The outbreak of the novel Coronavirus (COVID-19) continues to pose significant challenges for banks throughout the world and Hong Kong is no exception. This information paper aims to bring forth practical ideas and suggestions to help banking organisations address these challenges within a much needed cohesive framework.

It is unclear how long the personal, social and economic challenges will continue. Nevertheless, banks should first figure out the actions they need to take to survive an extended period of challenge. Secondly, it is important to learn any lessons from business continuity plans so that lessons can be learned for the future. We have recently published a series of articles on “Preventing diseases and responding to changes” to begin discussions with companies on how to confront challenges and overcome them in time of crisis. The uncertainty and rapidly changing conditions require business leaders’ attention on a much wider range of issues from employee well-being, performance, communication with internal and external stakeholders, operational resilience and continuity and business plan refresh.
In this paper, we recommend banking organisations to consider their responses and actions in dealing with COVID-19 from three inter-related perspectives: “People,” “Firm” and “Scenarios.”

- **People**
  - Employees
  - Customers

- **Firm**
  - Financial
  - Operational

- **Scenarios**
Employee care and strengthening enterprise cohesion

The most recommended approach to dealing with COVID-19 has been maintaining personal hygiene and social distancing. Implementing ways of working to align with this approach needs to address a number of considerations.

Location, location

Although not everyone can do so, for many bank employees, working from home is a viable option if they are provided access to the necessary technology and communication tools. This reduces risks that can arise from travel to and from the office and should be encouraged for the employee’s own protection as well as that of their fellow colleagues.

For those where working from home is not viable, a safe office environment allowing appropriate physical distancing, appropriate personal hygiene standards and protection and regular disinfection schedules would be necessary. This may also require more space to be made available and to move staff to different physical office locations.

Some banks have adopted protocols allowing split teams to alternate between working from home and from the office at different times.

Ways of working

In addition to providing information about where to work, advice and guidance on ways of working is equally important to ensure that productivity is achieved with proper adherence to regulatory requirements and firm policies (e.g. control procedures, data security, reporting protocols, etc).

Staff may have grown accustomed to existing working protocols (e.g. standard working hours, reporting lines, etc) and therefore many may find it difficult to adapt to a different style of working where reacting to change and flexibility are critical and working in teams calls for a higher degree of planning, co-ordination and communication.

Many organisations are working at lowered volumes in line with reduced activity in the real economy. This means staff may have spare capacity that be used for self-development and organisations are encouraging staff to take on more online training programmes (e.g. product information, customer servicing, regulatory requirements) to improve their knowledge.

In addition to work-related topics, banks are actively disseminating information and knowledge on a range of health and safety topics to raise employees’ awareness including disease prevention, mental health, travel advisories, managing work at home, and news from trusted sources.

Scenarios: What if working from home is an option (or even the default) in BAU circumstances as opposed to a contingency measure? What would that mean in terms of attracting training and retaining talent? How would you manage performance and people engagement?
Customer engagement

Ensure customer interactions are effective

Banks will need to expend a substantial effort to understand the problems and needs faced by their customers in these uncertain conditions. The impacts to different customers are varied and so will their needs. The more immediate impacts from COVID-19 on bank customers seems to be access to services (e.g. branches and business centers) and working capital/cashflows to deal with the falls in business volumes until the situation improves.

Assistance for urgent liquidity needs

Some customers will have immediate needs for short-term funding, particularly for businesses where there has been a sharp and sudden reduction in demand for their business but they have not been able to reduce their operating costs commensurately. This is a difficult situation and banks will need to be able to identify between those customers for which they expect to be able to recover and others which are less likely to do so. Banks are offering a number of temporary relief measures, including moratorium on principal repayment (i.e. interest-only repayment for 6 to 12 months), fee waivers, expedited approval processes, etc, to their customers which have a sound credit history to allow these businesses to continue for a longer period of time. Such measures are conducted on commercial terms and should not compromise prudent risk management principles. Ongoing monitoring and improved forecasting of customers’ financial position will better inform bank risk management of their risk profiles and facilitate decisions regarding on banks’ continued support in this regard.

Access to banking services

Many customers would already be comfortable using online banking services, others (including some of the more vulnerable) will continue to rely on services through physical branches. Banks are working to ensure customer needs are met through alternative and contingency measures (e.g. flexibly adjusting the opening hours of branches and business centers to help prevent the virus from spreading whilst meeting customer service needs at the same time). Timely and clear communication of location and business schedule changes would facilitate customer access. Banks would also need to ensure that online and phone banking systems and associated processes are resilient and adequately resourced for the increased transaction volumes, and possibly for a prolonged period.

Dealing with market volatility

Volatility in financial and commodity markets and the pervasive uncertainty are likely to increase the demand for hedging and insurance products. Banks would need to come to grips with their customers’ concerns quickly to help manage their exposures and risks.

Banks may also need to consider the impact of issues such as margin calls and whether alternate forms of collateral can be accepted to help mitigate significant cash outflows that their customers may need for their day to day operational needs.

Taking bank services to the next level

Banks have made significant inroads to accelerate their digital transformation prompted by competition and pressure to reduce cost as well as customer demands. Increasing customer touch points through digital means, such as live broadcasts, short videos, AIs to stimulate customer engagement and drive transactional details through online/mobile platforms and using this opportunity to revamp the face-to-face experience.

Customers are spending more time at home or who are working reduced hours maybe more inclined to interact with their relationship managers than would otherwise be the case. Banks should focus on ensuring their staff are trained to engage with their customers to maximise the experience quotient.

