LESSONS FROM THE

COVID-19 Pandemic in South Africa

Prepared for the

Financial Sector Contingency Forum

Foreword

COVID-19 was a multidimensional crisis that had almost unprecedented impacts on the social, political and economic fabric of the world.

In South Africa, about 300 000 (including excess deaths) people have thus far succumbed to the virus, several million were seriously ill, about 1.4 million people lost their jobs, and GDP fell by about 7 percentage points. Millions of people went hungry. Almost every family in the country felt the adverse effects of the pandemic to some extent.

Hindsight is said to be an exact science, but it is only an exact science if we objectively and critically examine what we as financial sector regulators, industry and government did, with the benefit of new data, new perspectives and fresh eyes. Such an examination is crucial to guiding our responses if we are to confront a similar situation in the future. While we cannot predict the precise nature of the next crisis, it is almost certain that the world will confront similar crises going forward.

It is essential that we use the learnings from this crisis to minimise the impact of the next one.

This report provides a first glimpse into what we did, how we did it, what worked and where we came up short. At a detailed level, the report covers operational shifts to serve customers, regulatory changes, bank lending to distressed customers and corporates, market liquidity stresses, the payment of social grants, cash distribution, the Loan Guarantee Scheme (a public private partnership) and several other critical interventions.

The report also covers how companies, industry associations, government, policy makers, regulators, and civil society worked together to tackle the crisis and its impacts.

As we return to a degree of normality, it is essential that we assess our myriad responses, assess their effectiveness, timeliness, costs, and benefits. This report is an early attempt to provide such an assessment for the financial sector.

I would like to place on record my thanks to the research professionals at the Centre of Excellence in Financial Services for the extensive work undertaken to deliver this important publication.

Mr Kuben Naidoo

Chair of the Financial Sector Contingency Forum

Deputy Governor, South African Reserve Bank

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Abbreviations and glossary

Acronyms and abbreviations

ASISA	Association for Savings and Investments South Africa
BankservAfrica	The South African Bankers Services Company (Pty) Ltd
BASA	The Banking Association South Africa
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Plan
BUSA	Business Unity South Africa
CIPC	Companies and Intellectual Property Commission
CoGTA	Minister of Cooperative Governance and Traditional Affairs
COVID-19	Coronavirus disease 2019
CRS	Cybersecurity Resilience Sub-Committee
DG	Director General
DMA	Disaster Management Act 57 of 2002
DTIC	Department of Trade, Industry and Competition
FAIS	Financial Advisors and Intermediary Services
FIC	Financial Intelligence Centre
FSRA	Financial Sector Regulation Act
FSC	Financial Stability Committee
FSCA	Financial Sector Conduct Authority
FSCF	Financial Sector Contingency Forum
FSOC	Financial Stability Oversight Committee
NatJoints	National Joint Operational and Intelligence Structure
NCCC	National Coronavirus Command Centre
NCR	National Credit Regulator
NDMC	National Disaster Management Centre
NEDLAC	National Economic Development and Labour Council
NT	National Treasury
ORS	Operational Risk Sub-committee of the Financial Sector Contingency Forum
PA	Prudential Authority
PASA	Payments Association of South Africa
PPE	Personal protective equipment
RAM	Risk Assessment Matrix
SABRIC	South African Banking Risk Information Centre
SAIA	South African Insurance Association
SARB	South African Reserve Bank
SARS	Severe Acute Respiratory Syndrome
SASSA	South African Social Security Agency
TERS	Temporary Employee Relief Scheme
UIF	Unemployment Insurance Fund
WHO	World Health Organisation
WFH	Work From Home

Definitions

Business Recovery Capabilities	Alternate means to restore business operations to a minimum acceptable level following a business disruption.
Essential Services	A specific designation in South Africa for business sectors which were allowed to provide essential services during the COVID-19 pandemic hard lockdown levels.
Contingent Business Interruption Claims	A form of small business insurance that provides financial assistance when the loss of a primary supplier, partner, or customer affects your ability to do business. Related to a clause that covered localised infectious diseases.
COVID-19 Command Council	The centre of decision-making in the South African government to develop responses to curb the spread and manage the effects of COVID-19.
COVID-19 Loan Guarantee Scheme	A loan guarantee scheme designed to provide eligible businesses with government-guaranteed loan assistance during the COVID-19 pandemic.
Infodemic	A situation in which false information is being spread in a way that is harmful.
Phishing	A cybercrime in which scammers attempt to lure sensitive or data from the victim by being disguised as trustworthy sources.
Track-and-Trace System/Tool	A tool or system used to monitor the spread of COVID-19 by humans.

