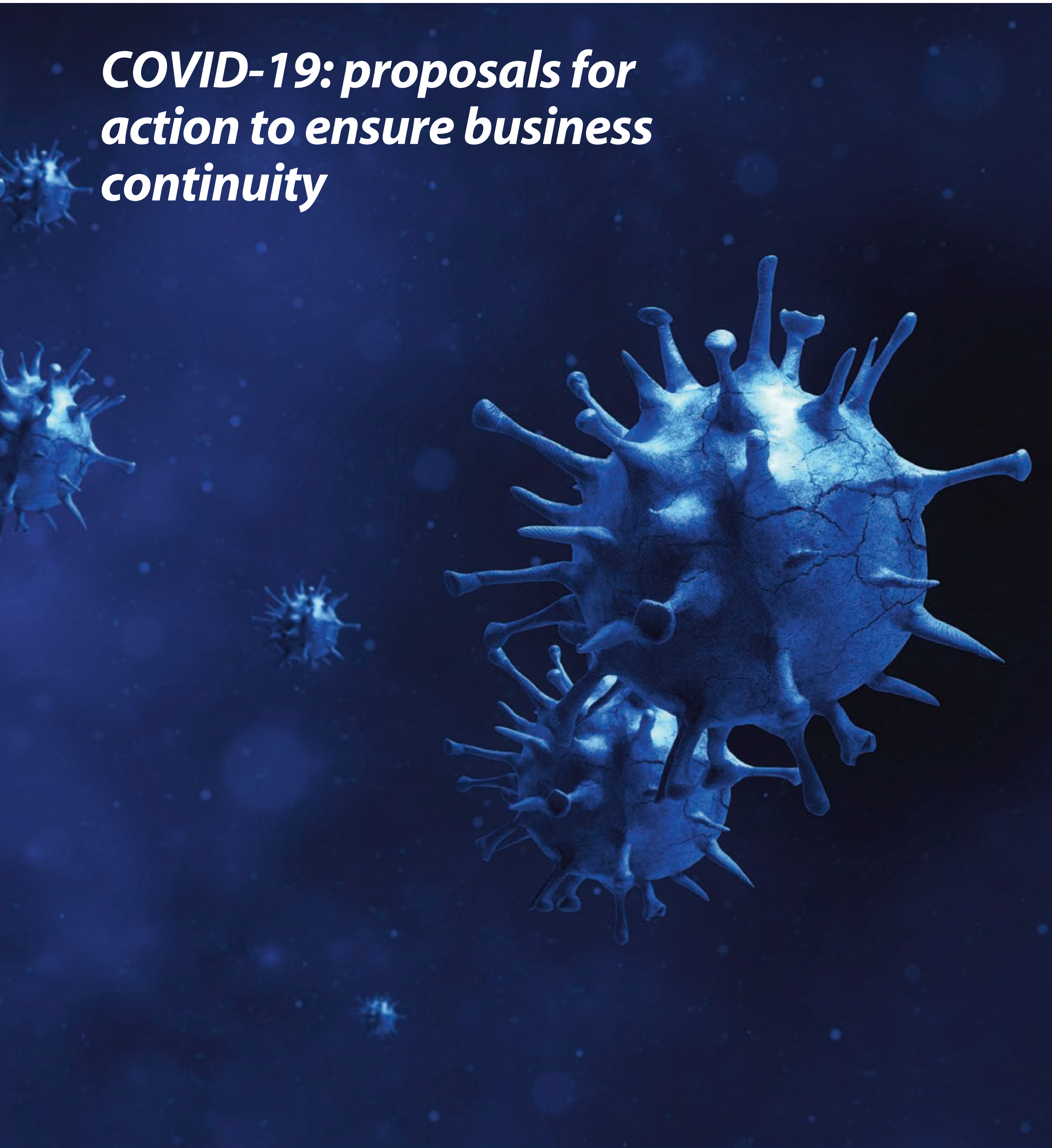
COVID-19: proposals for action to ensure business continuity



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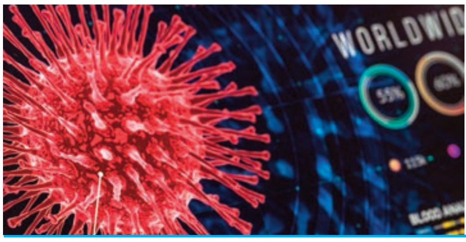
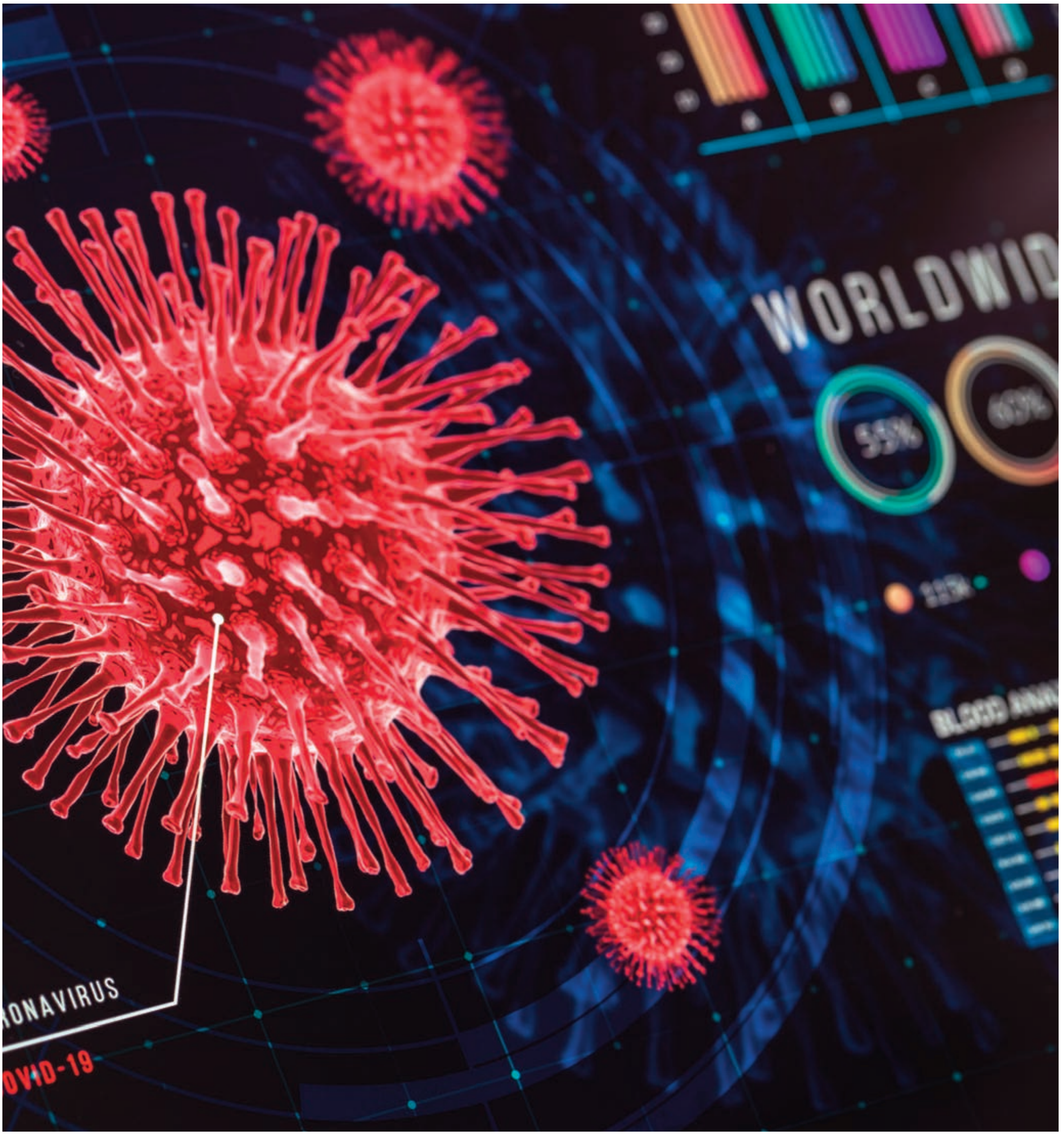


Introduction



On 31 December 2019, the World Health Organisation's office in China was informed that a pneumonia of unknown cause had been detected in the city of Wuhan, in Hubei province. The new coronavirus, associated with other known viruses such as SARs and MERs, was given the name SARS-CoV-2 while the disease caused by the virus received the name COVID-19. On 30 January, after detecting virus outbreaks in countries other than China, the WHO declared an International Health Emergency[1].