Banks can also use their platform to educate customers on financial literacy (e.g. podcasts or mini-modules promoted through apps). These can include guidance on how to access support measures that may be available from the bank or government agencies and how to make full use of the bank’s existing online and mobile services. Equipping customers with knowledge can play a significant role in furthering the level of trust banks current enjoy from their customers.

Scenarios: What if your competitors are showing customers that there is a better engagement model and resonates significantly and positively in the community (powered by social media)? Would there still be justifications to be a fast follower? Would pricing still be the only game in town?
The continuing success is conditional on safeguarding the Bank's financial and reputational assets during uncertain times. It is core to maintaining the necessary trust that customer require in their banking relationships.

**Risk – Managing the known unknowns**

**Financial risks**

The immediate turmoil seen in many economic sectors (e.g. retail, tourism, catering and aviation) as well as the knock-on consequences for suppliers and employees poses immediate credit risk challenges for banks. Banks are being tasked with supporting customers who are transparent about the challenges they are under and should be open to new ways of helping their customers meet those challenges. Banks participating in schemes implemented by government to ease the short-term challenges is also in a way mitigating credit risk issues from snowballing across the economy. Nevertheless, in the short term, risk appetite may need to be suitably adjusted to reflect current (higher risk) realities.

In addition to the short-term, other industries may be impacted by lower demand and slower economic growth for a prolonged period. While there remains significant uncertainty around how long that will last and the extent to which government intervention will mitigate this, banks should ensure they continue to focus on the underlying strengths and opportunities available in various sectors and the fundamental soundness of their customers’ business models. While overall economic performance may be reduced, there is no reason to believe that this would be the new normal and that overall economic growth would not recover. As a result, building relationships with sound customers should continue to be key to future profitability. Credit management and risk models would need to evolve accordingly.

Banks should manage their risk limits assuming greater volatility in equities, interest rate and currency markets for a significant period of time. The extent of COVID-19 impact to various economies, industries and companies is continuing to emerge and remains difficult to assess for industries which are exposed to cross-border trade. Volatility naturally creates more activity in financial markets which banks need to be comfortable in managing.

There are increasing demands on banks’ liquidity as customers draw down and utilise existing facilities. Notwithstanding the accommodative global interest rate attitudes, banks need to prepare higher pricing to attract stable deposits to ensure they have maintain sufficient liquidity. There may also be opportunities to de-risk certain exposures on the balance sheet, by means of securitisation, to improve liquidity.

Bank regulators have taken measures to reduce capital requirements to mitigate the effects of an economic downturn due to the pandemic (e.g. lowering countercyclical buffers and reserve ratios). Banks should revisit capital plans and appropriateness of their capital models and assumptions in light of the evolving situation. Regulators and shareholders are likely to have differing expectations regarding the appropriateness of dividends and share buybacks. Being transparent about the conditions under which performance and dividend distribution is impacted with regulators and the investing community can help improve confidence amongst market stakeholders.

**Scenarios:** What are benefits of shifting assessment of model performance away from an emphasis on “predicting the past” to better forecast future outcomes that support actionable and realisable strategies? What if banks can move from risk identification and protection to improve return performance for a given set and amount of risks?
Operational resilience

Banks have traditionally been expected to maintain internal controls to a very high standard and the COVID-19 pandemic is actually intensively testing the effectiveness of such internal controls allowing areas of strength and weakness to be highlighted for attention.

One of the biggest challenges caused by the pandemic continues to manifest itself in banks’ ability to continue operations. Banks are constantly monitoring all aspects of operational resilience particularly:

• Understanding critical aspects of the bank’s operations so that these can be prioritised in the event of further challenges to their ability to operate;

• Access banking systems and operational functionalities from remote locations;

• Stability and resilience of customers’ access to banking facilities (online and mobile banking services) under stressed usage levels;

• Impact of infrastructure providers (e.g. internet service providers) on performance stability.

Banks engage with myriad of suppliers and service providers in their day-to-day operations. Actively seeking to understand the operational or financial challenges their suppliers and service providers face is helping to strengthen their relationships with third parties. This is important when dealing with suppliers providing critical services to the bank’s operations (e.g. of customer statement printers) or delivering future strategy (e.g. AI expertise).

Banks are also looking at new third-party relationships to address gaps identified from the current disruptions. Specific instances include using third party manpower to conduct site-visits in mainland China and overseas locations where it is difficult for in-person visits as a result of travel and quarantine restrictions or third parties who have significant amounts of experience in remote working solutions to facilitate engagement with employees and customers.

Scenarios: How would a shift from an attitude of safeguarding assets to safeguarding stakeholder interests be received? How can resilience translate into sustained improved performance? What if banks plays a role that more actively drive change and innovation in the economy?

Talk the walk as well as you walk

Any decisive policies and measures directed at building customer and employee engagement are only as effective as the channels through which they are communicated to the relevant stakeholders. At a time of public health crisis, lip service is as important as real service. The swift dissemination of accurate information about what banks are doing for society is critical, from how the support measures banks are providing to customers, to the increase cleaning regimes to minimise risks of transmission. Banks who are transparent and communicative in how they are handling the crisis should be better positioned to manage stakeholder expectations and see their operations returning to normal with improved reputational value.
While this article covered potential opportunities and additional considerations for banking organisations to do things differently, we have also prepared some general guidance on responding to the COVID-19 outbreak for business leaders:

Holistic guidance on how to assess and respond to upcoming challenges. [https://www.pwc.com/gx/en/issues/crisis-solutions.html](https://www.pwc.com/gx/en/issues/crisis-solutions.html)