Executive summary

The Financial Sector Contingency Forum (FSCF) monitors a series of potential threats to the ability of South Africa's financial sector to deliver services. With the COVID-19 pandemic impacting every aspect of society, the opportunity presented itself to document the lessons learnt for consideration by the FSCF.

This publication has been commissioned to stand in place of the FSCF's crisis simulation process, through which the FSCF would normally run crisis preparedness simulations for major business disruptors, such as intermittent power supply and ensuing electricity blackouts. This research study spans the period from December 2019 to January 2021, a 14-month period in which many vital lessons came to the fore, and risk practitioners will now have the chance to refer to this codified record of the various interventions rolled out to meet the challenge of COVID-19, as well as their effectiveness.

COVID-19 presented as a test of each country's ability to respond to this crisis, and the South African financial sector demonstrated its resilience and agility in this case. Although COVID-19 created a scenario that had never been considered, the tools required to take decisive action were instantly available. The FSCF did not need to play a leading role in managing this crisis, as the sector responded in real time to each potential disruption.

One of the most important lessons that the pandemic reaffirmed is the importance of business continuity planning for both government and the private sector. Plans are what organisations use to practice their response through activities like simulation exercises and other fora. People do not reach for a guiding document or manual during a crisis. However, if organisation have had the opportunity to practice collaboration during a crisis, this not only reconnects transient workforces, but also provides opportunities to group think and build relationships between key personnel, both within organisations and more broadly across industries and regulators.

A key observation emerging from this research was the value created through trust amongst crisis management professionals in the financial sector. This can be attributed to the FSCF, which has facilitated this conversation for more than twenty years. Although the FSCF has been institutionalised in more recent years, its role remains largely the same.

Another important observation was the impact of uncertainty regarding the duration of the actions taken to curb the spread of the virus. International news carried vivid images of a world in distress, with hospitals overrun and a mounting death toll. The initial 21-day Level 5 lockdown in South Africa created an impression that the pandemic should be of a shorter duration, and responses were aligned accordingly. This agility was tested by the need to integrate short-term solutions into a long-term strategy, which requires an additional skillset.

The health crisis was by far the more difficult element to manage. Conflicting information and uncertainty of interpretation resulted in fruitless and wasteful expenditure as the financial sector responded to the changing advice from government and regulators, as each agency felt obligated to contribute. Many hours were spent in meetings trying to decipher how business should respond to requests, with several going as far as to seek legal advice.

These observations are a mere introduction to what follows. In this detailed publication, **Chapter 1** revisits the scene of the first few weeks after COVID-19 was declared a national disaster. **Chapter 2** introduces the vital role of crisis preparedness for organisations in the financial sector. **Chapter 3** covers the human face of the pandemic and discusses the toll the pandemic took on the people in the sector. **Chapter 4** focuses on delivering financial services during a pandemic, and in **Chapter 5** the focus is on supporting the economy, where voluntary relief measures were quickly introduced and a Loan Guarantee Scheme between National Treasury, the South African Reserve Bank and the banking sector provided much needed support to businesses.

Finally, in **Chapters 6 and 7** all the findings of the research exercise are collated into key lessons, conclusions, and recommendations. The value of this publication lies not in its content alone, but also in what new thinking may emerge for risk practitioners and systemic risk supervisors for the future, based on the information presented here. It is hoped that now that the lessons have been captured, they can be put to use in future crises.

Introduction

The COVID-19 pandemic was a large-scale disruptive occurrence with no modern precedent.

This pandemic happened on such a scale that it upended the normal state of affairs and threw up several challenges to established structures all over the world.

Documenting the effects of major events is an important way for organisations to capture crucial lessons, and organisations rightly place great emphasis on harnessing the information these disruptions produce in case a similar event occurs in the future. Capturing these lessons with a view to improving organisational processes going forward is key to maintaining operational resilience. Considering that the financial sector is the bedrock of any society's prosperity, it is doubly important to capture lessons within this sector.

