The uncertainty from COVID-19 will remain for the foreseeable future. Banks and capital markets institutions have no choice but to remain hyper vigilant and rewrite their business continuity playbooks as circumstances change. While it is reassuring to see some aggressive fiscal and monetary policy responses around the world already, clarity on how these actions will stabilize markets and accelerate the path to normalcy is slowly emerging, and in some cases yet to emerge. However, banks and their customers can take some comfort that capital ratios were the strongest going into this crisis than at any time in the last decade.

Banks need to actively consider the immediate needs of their people and simultaneously the multiple near-, short-, and medium-term operational, financial, risk, and regulatory compliance implications. They have an opportunity to support market and economic activity and to facilitate a quick return to stability. If banks and capital markets firms respond well to these unprecedented challenges, they will not only help society, but also increase trust and the reputation of the banking industry in the long run.

Potential long-term impact on banks and capital markets

• Revisions to the operating model, given the impact and lessons learned from this crisis, e.g., acceleration of digital transformation, organizational agility, future of work, and increased focus on cyber security

• Changes to the sector including restructurings, M&A, and wind-downs of fintech and smaller banking institutions given limited capital and revenue/profitability reduction; also opportunities for the banks to support restructuring of a wide range of industries

• Impact of continued reduction of interest rates, reduced business activity, and large scale non-performing loans if this becomes a prolonged recession

• Implications of possible regulatory changes and enhanced and new requirements

Key questions executives and boards should be asking

• How to continue to maintain business and operational resilience as circumstances change? How to infuse organizational agility while enhancing risk management in a dispersed work environment?

• How best to serve the banks’ customers (e.g., retail, small and mid-size enterprises), particularly those who may be affected by the impacts of COVID-19?

• What more should be done to sustain employee motivation and engagement, to be there for the employees, and to strengthen organizational culture?
• How to continue to protect profitability while revenues are affected by lower interest rates and reduced business activity? How to manage costs while the existing operational infrastructure expands to accommodate remote work and productivity potentially drops?

• What more should be done to effectively work with regulators, central banks, and governments to protect capital and liquidity while at the same time supporting proactively the return to market and economic stability?

• How can we maintain our brand and trust at the individual customer and industry level, while being socially responsible?

Practical next steps
Banking leaders will be judged by what they do along the three dimensions to managing a crisis: respond, recover, and thrive, including:

• Provide ongoing core operations, business continuity, and customer support remotely

• Ensure motivation and productivity of employees as they are working remotely

• Ensure legal and regulatory commitments, governance obligations, and controls are fulfilled

• Enhance ongoing management of market risk, counterparty credit risk, and non-financial risks

• Maintain adequate infrastructure and security

• Drive toward faster digital transformation, while considering current and future regulatory obligations

For additional steps that companies should consider, visit Combating COVID-19 with resilience.

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