ones during year 2020.

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Main Approach

HH the Emir directs supporting and providing financial and economic incentives amounting to QR 75 billion for the private sector.

Source: Qatar Government portal & Qatar Central Bank

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State of Qatar

Key Solutions

— **Directing Qatar Development Bank (QDB) to postpone the installments of all borrowers for a period of six months.**

— The Qatar Central Bank has decided to **reduce the lending rate** (QCBLR) by 100 bps to 2.50%, **the deposit rate** (QCBDR) by 50 bps to 1.00% and the QCB **Repurchase rate** (Repo) by 50 bps to 1.00%. Government have also extended **guarantees of QR 3 billion to local banks to support the affected sectors** as part of the package.

— The Qatar Central Bank is to establish appropriate mechanism to encourage banks to **postpone loan installments and obligations of the private sector with a grace period of six** months and provide **additional liquidity** to banks operating in the country.

— **Exempting the following sectors from electricity and water fees for a period of six months:** Hospitality and tourism sector, retail sector, small and medium industries sector, commercial complexes in exchange for providing services and exemptions to tenants and logistics areas.

— **Excepting the logistical areas and small and medium industries from rentals for a period of six months.**

Main Approach

The Central Bank of the UAE announces a comprehensive AED 256 billion Targeted Economic Support Scheme to contain the repercussions of the COVID-19 pandemic

Source: Bloomberg, Financial Times, Gulf News & The Central Bank of the UAE

United Arab Emirates

Key Solutions

— **The CBUAE is allowing banks to free-up their regulatory capital buffers to boost lending capacity and support the UAE economy.**

— All Banks operating in the UAE will have access to **loans and advances extended at zero cost against collateral by the CBUAE.**

— **All banks will be allowed to tap into a maximum of 60 percent of the capital conservation buffer**, and, additionally, **banks designated as systemically important by the CBUAE will be able to use 100 percent of their additional capital buffer for systemic importance.**

— **The CBUAE is also reducing the amount of capital banks have to hold for their loans to SMEs by 15 to 25 percent.** This change, which is broadly in line with the minimum standards set by the Basel Committee, will facilitate further access of SMEs to financing.

— The CBUAE will also revise the **existing limit which sets maximum exposure** that banks can have to the **real estate sector. Banks will be allowed to increase it to 30 percent, but will be required to hold more capital.**

04

Appendix

Impact on banks' steering and risk management

Credit risk

- Key Implications
- Action Points
- Other considerations

	Short-term	Medium-long term
Key Implications	— **Obligors from specific sectors**, like e.g. tourism, hotel, airlines, automotive **suffer severely from economic difficulties** — Obligors seeking liquidity and heavily draw their credit facilities: automatic behavior based rating systems for SME are collectively downgrading, less sensitive ratings of larger companies may need manual ad-hoc treatment — **Uncertainty in institutes about setting default flags and IFRS 9 stage 2 migration** when supporting obligors to survive this crisis — **Uncertainty in financial institution around IFRS9 usage of scenarios and probabilities**	— **Possible second round effects and contagion effects among sectors** to be considered — Some of the collaterals value could be permanently affected — **Interest rates remains at low level and profitability is impacted**
Action Points	**Rating/NPE/Provisioning** — Review and adjustment of default/NPE definition in accordance with supervisory flexibility clauses **Credit Risk Management** — Intensify obligors monitoring, especially in relation to most affected sectors and review of current credit granting strategy — Review of strategy for restructuring and forbearance measures **COVID-19 scenario analysis:** — Gather information on new possible scenarios and re-assess provisions and capital impact — Try to incorporate effects of known governmental measures	— Recalibration of rating models — Integrated resource management, use external support to cover demand peaks — Make use of regulatory deadline reliefs — Adjust according to COVID-19 scenario analysis — Consider inclusion of pandemic scenarios into credit stress test
Other considerations	— Take advantage of Central Bank and Government stimulus — Set-up advertising for obligors to profit from governmental bridge loans (thereby reducing number of potential defaults)	— Banks might want to reconsider their strategy and adjusting the portfolio mix towards sector less affected and more stable