On 11 March 2020, when the number of infections soared to 118.000 cases across 114 countries, the coronavirus was declared a pandemic so that governments worldwide would take the necessary measures to contain its spread[2]. Two weeks later, the impact of the pandemic grew to more than 400.000 confirmed cases of infections by SARS-CoV-2 and over 18.000 deaths in 196 countries. Since then, SARS–CoV–2 continues to cross borders and grow exponentially, doubling the number of people infected every few days in many countries.

In order to mitigate the effects related to the spread of the pandemic, governments have been forced to take swift action and adopt emergency measures to contain the virus such as restricting the free movement of the general public and strengthening border control or closing borders. The governments of Italy, Spain and France have taken the most restrictive measures thus far.

In addition to causing a major health crisis, this situation has negative consequences for the global economy. According to the International Monetary Fund (IMF), measuring the economic impact of the new coronavirus pandemic is a complex matter and would generate uncertainty about the economic outlook and associated risk of deterioration. This may jeopardize both economic growth and financial stability[3].

Some of the first economic consequences of this crisis have been:

- A strong stock market decline since the outbreak was first detected (31 December 2019). Some of the main indices have fallen by more than 30%: Dow Jones (~36%), Nikkei (~30%), FTSE (~34%), Euro Stoxx (~36%)[4];
- A reduction of the number of flights by the airlines due to the closing of borders (e.g. USA restricted air traffic from Europe);
- A sharp drop in car sales (e.g. fall of 92% in car sales in China during the first two weeks of February compared with the previous year)[5].

As IMF notes, in addition to economic and fiscal measures, the implementation of monetary and financial stability measures will be critical to supporting the world economy[6]. Hence, governments as well as national (e.g. BoE, Fed) and supranational institutions (e.g. ECB, EBA, ESMA) are taking measures to reduce the negative impact on the real economy, such as the suspension of mortgage payments, flexibility in the deferral of tax payments for SMEs and self-employed workers, or increased flexibility in certain supervisory requirements, amongst others. These types of measures are being implemented to different degrees in Europe, the US and Latin America.

Finally, the health threat from the spread of the new virus itself, as well as the containment measures taken by the authorities, pose a threat to the business continuity of companies.

The sharp decrease in the demand for products and services due to restrictions on the general public's freedom of movement and the closing of businesses is leading to liquidity stress for companies. Some sectors' supply chains are also being seriously affected. Furthermore, confinement measures are putting stronger pressure on the telecommunications infrastructure due to the challenge of providing for the remote work needs of a big share of the workforce. Additionally, companies are implementing measures to mitigate the threat to their employees' health.

In order to face this adverse scenario and ensure business continuity, companies must carry out and coordinate action plans on multiple fronts (HR and Organisation, Technology, Facilities, Supplies and Communication) under a governance model that helps manage the crisis.

This paper gives an overview of the measures taken by institutions, with a focus on Europe and America, as well as on the impact that these will have on different sectors, particularly in the financial sector. The main objective of this paper is to present specific proposals for action to facilitate the management of this crisis and ensure the business continuity of companies.

[1] World Health Organisation. (2020). Rolling updates on coronavirus disease (COVID-19).
[2] World Health Organisation. (11 March 2020). WHO Director-General's opening remarks at the media briefing on COVID-19.
[3] World Health Organisation. (25 March 2020). Situation Report – 65.
[4] Own elaboration from Bloomberg data. Cotizaciones (2020).
[5] Bloomberg (21 February 2020). China Car Sales Slump 92% in First Half of February on Virus.
[6] International Monetary Fund. (11 March 2020). Monetary and Financial Stability During the Coronavirus Outbreak.

Measures taken and implications

Measures for containing the pandemic[7]

The quick spread of the virus – due to its highly contagious nature and long and asymptomatic incubation periods – has forced governments to take extraordinary measures to control virus transmission and strongly restrict people's freedom of movement (e.g. by prohibiting non-essential travel, imposing quarantines and confinement, suspending educational activities, cancelling events, closing public areas and institutions, closing borders, etc.). Governments have also used extraordinary communication channels to avoid misinformation and prevent panic across the population.

In this regard, there has been a chain reaction among countries, with governments taking increasingly restrictive measures affecting wider sections of the population as the threat increased.

It is worth emphasizing that the measures taken to restrict free movement as well as the suspension of non-essential economic activity present different levels of intensity, depending on the spread of the pandemic. These measures change as the pandemic evolves:

- So far, European countries have been the most affected by the pandemic outside Asia, and have therefore been the first to take measures such as suspending in-person classes, restricting commercial and cultural activities, closing leisure facilities, hotels and restaurants, and limiting religious and civil gatherings and ceremonies.

- In the US, the Federal Government has issued recommendations to the general public and the state governors aimed at reducing the probability of the virus spreading (e.g. quarantine if one shows symptoms and avoiding gatherings of more than ten people) as well as a recommendation to close any school or large facility where cases of infection are detected[8]. Moreover, individual States may take more restrictive measures such as the confinement order in California[9] telling 40 million people to self-isolate.

- In Latin America, governments are taking similar measures such as closing all education centres or the control and closing of borders to people coming from infected countries.

In addition to the containment measures, governments have also implemented measures to reduce the socioeconomic impact of the SARS-CoV-2 outbreak and maintain the quarantine.

In this sense, several European countries have taken steps to ensure the supply of basic services (water, gas, electricity and – in some countries such as Spain – technology) to the most vulnerable sections of the population. As for economic and financial measures, they are taken with varying intensity across geographies. Measures worth highlighting are the following:

- Deferred payment of loan instalments for the most vulnerable sections of the population in countries such as Spain or Italy.

- Deferred payment of fees and provision of specific credit lines for SMEs and self-employed workers, with a focus on the most affected sectors in countries such as Spain, Italy, France, Germany and the US.

- Measures to relieve the increased unemployment situation and its consequences, such as giving incentives to companies to preserve existing jobs, the prohibition of certain dismissals in Italy for a nine-week period with the government assuming the payment of salaries, the provision of unemployment benefits for those affected by the crisis, the easing of temporary adjustment mechanisms to avoid dismissals, including temporary lay-offs in countries such as Spain and France, or the reduction of working time.

[7] The measures analysed in this section are updated to 25 March 2020.
[8] United States Government (16 March 2020). Coronavirus Guidelines for America.
[9] Executive Department State of California (19 March 2020). Executive Order N-33-20.

Measures with implications in the financial sector[10]

In this context, the financial sector plays a key role in channeling credit to the real economy, conveying monetary policy decisions, and giving preferential treatment to the most affected groups by increasing the flexibility of the conditions on loans granted before the crisis as well as giving new credits under the public guarantees and deferrals.

