MFW4A WEBINAR SERIES

Bank Crisis Management Programme in Response to COVID-19

July 09, 2020
BANK CRISIS MANAGEMENT PROGRAMME IN RESPONSE TO COVID-19

HOUSEKEEPING
MFW4A PRESENTATION
PANELISTS
LIBF PRESENTATION
Q&A
CONCLUSION
Today's session is scheduled to last 1 hour including Q&A

To ensure the highest quality of experience, all participants will be muted

Questions can be submitted via the “Chat” or “Q&A”

For live questions / Comments. Click on “Raise Hand” icon to speak (Lower Hand and mute after)

Slides and a recording of this presentation will be circulated after we conclude. They will also be available on MFW4A.ORG.

Message the organizers for any issues

Don’t forget to fill out the survey that appears automatically after the session
• G8 initiative launched in October 2007

• Common platform for the harmonization and facilitation of financial sector development and knowledge sharing in Africa.

• Donor partners, African governments the private sector, and other financial sector with the aim of unleashing the full potential of Africa’s financial sector in order to drive economic development and reduce poverty across the continent.
MFW4A WEBINAR SERIES

VISION, MISSION & PILLARS

MFW4A's activities are broadly focused on three thematic pillars:

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<th>Long-term Finance</th>
<th>Financial Stability and Governance</th>
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<td>Digital Finance</td>
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<td>Community of African Banking Supervisors</td>
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<td>Agricultural Finance</td>
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Knowledge Management and Advocacy

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PANELISTS

- **Speaker**
  - **Emmanuel Rondeau**
  - Visiting Professor – Risk & Governance
  - London Institute of Banking & Finance (LIBF)

- **Moderator**
  - **Jesus Fernandez Munoz**
  - Trainer and Programme co-Leader
  - London Institute of Banking & Finance (LIBF)

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The Covid-19 Crisis
Crisis management for Banks
Introduction
Banks and the Covid-19 crisis: what makes it different?
The Covid-19 Crisis and Bank Supervision

• An unexpected crisis, like many others (Sep. 11\textsuperscript{th}, RMBS, Sovereigns, Terrorist Attacks …)
• A worldwide and domestic crisis at the same time, allowing the exchange of experiences
• A crisis of an still unknown depth, with a need to manage uncertainties
• A health crisis that is impacting the economy, rather than the other way round
• A non-financial crisis: banks’ role, as ‘they are part of the solution’
• A crisis that still needs to be managed, but also from which lessons can already be learned
Any lessons learned from a governance standpoint?
Governance and Crisis Management

• Values during the crisis: calm vs. panic, order vs. disorder, independency vs. conformism, courage vs. fear

• The governance’s clarity has been tested: everyone’s roles and responsibilities

• Governance must be respected: Executive vs. Supervisory roles

• Committee’s procedures needed to be strengthened, effective and rigorous

• Activation of Business Continuity Plan and Crisis Management Plans

• Robustness of Succession Plans

• Coordination with stakeholders: Governments, Supervisors, Clients ...
What is the key focus for Risk Management?
Risk Review and Risk Appetite Framework

• Securing the risk management team
• Use all the tools and indicators deployed, rigorous steering, periodicity
• Financial and non-financial risks, and read across (blind spots):
  Credit portfolio/New business, Markets/Liquidity, Operational, Compliance
• Risk Appetite Framework: threshold tests and limits to their pertinence
• Existing risks and emerging risks, optimal resource allocation
• Utility of stress tests, scenarios and action plans
• Focus on priorities and weak points
Theme 4

How operational resilience has been tested?
Operational Resilience

- The implementation of Business Continuity Plans and the identification of weak links: operational risks segmentation
- Client protection and service continuity, moving to digital
- Health security for employees and branch protection
- Ability to work remotely, IT logistics, network dependence
- Flow treatment, volume adjustments, coordination and cooperation in a banking centre
- Operational steering and protection of key functions
- What Key Risk Indicators / Key Performance Indicators during the crisis period?
Have the banks’ efforts on compliance been put on hold?
Compliance

• The three dimensions of compliance and weakness identification:
  1. Client protection
  2. Anti Money Laundering and Terrorism Financing measures, fight against corruption
  3. Internal and external anti-fraud measures
• Business Continuity Plans – Strengthening the teams
• Cyber-security even more important, sharp increase in fraud
Have Central Banks’ liquidity injections been effective?
Liquidity Risk Management

• A robust framework: definitions and methodologies, information and monitoring, operational aspects and decision process, emergency liquidity plan

• Focus on liquidity and on the identification of financing needs

• Definition, evaluation and preservation of internal liquidity buffers and internal stable financing sources: implementation and trap identification

• Coordination with the Central Bank: the examples of the ECB and the BoE

• ILAAP (Internal Liquidity Adequacy Assessment Process) methodology
Theme 7

What can be expected for Loan portfolios?

And how IFRS 9 will impact the banks under Covid-19?
Retail Credit Portfolios

• Pre-crisis situation of retail credit portfolios, type of instruments and risk profile
• Individual defaults and systemic weaknesses: the impact of economic deterioration on the financial situation, questions about internal models
• Banking approach and public action: European examples
• Moratorium, forbearance and suspension of payments
• Legal framework and guarantees, regulatory or legal adjustments
Corporate loan portfolios

• The crisis’ impact on companies, solvency and cash-flow
• Public policy objectives: preserving corporate liquidity – associated measures (taxation, social security charges, unemployment …)
• Banks to support corporate customers, reactions and resources
• Moratorium on amortisation schedules, principal + interest
• New guaranteed loans: the French and British examples
• Reinforcement of risk management and restructuring /work-out teams
• Legal and contractual aspects, covenants and guarantees
Non Performing Loans and Provisions

• The difficulties in measuring the cost of risk deterioration: estimates and overlay
• IFRS 9, bucketisation and NPL treatment
• The European Banking Authority recommendations
• The Bank of England recommendations
• The rating agencies’ vision
• Main conclusions to date
What about the impact of the crisis on prudential ratios?
Solvency and Prudential Capital

• The capital is going to be impacted by:
  – Business losses (due to GDP decline)
  – Credit portfolio losses (massive cost of risk increase)
  – Value adjustments for financial assets

• The supervisors’ approach and the utilisation of capital buffers

• The banks’ solvency profile prior to the crisis

• Capital reinforcement measures, dividend suspension
Conclusion

Any take away or is it too early?
Conclusions

• The crisis as an humbling experience, health aspects prevail over economic impact
• A considerable human, organisational and financial task
• Significant effect of Basel protection measures enacted prior to the crisis
• Before the crisis: the banks that were prepared and those who were not
• Crisis management: lessons learnt from the past and lessons for the future
• Public / Private coordination and Central Bank intervention
• An opportunity to restore trust and confidence into the banking industry
Contact Details

If you would like more information about this Programme, please reach out to:

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END OF PRESENTATIONS

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DISCUSSION

Send us your questions using the chat and / or question and answer features. If you want to ask your question directly, please click on the “Raise Hand” button or send a message to the organizers.
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