Impact on banks' steering and risk management

Liquidity risk

- Key Implications
- Action Points
- Other considerations

	Short-term	Medium-long term
Key Implications	— **Low oil prices** could put **pressure on government deposits** — Possible **increase in bid-ask spread on high quality assets** due to increasing usage for funding needs (e.g. repo) — **Corporate deposits withdrawal increase** due to revenues decrease — **Cost of funding might increase** for those institutions with poor liquidity ratios or particular funding needs — Worsening of liquidity positions triggering liquidity metrics and early warning indicators triggered — Market volatility and respective **margin calls, widening of haircuts**, etc.	— **Persisting low oil prices** could generate new funding needs with consequent increase in cost of funding — Uncollateralized funding no longer accessible — **Prolonged crisis might generate retail panic with consequent run-off** — Some banks might get **difficult to meet LCR and NSFR requirements** — **Increase of LGs and LCs usage** from sectors most affected by the crisis (trade – related) might consume additional liquidity
Action Points	— Proper and **timely reporting on key liquidity metrics** and responding to regulatory and stakeholder requests — **Proper monitoring** around key liquidity outflows and **scenarios forecasting** — **Ongoing internal and external communication** with clear and documented decisions around	— **Activate**, where possible, **customer retentions programs** (leveraging low rates scenarios if persisting) — **Review FTP mechanism** to incentivize certain business sector and steer balance sheet towards new strategy — **Increase liquidity buffer to withstand possible run-off and to leverage collateralized funding**
Other considerations	— Disclosure of information like LCR, survival horizon could reassure investors and have a positive effect on interbank cost of funding — FED interest rate decrease might help in keeping cost of funding within acceptable limits — Comparison of outflows to stress tests makes sense – however assumed scenario storyline is totally different, therefore a comparison only in the sense of available buffers make sense — Think about liquidity indicators supporting a close-to-real time measurement of available liquidity – in particular stress metrics may only help to a limited extent within the crisis	— Mid to long-term implications relatively high, as current scenarios, measures, etc. are not tailored to current crisis

Impact on banks' steering and risk management

Market risk

Key Implications

Action Points

Other considerations

	Short-term	Medium-long term
Key Implications	**Market risk (including IRRBB):** — **Back-testing outliers occur due to a series of strong market moves** possibly leading to higher regulatory scaling factors and thus capital demand — Revaluation of **banking book bonds** — Limit breaches may occur due to higher exposures in the wake of rising market volatility and may arise due to inability to hedge certain exposures — **High volatility drives trading frequency and trading costs up**, e.g. in delta hedge environments	— Trading book breaches might occur also on sensitivity limits — With the rise of spreads re-financing strategies such as cross-currency-swap based financing need a re-design. — Increasing exposures require additional capital
Action Points	— **Re-allocation of limits** to reflect new market conditions — Scenario analysis on bond prices is needed for banking book (e.g. capital impact due to different interest rate and CS scenarios) as well as impact on trading book — **Revisit internal models** capturing market risk and account for potentially higher correlation.	— **Properly model non performing loans (NPL) for interest rate risk purpose** even if relative NPL exposure was rather small before COVID-19 crisis — Likelihood of low (or even negative) interest rates for a long time make it necessary to **rebuild old approaches for NMD modelling** and steering which are partially build on a "constant margin approach" ignoring zero rate floors — **Portfolios restructuring**
Other considerations	— Expert input necessary to make historically calibrated models (esp. behavioural models) quickly ready for current times	— Timeline- 2021 could be extended due to resources consumed in COVID19 and partly because industry is realizing how little it knows about behavior of some RFRs

Impact on banks' steering and risk management

Key Implications

Action Points

Other considerations

Short-term	Medium-long term
— **IT Infrastructure Risk** whereby technical capacity of banks may not be adequate to support heightened remote access requirements for home working arrangements. — Exposure to **Human Error, Unauthorized Activity or Internal Fraud Risks**. — **Fraud Risks** due to increased phishing attempts, remote connections from various insecure locations, or potential exploitation of call center staff for fraudulent purposes.	— **Key Man risk** i.e. inability of key individuals to discharge their duties in the event of being affected by the virus — **Failure or insolvency of a third party** on which a Bank has high dependency, may result in significant process disruptions. For instance, vendors for replenishing cash in ATMs — **Stringent measures by regulators** to ensure that the Banks have implemented robust BCM plans under the current constrained environment.
— To deal with business disruption, key processes will have to be tailored and designed to fit the **"remote" way of working**. — Conduct **Business impact assessments** on key processes, systems and people that would be impacted at each Department due to business disruption — Identify **the Risk response strategy** i.e. to avoid, transfer or mitigate risk — Identify key **processes that will have to be either taken over, avoided or split with the third party vendor** in case of their inability to provide service efficiently — Develop **Risk Response Committees** within the Bank to identify and mitigate implications of COVID-19 related risks	— **Enhancements of the system infrastructure** to enable access to confidential information in an encrypted format. — Focus on **automation of Bank's current manual processes** and identification of risks in process automation — **Investment in resilient technological structure** to increase reach internally as well externally to stakeholders — Capture loss events, emerging risks, and control effectiveness information throughout the current crisis and **use lessons learnt to enhance risks and controls capture.** — **Increased frequency of BCP testing**
— Real-life scenarios might be unfolding faster than any forward-looking scenario evaluated – — To adapt to the ever changing external environment Banks will have to perform extensive analysis and use expert judgment wherever required — Banks are required to be well informed of the new developments and decision makers are required to have expertise across key functions	— The variety and number of scenarios to cover in Business Impact Analysis will increase significantly – and the set of scenarios will become less dynamic over time. — In addition, the crisis will provide additional examples of how scenarios can evolve, including what to expect through External stimulus by regulatory authorities.