In Europe and North America, given the current scenario of low interest rates, central banks have a lower margin of manoeuvre for the implementation of monetary policy measures, albeit both the Federal Reserve (Fed) and the Bank of England (BoE) have taken measures to lower interest rates. Furthermore, central banks are focusing efforts to provide liquidity to the system through the purchase of debt, joint action (by the Fed, the central banks of Canada, England, Japan and Switzerland and the ECB) such as lowering the price of US dollar liquidity swaps, or engaging on government bond swaps.

Furthermore, as a consequence of the coronavirus outbreak, financial institutions are under stress as the situation is having a severe impact on capital, liquidity and the key risks they face (see figure 1).

For this reason, financial regulators and supervisors are issuing several measures aimed at clarifying the framework for action available to financial institutions so they can continue to operate under the present circumstances, and at facilitating the instrumentalization of government guarantees and deferrals.

Financial sector regulatory and supervisory measures due to COVID-19 may differ across geographies, even though they all have the same objectives. By way of example, the following are the key measures that have been taken mostly – but not only – in Europe:

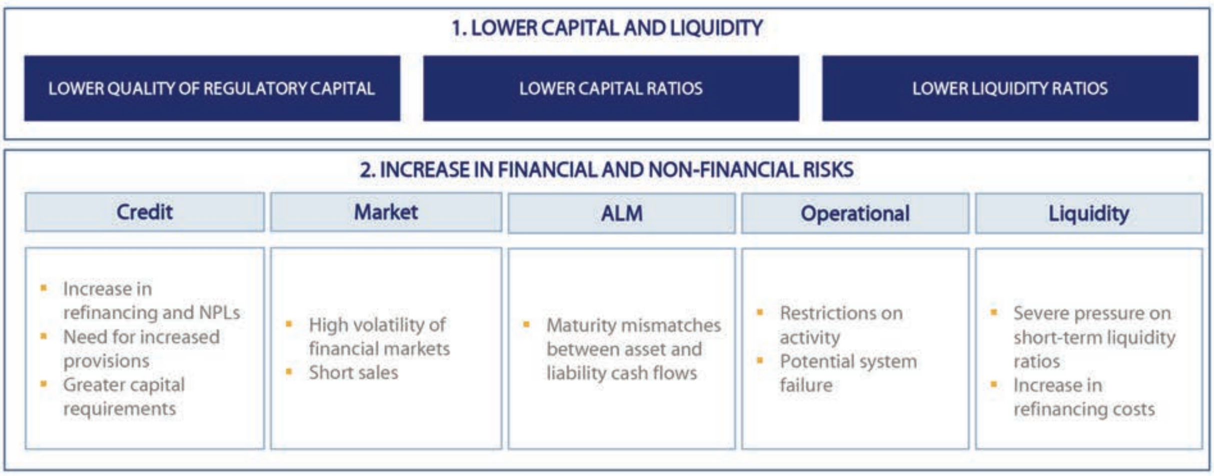
- **Measures with an impact on capital and liquidity**: financial institutions in Europe are being provided with measures for temporary capital relief: a relaxation of the countercyclical capital buffer and an easing of regulatory capital requirements (e.g. allowing partial use of capital instruments of lower quality as Common Equity Tier 1 - CET 1- to comply with the requirements of Pillar 2), and of the liquidity coverage ratio (LCR). Furthermore, the EBA and ECB recommend that all banks benefit from the temporary measures to mitigate the impact on capital.

- **Easing in the treatment of non-performing loans**: flexible implementation of the European guidelines on NPL, preferential treatment of exposures subject to guarantees and deferrals regarding the minimum level of expected capital provision, recommendation to prioritize the analysis of the individual exposures that had a significant impact in the identification of non-performing exposures, and the acceptance that the conditions established in the payment deferrals will not necessarily lead to the reclassification of loans in the definition of refinancing.

- **Calculation of IFRS 9 provisions**: from a methodological point of view, European regulators suggest giving greater weight to a stable outlook based on banks' historical experience of estimating long-term credit losses. The ECB will provide central macroeconomic scenarios to facilitate the calculation of provisions, and the EBA considers that

[10] The measures analysed in this section are updated to 25 March 2020.

Figure 1: impact on capital, liquidity and key risks



Source: Management Solutions.

neither public nor private deferrals in themselves should automatically be taken as triggers of a significant increase in credit risk.

- **Supervisory reporting**: the ECB, EBA, ESMA and BoE have given more flexible timelines for the submission of some regulatory reports so that banks can focus on business continuity.

- **Supervisory inspections**: in the European Union, the ECB has postponed for 6 months (revisable) the timelines set in relation to past inspections (e.g. implementation of corrective measures by financial entities and the issuance of TRIM decisions). The timelines will be reviewed with every entity under the supervisory framework.

- **Regulatory stress testing**: The EBA has postponed the exercise planned for this year to 2021, but it will carry out an additional transparency exercise in 2020 in order to provide updated information on banks' exposures and asset quality to market participants. For its part, the BoE has announced the cancellation of the stress testing exercise for 2020.

- **Regulatory and supervisory measures for the stock market**:

  - The European Securities and Markets Authority (ESMA), considers that the issuers of financial instruments, in their estimation of credit losses under IFRS 9, should take into account the nature of the economic shock caused by COVID-19 and the impact that economic measures will have on credit risk throughout the life of the financial instruments. Estimates may be based on historical information.

  - In certain countries such as Spain, there are temporary restrictions to take or increase short positions in quoted shares. In the same vein, the European Securities and Markets Authority (ESMA) has announced the temporary requirement to notify the national competent authority if the net short position on shares traded in a EU regulated market is equal or higher than 0.1% of the share capital issued.

  - Additionally, the ESMA has issued recommendations regarding the disclosure of information to the market, financial reporting, the management of funds and the planning of business continuity (contingency plans).

- **General recommendation to implement contingency plans**: The recommendation to implement contingency plans to ensure business continuity and reduce the possible adverse effects of the pandemic, has also been subscribed by other organizations both in Europe and the Americas, such as the Central Bank of Germany (BaFin), the Federal Financial Institutions Examination Council (FFIEC) in the US, or the Commission for Financial Markets (CMF) in Chile.

Proposals to ensure the continuity of operations

The scale of the crisis caused by COVID-19 and the speed at which its impact is being perceived requires companies to implement immediate lines of action to ensure their business continuity.

For this purpose, measures should be structured around a business continuity plan that includes three main strands of action (see figure 2):

- Establishing a governance framework for the crisis (at the strategic, tactical and operational level) in order to take fast, effective and coordinated decisions.
- Identifying potential impacts on the level of service as well as mitigation strategies to ensure the business continuity of critical processes and the organization's adjustment to the new environment.
- Developing cross-cutting action plans aimed at ensuring the organization has the resources and logistics required for the continuity of critical processes.