The Financial Sector Contingency Forum (FSCF) commissioned this research study under the title of "Building an inventory of lessons learnt from the COVID-19 pandemic."

The FSCF is an advisory body to the Financial Stability Oversight Committee (FSOC), established through an Act of Parliament (Financial Sector Regulation Act). It is within the FSCF's remit to commission such studies. Chaired by a deputy governor of the South African Reserve Bank (SARB), the FSCF is made up of 17 industry participants who were co-opted to help direct the scope of the research.

The FSCF has in the past undertaken a simulation exercise every three years that is designed to provide opportunities for authorities and participants in the financial sector to practice information sharing and coordination in crisis scenarios.

Due to the large scale of the COVID-19 pandemic and its extensive ramifications, the FSCF decided to postpone the 2020 simulation exercise to 2022.

It was decided that as the COVID-19 pandemic was a real-life experience with more tangible lesson than a simulation, FSCF members would change the exercise from a crisis simulation to a discussion and documentation of interventions related to the COVID-19 pandemic.

A working group of FSCF members was selected to develop the research proposal and engage with the research team.

In creating a working group to oversee this crucial research, the FSCF appointed members of the SARB, the Financial Sector Conduct Authority (FSCA), the Banking Association South Africa (BASA), the Association for Savings and Investments South Africa (ASISA), Mastercard, and two prominent commercial banks.

The period under review was set for 1 December 2019 to 1 February 2021. The process would commence with a research exercise which would culminate in a written publication.

The lessons from COVID-19 are significant.

On one hand, the scale of the disaster world-wide was tremendous, and the number of deaths mounted while countries raced to find vaccine solutions. Governments shut down entire countries, including South Africa, and the human, environmental, social, and economic impacts were enormous.

On the other hand, people grappled with key issues never considered before, and in doing so, innovations and new ways of doing things emerged from this disaster. The pandemic allowed governments and financial institutions to test novel solutions, and the insights of this research for the period 1 December 2019 to 1 February 2021 are important especially in this regard.

The purpose of the research was multi-faceted. One important aspect was to provide a methodical and organised means of documenting COVID-19-related processes in the financial sector.

Another important element of the research was to identify lessons that FSCF members could put to work, enhancing their ability to respond to future disruption and thereby improving the overall resilience of the financial sector.

This publication is the culmination of that research. It is expected that the findings will allow stakeholders in the financial services sector to understand how the COVID-19 pandemic has affected FSCF members and their operations.

It will also allow FSCF members to identify the specific resources required to enhance and improve their resilience. These could include policies, procedures, tools, and skills. The members will also be able to identify effective response measures and ensure these are codified and collated for future use. Any areas for further development will be surfaced and strategies to enhance resilience will be recommended.

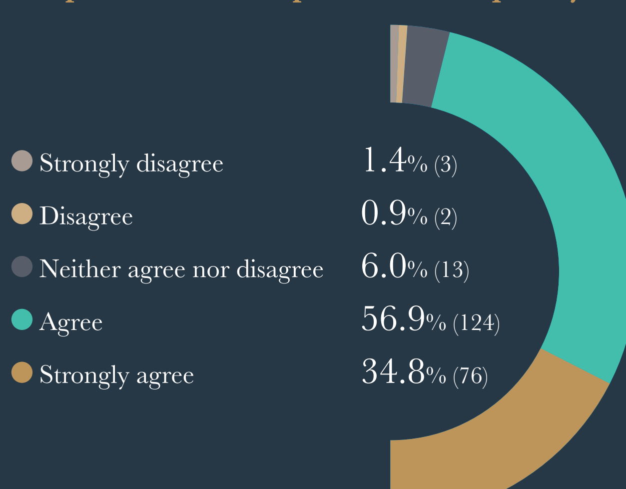
Financial services in any country play a vital role in achieving national and international growth objectives. To accomplish this research project, the FSCF has assembled a team of experts who conducted wide-ranging consultations with members of the financial services sector, resulting in this comprehensive overview of the effects of the COVID-19 pandemic on South Africa's financial sector.