Impact on banks' steering and risk management

Cyber risk

- Key Implications
- Action Points
- Other considerations

Short-term	Medium-long term
Security awareness of employees & customers — Lack of awareness among employees & customers towards new COVID-19 related cyber threats may lead to compromise of corporate data and IT network. **Insecure remote access solutions** — Use of remote access solutions e.g. VPN, remote collaboration tools, cloud services etc. in an insecure manner may lead to increased exposure of corporate IT networks. **Use of personal computing equipment & home networks** — Use of personal computing devices e.g. laptops, mobile phone etc. and less secure home network can be used as an attack vector to get into the corporate IT network	**Supply chain resiliency** — Unavailability of suppliers due to pandemic situations e.g. regional restrictions for vendors, unavailability of vendor resources etc. may result in vulnerable or interrupted IT services **Insider risk** — Prolong pandemic may result in harsh measures and job losses leading to angry employees who may turn into insider risk. **Higher cyber insurance premiums** — Prolong pandemic will increase the demand of cyber insurance and a probable increase in premium charges by providers due to high cyber risk situation.
Security awareness of employees & customers — Embed cyber in the crisis communication plans and use easily accessible crisis communication infrastructure e.g. mobile apps, quick email bulletins etc. **Insecure remote access solutions** — Enable strong authentication measures on VPN, enable only thick clients for remote collaboration tools, and securely configure cloud workloads. **Use of personal computing equipment & home networks** — Use mobile device management solution to securely manage mobile devices, encrypt hard disks in all laptops and use advanced antimalware solution to avoid risks of home networks.	**Supply chain resiliency** — Create a map of your supply chain, identify critical suppliers, assess their risks and build adequate contingencies to avoid disruptions due to unavailability of any of the suppliers. **Insider risk** — Implement a comprehensive insider risk management framework to improve security culture and identify toxic user behaviors proactively. **Higher cyber insurance premiums** — Evaluate available cyber insurance plans based upon risks relevant to the organization and include it as part of organization's broader insurance policies.
— Implement strong role based access controls across all your business application to avoid any insider risk. — Implement and test cyber incident response plans to respond to any untoward incidents e.g. compromise of corporate data and IT networks	— Define and implement a comprehensive cloud strategy to cater to long term remote working conditions. — Embed adequate security controls into the cloud without impacting the usability of cloud services.

Impact on banks' steering and risk management

Key Implications
Action Points
Other considerations

	Short-term	Medium-long term
Key Implications	— High potential **capital impact** in particular with respect to **provisions increase** — Trading book impact (revaluations, XVAs, prudent valuation, illiquid positions) — **Higher charges RWA** from increased volatility levels and higher counterparty risks. — **Current RAS thresholds and limits breached**, since they do not reflect current situation — Risk appetite needs to be revisited to consider a "new normal" scenario	— Banks operating under capital buffer limits **might need to increase their capital** — Losses incurred and need to reintegrate capital position might limit dividend distribution generating shareholders dissatisfaction
Action Points	— **Focus on P&L and capital forecasting** for portfolio with high probability of being affected — Consider **scenarios of different severities** (best case, expected, bad cases) and time lines — **Incorporate various levels of policy, fiscal and monetary action** to counter-balance economic impact of crisis on economy **as well as internal actions from contingency plans** — **Consider a mixture of bottom-up and top-down analysis to estimate scenario impact** – do not over-rely on established stress models reflecting past stress scenarios; consider deep-dive analysis of individual exposures to validate portfolio estimates — Update RAS and limit system to ensure appropriate actions of business divisions aligned to overall strategy to navigate through the crisis	— While some regulatory reforms weighting on capital demand might be postponed, the **key source of capital will be profits** (albeit there might be some voluntary or obligatory temporary public injection of capital) – **optimizing the business model and the cost structure will be key.** — **Update RAS and limit system to incorporate limits in an extreme scenario** — **Near real-time capabilities for valuation of financial instruments and daily P&L** and balance sheet **will become the new normal**
Other considerations	— Real-life scenarios might be unfolding faster than any forward-looking scenario analysis – using the right mix of analysis and expert judgement and all the expertise across all functions is essential	— The variety and number of scenarios to cover will increase significantly – and the set of scenarios will become less static. In addition, the crisis will provide additional examples of how scenarios can evolve, including what to expect through monetary, fiscal and policy action