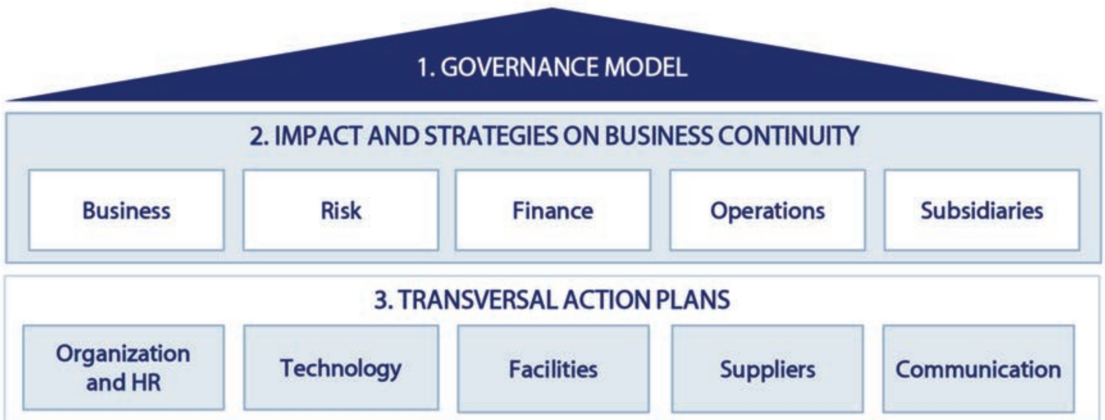
The following sections describe measures for each of the areas of action defined.

Governance model

One of the first steps to take would be the definition and implementation of a governance model aimed at ensuring coordinated and coherent decision-making.

To this end, and as mentioned above, it is necessary to define the structure at strategic, tactical and operational levels to coordinate the management of business continuity:

Figure 2: areas of action



Source: Management Solutions.

- At the strategic level, the governance model should include the creation of a COVID-19 Crisis Committee, Integrated by the CEO and by other members of the Executive Board. This committee would be accountable for the management of the crisis caused by the outbreak and would coordinate the different taskforces. Additionally, the Committee would review the status of the operations on a daily basis and approve actions and responses towards new events (new instructions from health authorities, critical issues, etc.).

- At the tactical level, different taskforces should be created to ensure the correct operation of the means of production (HR and Organization, Technology, Facilities and Suppliers, as well as to coordinate communication). These taskforces should define specific actions in coordination with the organization's business and support areas.

- At the operational level, each of the different business and support areas should assess the impacts and main weaknesses in critical processes caused by the crisis, and define specific business continuity action plans– in coordination with the taskforces – to ensure fast and efficient implementation of the higher-level strategy approved by the Crisis Committee.

Business continuity impacts and strategies

The containment measures taken by authorities will have two main impacts on business continuity. On the one hand, the demand for products and services is expected to drop – except for basic goods and services such as groceries, pharmaceutical and sanitary products, technology – which would lead to potential difficulties for companies to meet their payments (liquidity crisis). On the other hand, mobility restrictions on their employees may affect the ability of organizations to keep the level of service due to the operational difficulties caused in some parts of the value chain.

Therefore, organizations should identify where their main weaknesses for business continuity lie, and define a mitigation strategy for their mitigation.

Areas of action

Business and support areas should contribute to identifying both the weaknesses in each of their critical processes and the status of the roles associated with those critical processes (ability to work remotely, minimum number of employees necessary to execute the tasks, and criticality of employees for the purposes of ensuring business continuity).

The gaps identified should be prioritized and the focus should be on the actions aimed at tackling these gaps by

Figure 3: opportunities in adapting the current product offer

Segment		Opportunity
General		▪ Focus on channelling government financial aid in all countries
Banks	Retail	▪ Payment holidays for loans and mortgages ▪ Remortgaging ▪ Reduction in the collection of fees due to defaults. ▪ Proactive debt restructuring to avoid defaults ▪ Access to deposits and savings products with no penalty ▪ Reinforcement of pre-approved loans
	Corporate	▪ Liquidity lines ▪ Government credit lines ▪ Specific loans for the purchase of technological equipment to reinforce remote working ▪ Automatic renewal of credit lines under the same conditions
Consumer Finance	Retail	▪ Increase in pre-approved loans for existing clients ▪ Reimbursement of credit card fees ▪ New revolving and deferred payment card for use in supermarkets ▪ Increase in credit card limits and point of sale credit cards ▪ Extension of the credit payment period ▪ Temporary improvement of product conditions
	Corporate	▪ Liquidity lines for Dealers (clients y non-clients that cannot get financing from auto makers)
Insurance	Retail	▪ Review of pandemic coverage and add-ons ▪ Review of private health center coverage and upgrade ▪ New travel insurance products
	Corporate	▪ Add on premiums for civil liability for specific segments ▪ Company policies and coverage of access to facilities, etc.
Telecomms	Retail	▪ Extension of data plans ▪ Release of digital content
	Corporate	▪ Extension of coverage for corporate clients (to facilitate remote working)
Energy	Gas & Electricity	▪ Payment holidays for vulnerable clients ▪ Reduction in the collection of fees due to defaults
	Oil	▪ Impact on the final price of gas in service stations due to lower oil barrel prices ▪ Agreements with large customers to ensure supply

Source: Management Solutions.

implementing area-specific strategies as well as other strategies to ensure the logistics of the activities, in coordination with action plans cutting across the firm (HR and Organization, Technology, Facilities, Suppliers and Communication).

Some relevant impacts by area are described below:

Impacts on Business

- **Product portfolio**: this context presents opportunities to support businesses and society as a whole, will strengthening the relationship with existing customers and originating new opportunities. In this sense, companies should consider adapting their product offering to more flexible conditions, as well as, in some industries such as the financial sector, creating new products that facilitate the channelling of government support to the real economy (see figure 3).

- **Distribution model**: firms should adjust their servicing model to the current circumstances, reinforcing service channels other than on-site (e.g. internet, movil, contact centre). In this sense, transferring a high volume of operations (in terms of both quantity and typology) will test the capacity of remote servicing models, and therefore their performance should be permanently monitored.

  Companies that continue to perform certain activities on-site should assess concentration levels and consider to completely close some locations (e.g. bank branches). In this case, companies may also consider the feasibility of implementing remote working, ensuring the necessary technical and telecommunications infrastructure for the continuity of the operations.

- **Commercial plan and promotion**: depending on the context, it may be advisable for firms to proactively reconsider their commercial plans, reassessing their commercial campaigns and agenda. Furthermore, it would be necessary to reinforce the monitoring of activities for fast decision-making, and to increase proactivity in the communication with clients (e.g. conversations with the client to convey a sense of tranquillity and provide information on how to interact with the organization through the available channels, on new products or on the organization's social responsibility measures).

Impact on Risks

- **Liquidity Risk**: caused by the adverse effects on the economy due to the crisis, it is critical to manage liquidity metrics and indicators to meet the needs of companies. In this sense, it is important to strengthen the liquidity position, establish or review liquidity contingency plans identifying and quantifying short-term measures, and to build estimates and liquidity stress scenarios. In parallel, it would be necessary to ensure support to the production of daily and intra-day management information in order to monitor the current liquidity situation, as well as, in the case of the financial industry, the corresponding regulatory information (see figure 4).

  Liquidity scenarios should be developed consistently with the hypotheses and methodologies used for the estimation of results and capital scenarios, as described in the following sections.

- **Credit Risk**: the drop in demand, along with the business disruptions experienced by clients, could lead to a strong deterioration of their solvency, and therefore to increased credit risk for the organization. In this sense, firms should review their credit risk appetite and policies, making a distinction between the structural/long-term vs point-in-time difficulties of clients and assessing the impact of any planned recovery action.

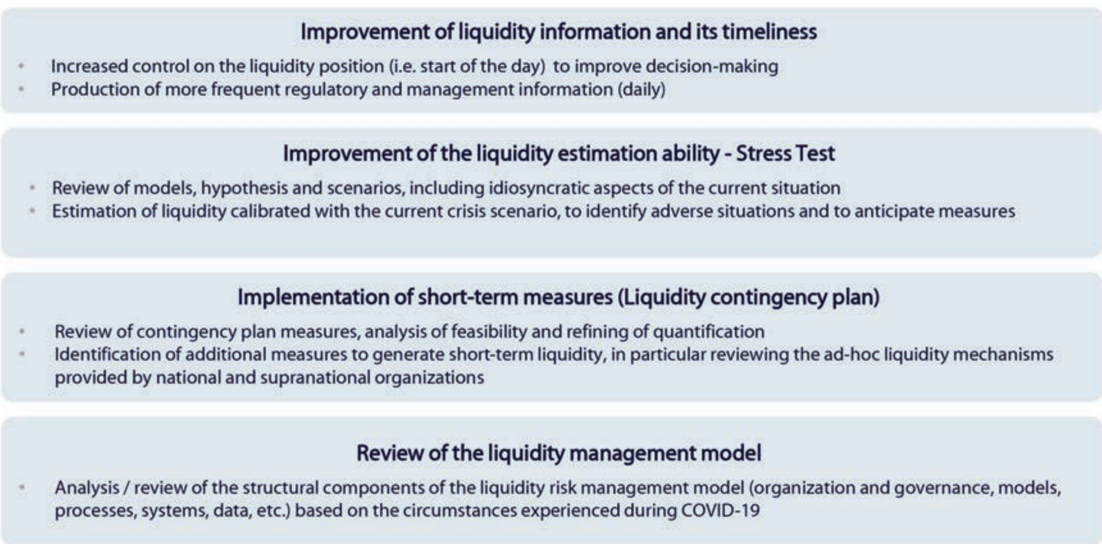
  Additionally, as indicated in section 2.2, in the case of the financial industry the emerging regulation on solvency and the treatment of NPLs will condition the estimation of capital and provisions, as well as the related operational and reporting processes.

- **Non-financial risks**: the current exceptional circumstances may increase the vulnerability of business activities to errors or fraud. This underpins the need to implement and reinforce preventive controls. Moreover, the vulnerability of certain groups of clients under the current circumstances will require careful analysis of the implications of any planned recovery measures in order to avoid a crisis management approach that may result in increased reputational or conduct risk (see figure 5).

Impact on Finance

- **Estimation of results**: depending on the expected impacts on the business as well as the evolution of the solvency and liquidity of the clients, it would be

Figure 4: action lines by industry and activity



Source: Management Solutions.

necessary to build new estimates of results under different scenarios of severity and duration of the crisis.

- **Continuity of the reporting processes**: firms should give priority to ensuring continuity in regulatory reporting as well as in the provision of relevant management information (with a focus on the follow-up of the business origination through digital channels) and financial reporting for accounting purposes.

- **Accounting impact**: some measures taken by governments, such as the deferral of payments, are likely to have an impact on the accounting of provisions, which would lead to changes in the operational and accounting reporting systems.

- **Financing of the crisis**: finally, it would be necessary to ensure the financing of the support initiatives defined (channels, communication, etc.).

Figure 5: balanced risk management

Source: Management Solutions.

Impact on liquidity risk management

One of the most concerning aspects of the crisis is liquidity management, as well as the analysis of risk arising from the inability to meet short-term payments. Companies should carry out different initiatives to assess their liquidity position and improve the management information used on a daily basis. Furthermore, they should conduct sensitivity analysis and stress tests that facilitate the estimation of the liquidity situation under different scenarios, review contingency plans to identify and activate measures for the improvement of short-term liquidity, as well as, in regulated sectors, generate the corresponding regulatory information.

To manage liquidity, it is critical to centralize and control the liquidity position on a daily basis to ensure and facilitate decision-making. To do so, those companies that are not currently calculating that position on a daily basis may have to collect the information tactically, and develop support systems for the centralization of data while developing the methodology for the calculation of the position. Moreover, to guarantee the quality of the information gathered, it is advisable to test it using real scenarios that allow for a quick comparison of the methodology and the generation of results to present to the Board.

Once the liquidity position is obtained on a daily basis, it is key to improve the capacity to obtain liquidity estimates for the different time horizons and under different scenarios, as well as intra-day liquidity measurements. To do so, the stress test models, hypothesis and methodologies available should be reviewed and adjusted to the current idiosyncratic circumstances. Furthermore, a quick comparison of the quality of the estimates and the simulations of the liquidity scenarios under stress conditions should be made. Once again, it is possible that, in the first instance, the collection of information and adjustment of the current models and engines may need to leverage on tactical solutions, leaving for a later stage the development of structural solutions.

The review of the contingency plan should contemplate the identification of the exposures of clients that may be more vulnerable to the COVID-19 crisis (e.g. default or extraordinary drawdown of credit lines by companies highly affected by the crisis, a sharp decrease in customer deposit balances, etc.). It should also consider the analysis of the measures set out in the plan, assessing their reasonableness and adequacy in light of the new context and quantifying their potential impact. Furthermore, it is necessary to identify and update the plan with additional short-term measures such as the use of ad-hoc liquidity mechanisms provided by national and supranational organizations or any other potential measures related to asset mobility, etc.

Finally, experience has evidenced the importance of closely monitoring liquidity in stress situations. This is why several supervisory entities require that firms monitor liquidity based on different criteria, using certain information (maturity ladders, information on collaterals, etc.) that needs to be generated on a daily basis, or in some cases on an intraday basis. In this sense, the daily production of regulatory and management reports will require the modification of some processes, starting from the definition of parameters and metrics of the reports specifically required for the analysis of the current context. Due to time constraints, in some instances it may be necessary to produce these reports using a tactical approach. This should cover the analysis of data sources and availability of information determining potential gaps, the extraction of information from such sources, definition of proxies to cover potential limitations in the information available, and the development of calculation and reporting processes. At a later stage, the implementation of structural processes should be addressed, covering the redesign and implementation of information generation, reporting , and alert systems.

Impact on credit risk management

The economic consequences of the pandemic may have a greater impact on credit risk due to the downturn in economic activity and the adjustment in production capacity. Furthermore, it should be considered that, in this context, some companies and individuals need to access financing to fund those sectors and undertakings that maintain or increase their productive activity.

The measures taken to mitigate the impact on credit risk vary across geographies, with the following being the most notable:

- Initiatives to mitigate the potential increase in default levels, such as the deferral of mortgage payments for certain segments of the population or the provision of credit guaranteed by the State.
- Initiatives related to the accounting classification and treatment of provisions: mortgages affected by the deferral are excluded from the NPL classification and the application of the backstop. In relation to provisions, the ECB will provide macroeconomic scenarios for the forward looking calculation, and limits the classification to stage 2 of exposures impacted by the pandemic.
- Initiatives related to capital requirements: it is expected that regulators suspend countercyclical buffer and apply transitory provisions for capital relief to alleviate its pro-cyclicality.

In this context, the greatest challenges facing financial entities can be summarized in the following three points:

- The inclusion of measures related to credit risk as well as their leverage for management.
- The control of credit risk with a proactive approach to potential scenarios.
- The development of new business opportunities, providing support to society.