Impact on banks' steering and risk management

Key Implications

Action Points

Other considerations

	Short-term	Medium-long term
Key Implications	— **Triggering of Tolerance and Capacity thresholds** due to macroeconomic developments; activation of escalation governance — **Contingency actions** (both for capital and liquidity) might **lose** their **effectiveness** in this unprecedented scenario	— Depending on the scenario evolution, certain banks might continue to operate in a tolerance area
Action Points	— **Review of contingency options effectiveness** and increase of operational readiness — Review of communication, escalation and reporting processes framework — **Protection of critical functions and essential business lines**	— Align all crisis management frameworks and integrate them in the overall bank management — Review of thresholds and recalibration if necessary
Other considerations	— While reviewing RAS limits and thresholds might take some time, ensure that proper internal communication on current limits allowance is adopted to avoid breach protocols activation — Capital thresholds can be easily adjusted to reflect Central Bank capital buffer allowance	— Periodic testing of contingency plans to measure effectiveness should become a normal practice

Impact on banks' steering and risk management

Key Implications

Action Points

Other considerations

	Short-term	Medium-long term
Key Implications	— Home office, split teams (with potential rise in IT Risk and Fraud) — Potentially more sick leaves — Impact on Third-Parties/Outsourcing Service Providers — **Challenge for IT systems/infrastructure (home working remote access et al; security and stability)** — **Projects Risk**: reduced capacities/resources lead to higher risk of fail in budget, timeline, deliverables, quality — **Reputational risk**: insufficient ability to cope with COVID could lead to negative stakeholder reactions — Overall: stress on the implemented internal control system	— If able to withstand short-term challenges, in case of a prolonged scenario, revised operational activities will become the new normal
Action Points	— Align specialist 2nd LoD functions (BCM, IT-Sec, Outsourcing Management et al) to provide holistic view on changing risk profile — **Selected NFR functions should be part of crises management team** (e.g. Crisis Management (monitoring of likely development of infections as well as government actions in relevant countries)) — **Support 1st LoD in discussions around risk tolerances due to temporarily reduced/changed internal control systems** — Business continuity plans are being stretched - businesses need to be prepared for simultaneous impact across	— Review risk controls framework to include changes in work arrangements and potential disruptions that could warrant a reassessment of conduct risk, cyber risk, and third-party risk — Review scenarios and business continuity plans due to lessons learned from current crisis
Other considerations		

Impact on banks' steering and risk management

Reporting

Key Implications
Action Points
Other considerations

Short-term	Medium-long term
— **Reporting packages to Central Bank in a timely manner of high importance** — Be prepared to develop ad-hoc Reporting across the organization and different stakeholders	— Additional reporting might be introduced by the Central Bank to monitor particular aspects
Define ad-hoc reporting formats to senior management and COVID-19 crisis unit, considering at least the following content: — COVID-19 relevant KPIs and early warning indicators — COVID-19 scenarios incl. probability and overarching scenario results — Rating-migration, rating correction, defaults/NPE, sector KPIs, early warning signals, IFRS 9 Stage 1/2/3, pending restructurings, … — Liquidity risk, including buffers and key metrics — Market risk	— **Enhance ad-hoc capabilities in line with requirements of the crisis** – understand interdependencies across risks and sub-risks
— Identify key areas where ad-hoc reporting is difficult /only available with large time-lags for improvement after the crisis	— T+1 timely reporting key to understand crisis – reporting capabilities in the crisis showed (again) lacks at various banks – enhancements necessary

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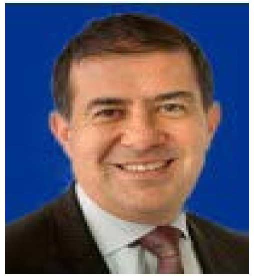

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