Given these challenges, specific interventions can be carried out to control risk and identify and take advantage of the business opportunities. These interventions can be addressed in three separate phases:

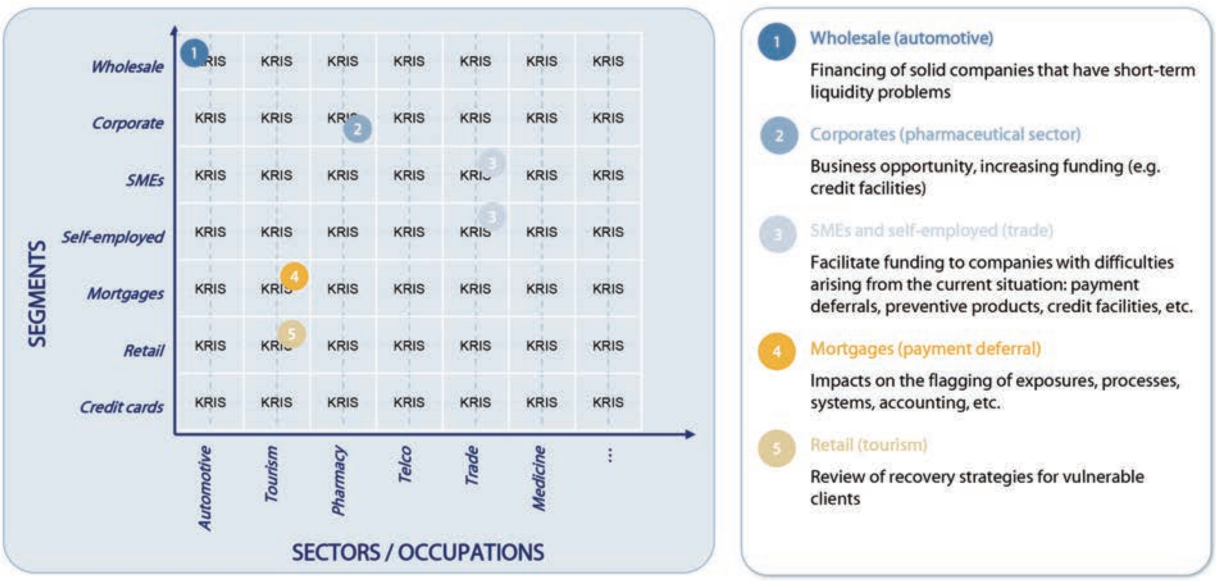
The first phase consists of a diagnosis, with focus on the analysis of scenarios and the assessment of impacts, providing an overview of how the increase of NPLs, provisions or capital may impact the different portfolios in relation to the pre-crisis budgets. This analysis can be focused on specific groups of clients or portfolios with higher vulnerability, or groups that present a business opportunity.

The second phase includes the definition of a group of actions to support more sensitive segments of the population, which are supported by regulation, such as payment deferment, restructuring, or through the offer of preventive products (see figure). In the same spirit, for those groups identified as a business opportunity, a new product offering can be developed, including products such as credit lines for those sectors still operative, as well as actions to capture the demand when the activity is resumed.

Similarly, the actions defined should include mitigation plans for the different impacts on the portfolio as identified in the diagnosis phase, processes for the reclassification and flagging of affected operations, and the adjustment of internal reporting and disclosure processes.

Finally, it is necessary to carry out a third phase with the objective of developing a follow-up framework that enables both the monitoring of the level of implementation and effectiveness of the actions and their coordination with the rest of areas involved.

Definition of actions based on portfolio clustering (illustrative examples)



Source: Management Solutions.

Impact on Operations

- **Capacity adjustments**: Companies should adjust capacity in order to align to medium-term changes in demand due to the crisis (see figure XX). To do so, companies should prioritize certain services and make adjustments to those that are not a priority by either temporarily discontinuing their provision or by extending service level agreements. This would require the anticipation of communications to clients, ensuring the coordination of BPOs and the handover of know-how between back-office units.

- **Activation or reinforcement of operational services**: The use of remote channels and the implementation of remote working, may lead to the need to activate or reinforce the services of the Operations area. This may include customer service and support to the staff and suppliers (e.g. implementation of chatbots for the resolution of doubts or inquiries) or crisis management support activities such as supporting other areas (management of remote working application forms, creation of scorecards for crisis management, generation of lists of vulnerable clients, etc.).

Cross-cutting action plans

The following subsections describe the aspects related to the different cross-cutting action plans. The objective of these plans is to ensure available resources (human, technological and material) are aligned to ensure compliance with the business continuity strategies defined.

Organization and HR

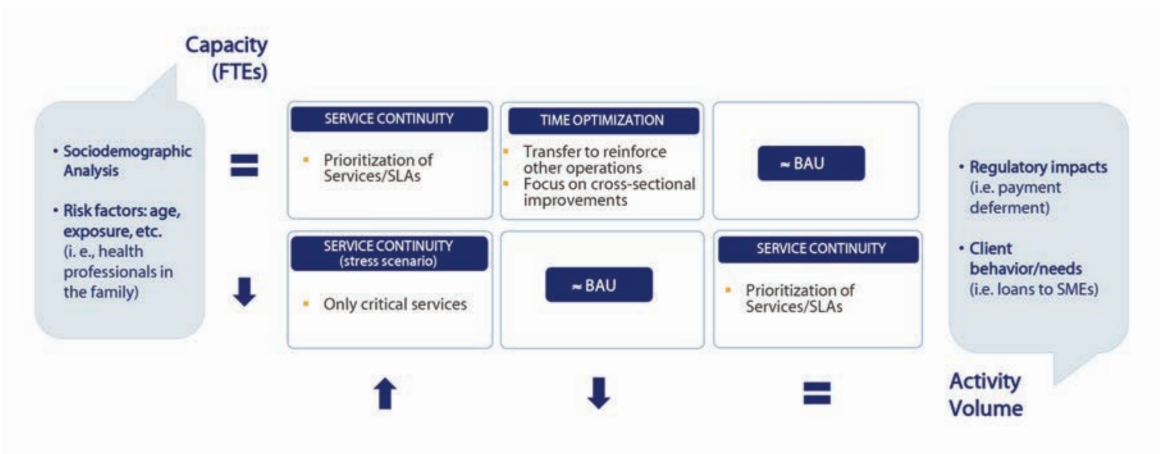
The mission of the Organization and HR continuity plan will be to ensure both the protection of employees' health and compliance with the instructions provided by the relevant authorities, as well as to align these objectives with the business continuity of the company. Coordination with workers' representatives will be necessary at all times in view of the legal impacts of the extraordinary labour market policy measures.

The following are some of the lines of action to be addressed:

1. The identification of priority groups for the implementation of preventive measures due to potential infection or higher vulnerability: i) critical employees for business continuity, ii) vulnerable employees in higher risk population segments due to age or previous pathologies, and iii) personnel on secondment or in transit (medical coverage, facilities, etc.). Furthermore, it would be advisable to identify the functions that are not critical or are likely to be discontinued.

2. For each of the previous groups and taking into account the technical infrastructure available, the situation of the facilities and the instructions of the authorities, a review of the different work alternatives will be required – implementation of work shifts, remote working – and if required by the organization's activity and liquidity situation, temporary lay-offs.

Figure 6: capacity adjustment service matrix



Source: Management Solutions.

Estimation of the Balance Sheet and P&L

The management of the economic consequences stemming from the SARS-CoV-2 pandemic requires that companies carry out scenarios to anticipate the impact of these consequences on the balance sheet and P&L. These estimation scenarios help companies to identify their needs as well as potential business opportunities such as niche clients that increase their demand, as well as to prepare the entity for returning to normal when the scenario changes.

However, this estimation requires the adaptation of the analysis tools as follows:

- On the one hand, it is necessary to carry out an analysis with a high-enough level of granularity to avoid the individual patterns fad in the aggregation, as well as to perform more frequent analyses when the setting conditions change.
- On the other hand, it is necessary to define new drivers to estimate the financial accounts in the short and medium term, as well as to include in a prospective manner the evolution of both the pandemic and the measures taken.

To address this adjustment, it is necessary to carry out an iterative development process that allows for the refining of the analysis, prioritizing segments, geographies and variables, at the same time as reviewing the estimation hypothesis.

From the point of view of the process, the model governance should be reinforced in terms of frequency, time horizon, estimated variables and the definition of qualitative aspects, to maintain the coherence between the balance sheet and P&L estimates with those calculated by other areas (such as the analysis and estimation of liquidity).

In the performance of these analyses, it is necessary to define the scenarios for each geographic region. Subsequently, the financial variables should be segmented, and the groups for which the estimates will be calculated should be selected according to criteria such as the type or segment of the client, size, geographic region or sector. In this stage, the focus should be on those groups that require specific actions due to their characteristics and based on the impact recorded in the scenario. Finally, estimations of the relevant variables can be calculated through quantitative and qualitative estimation approaches, making a difference between the evolution of the stock before the pandemic and the production of the current period.

Lastly, the results of the estimations are aggregated and included in the simulation of the evolution of the balance sheet and the P&L, so that they can be compared between the different scenarios as well as with the budgets prior to the pandemic. Furthermore, the analysis can be refined by means of the expert correction of the projections.

Once the previous process is carried out, this methodology can be embedded into a tactical tool that allows for the parametrization of each of the phases, as well as the adjustment of the different parametrizations to get automatic estimates and results.

3. Additionally, remote working should be effectively controlled through the implementation of measures such as the monitoring of locations and phones or the instructions for the daily coordination of teams (see figure 7).

4. 4. Finally, in accordance with the aspects defined above, simple protocols should be defined and clearly and proactively communicated to the employees. These protocols should detail the contingency measures regarding travel, journeys, meetings, access to facilities, infection, communication with the health service, performance control mechanisms, etc., always in strict compliance with labour regulations (see figure 8).

Technology

The technology action plan will be aimed at maintaining the continuity and security of the technical infrastructure, ensuring IT support for the communication channels used when remote working, and providing specific tools for the management of the crisis.

The lines of action to be address will be structured around four main axes:

1. Continuity of technology, ensuring the maintenance of the critical technological infrastructure in the face of potential infections of the staff in the Technology area or mobility restrictions that affect the performance of their functions.

2. A communications action plan, ensuring the remote access to corporate tools (laptops, access from home, VPNs, etc.) and the operation of collaborative tools (e.g. video and web conferences, apps to share documents, etc.). To do so, it will be necessary to review the user turnout and the potential restriction of heavier transactions or queries that are expendable, as well as to reinforce the technical support.

3. Specific crisis management tools such as remote working monitoring systems and support functions (e.g. through apps) for the crisis governance committees (management of invites, newsletters, alerts) or the communication with the employees (reporting of incidents, availability of protocols, document search engines, medical consultations, health status reports, remote working requests, etc.).

4. Reinforcement of the information security management through the review of potential gaps in the use of the contingency communications infrastructure against attacks.

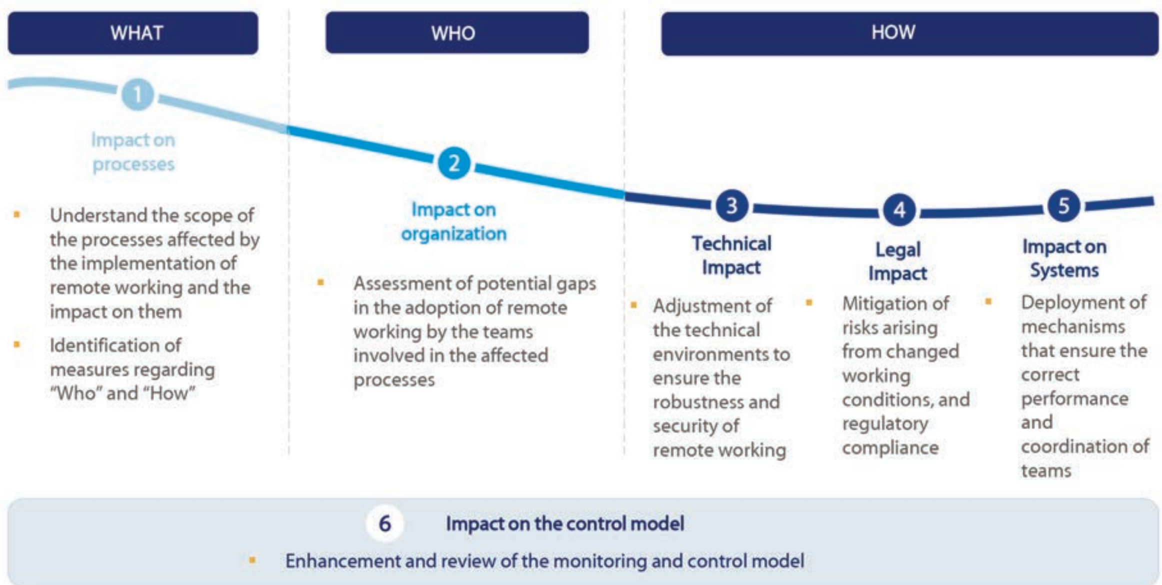
Facilities

The facilities action plan should seek to ensure the safety of the facilities from a health point of view, in compliance with the instructions provided by the authorities for the containment of the pandemic.

This would require reviewing the infrastructure access and health protocols, taking into account, amongst others, the following aspects:

- Review of access controls to offices and facilities;

Figure 7: remote work management



Source: Management Solutions.

Figure 8: remote work management. Compliance aspects

ASPECTS TO CONSIDER FOR THE IMPLEMENTATION OF REMOTE WORKING (ILLUSTRATIVE)

TEMPORARINESS

- **Voluntariness**
- **Remote working model duration**
- **Working hours and timekeeping**
- **Accessibility:** if required to provide services from a work facility: (attendance to meetings, minimum services, etc.)
- **Holidays, leaves**
- **Termination of remote working.**

WORKING CONDITIONS

- **Health and safety:** informing the employee about the organization's health and safety policy when remote working, with a special focus on the use of screens as well as other ORP issues
- **Collective rights:** same collective rights as other employees of the organization

CORPORATE CONTROL

- **Management and control:** organization may control the use of work tools made available to employees and implement measures to guarantee that the employee complies with the working hours, the workplace has optimal health and safety conditions, etc.
- If **control tools** are to be used, the employee should be **informed and give consent**. This control should be justified and limited to working hours.
- In accordance with article 88 of Spanish Organic Law 3/2018, on data protection and the guarantee of digital rights, the remote worker should have the right to "digital disconnection" outside he legal or predefined working hours.

LOCATION

- **Workplace:** meets certain standards (a private space isolated from the rest of the family, etc.). Effective implementation of ORP standards: good lighting, ventilation, temperature.
- **Obligations of the organization:** training, supply of resources, inspections (prior consent), etc.

WORKING TOOLS

- **Ownership and maintenance of the work equipment:** determine who is authorized to use the equipment and for what purpose.
- **Data confidentiality and security**
- **Insurance:** review the employee's home insurance policy to expand coverage.

COMPESATION

- **Compensation:** same rights as other employees, except for those that are linked to the on-site provision of services, which may be removed.
- **Remote working expenses:** the organization covers expenditure related to technical equipment; in a crisis employees may offer the organization their own equipment.
- **Expenses derived from taking ORP measures** should not be incurred by the employees

WORKING METHOD

- **Working method:** A lower level of direct interaction with the organization may require work protocols: reporting of results, know-how, frequency, communication channels (phone, mail, fax), frequency of meetings, training, etc.
- **Training:** remote working should not entail the limitation of training opportunities offered by the organization to other employees.

Source: Management Solutions.

Figure 9: IT response plan to ensure business continuity in financial institutions

AREAS OF ACTION

OBJECTIVES

1. Ensuring the continuity of IT infrastructure in the face of eventual staff infections, as well as facilitating the work tools needed by employees that are remote working
2. Ensuring the correct operation of communication infrastructures, promoting the use of collaborative tools among employees to avoid decreased productivity
3. IT support to adapt processes to the new remote work situation
4. Guarantee the security of operations, defining preventive and protection measures in case of cyberattacks due to security breaches

Source: Management Solutions.

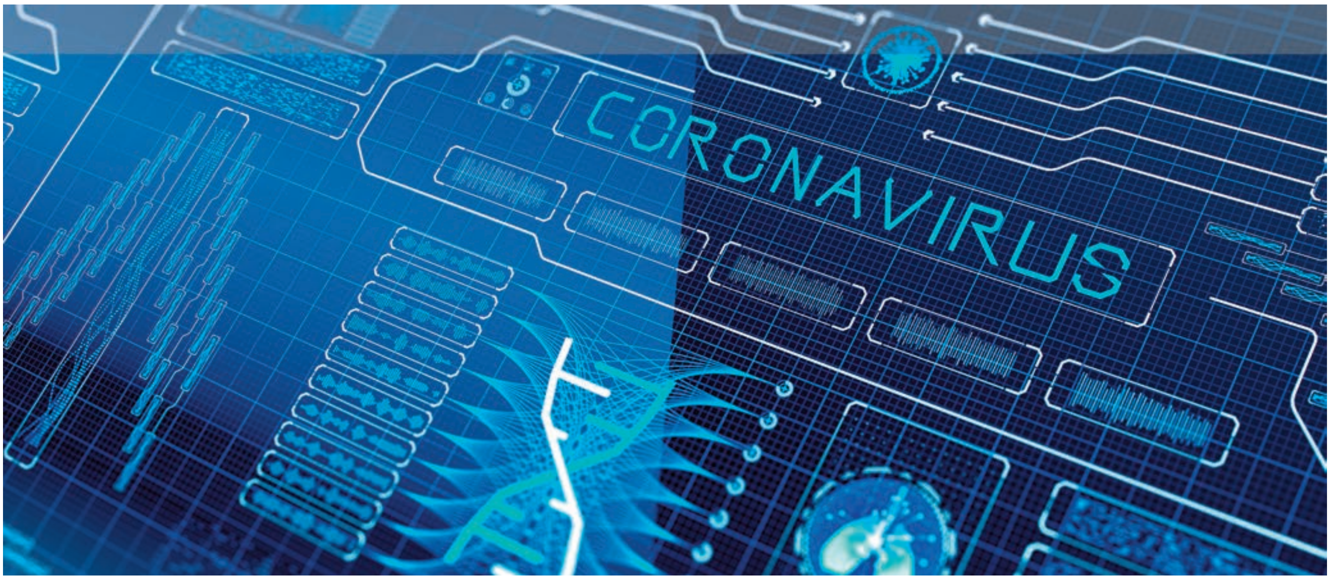
- Implementation of more flexible working schedules to avoid crowds at peak times;
- Coordination with cleaning companies to ensure the reinforcement of protocols;
- Definition of protocols to ensure social distancing between employees and to implement a security distance area between employees and clients;
- Ensure the supply of critical hygiene equipment such as hand sanitizer, latex gloves or masks.

Suppliers

Outsourcing or the participation of the suppliers in the organization's processes – and especially if these are part of critical processes – makes it necessary for the organization to understand to what extent these suppliers are ready to face the current situation, both from a financial viability and business continuity point of view.

The lines of action to address in relation to suppliers are structured around the following axes:

- Understanding the current situation of the suppliers (liquidity position, activities highly affected by the crisis, impact of sick leaves on the business continuity, etc.) and the foreseable situation for the next three months.
- Review of the business continuity management certification system of critical suppliers considering the current situation, in which the nature and level of risks has significantly changed.
- Review of the capacity of the supplier to provide the service under the conditions set out in the contingency scenario, with reinforced monitoring to anticipate any problem not reported.



- Review of the exit plans defined for critical suppliers in the event relevant risk is identified or there is a significant deterioration in the quality of service and, in this case, initiation of a procurement process to select a new supplier.

Communication

In a situation of stress, it is critical to effectively communicate both internally (appropriate messages and information delivery mechanisms) and externally (relevant explanatory notes to the market and authorities) to coordinate teams in the resolution of the crisis and ensure market confidence.

Internal communication is key to anticipating the fear and anxiety of the employees and avoid rumours and misinformation. For this reason, communications should be planned to convey timely and useful information about both the pandemic (especially regarding health measures) and the internal management of the crisis. In this sense, some of the actions to be addressed are the following:

- Identification of reliable sources of information on the pandemic and available resources.

- Ensure the distribution of information material (e.g. symptoms, modes of transmission, personal and family protection, etc.), as well as material regarding the preparation for and response to the pandemic.

- Implementation of alternative communication lines such as calls, websites or apps for employees.

- Communication to employees of the defined protocols (infections, access to facilities, remote working, journeys, etc.) and provision of tutorials for remote working and monitoring of the activity.

The lines of action to be addressed in the external communication plan should consider the following axes:

- Close collaboration with several external agents in order to share the plans to manage the pandemic with the main stakeholders (mainly the authorities, investors and, insurance companies).

- Collaboration with the heath authorities, public health agencies and/or personnel in charge of emergencies.

- Share best practices with other organizations and industry associations.

- Ensure the availability of accurate and updated information about key external contacts.

Final conclusions

We are currently in a situation of great uncertainty about the future economic implications of this global pandemic, which will depend on the intensity of the crisis and its duration, the duration of the measures taken by governments, and the resulting destruction of the production base.

To address the crisis in social, health and economic terms, a robust, coordinated and effective solution should be defined:

- The scientific community has a key role in the development of a vaccine and other effective preventive and healing measures that will help to contain the spread of the pandemic and mitigate potential future mutations of the virus. Furthermore, governments and health authorities should continue providing guidance and implementing restrictions of movement following updated scientific advice, regarding the confinement measures to be taken in each case, and ensure the availability of medical resources and equipment (masks, tests, health facilities, etc.) to confront the pandemic.

- The economic authorities and central banks should promote economic, fiscal and monetary stability policies to sustain the global economy. Additionally, to ensure financial stability, regulators and supervisors should continue to take measures and make recommendations to ease the stress situation with severe impact on capital and liquidity facing financial institutions.

- Finally, economic agents and organizations will need to ensure a swift response and implement action plans for business continuity, considering three main axes:

  - The definition of a crisis governance framework that guarantees unified, coherent and fast decision-making.

  - The implementation of mitigation strategies that ensure the continuity of critical processes, especially for the Business, Risks, Finance and Operations areas.

  - The implementation of cross-cutting action plans to ensure access to both internal and external human resources, equipment and technology that will be necessary to deploy continuity strategies for critical processes and ensure swift and timely communication with both internal and external stakeholders.

It must be noted that the way in which these measures are implemented will have an impact on the reputation of organizations as well as on customer loyalty. Moreover, some transitional changes in the way of working may lead to organizational restructuring considerations, as well as to rethinking of the production system, work culture[10], and distribution model, and to the resulting adjustment of the IT and communications infrastructure. Finally, based on how their continuity and contingency plans have responded to the current situation, companies may decide to undertake a holistic review of these plans to confront any new crisis.

[10] Promoting efficiency and work-life balance.

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