What has been learnt from this pandemic will remain relevant to all individuals, governments and institutions into perpetuity.

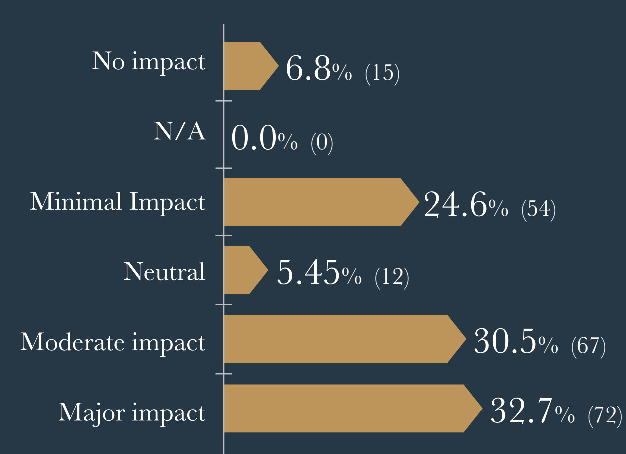
From disasters spring new ideas, new solutions and new ways of approaching how the financial services sector in South Africa can embrace the future, however disruptive it may turn out to be, and become a forward-thinking industry with the ability to assess possibilities and prepare better for every eventuality.

Key insights

COVID-19 was an external factor. I believe that the financial sector as a whole weathered the pressures of the pandemic adequately.



During 2020, how do you rate the impact of COVID-19 on your area of business within the company?

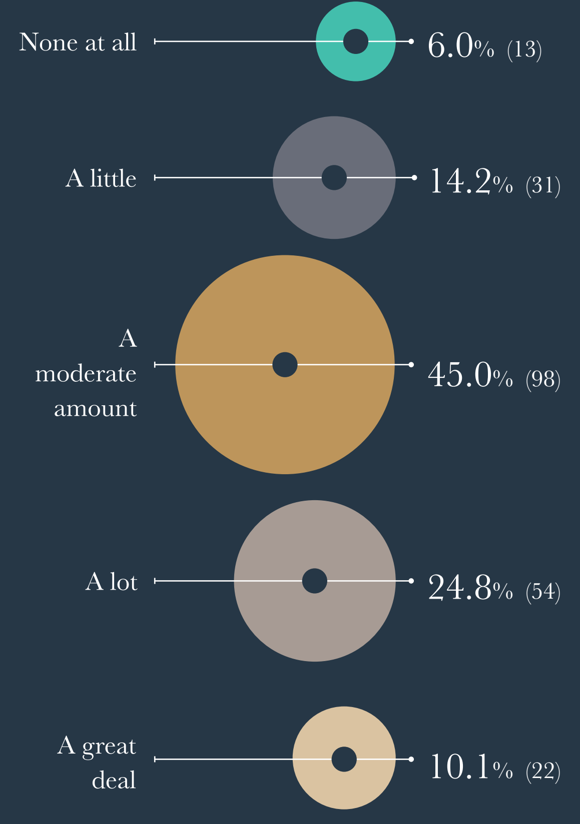


On a scale of 1 to 5 (1 Strongly Disagree and 5 Strongly Agree), to what extent do you agree or disagree with the following statements in relation to the lessons you have learned from how your organization navigated the COVID-19 pandemic.

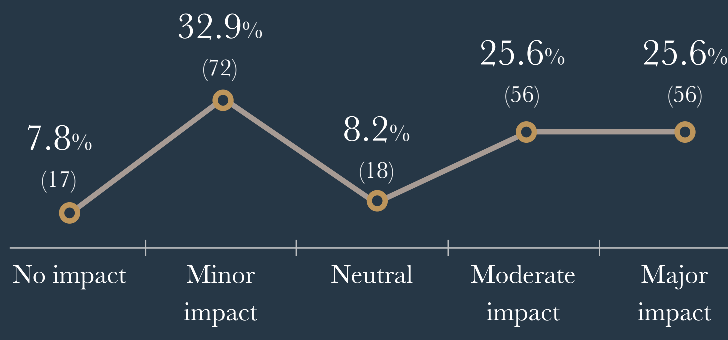
	Strongly Disagree	Disagree	Neither Agree no Disagree	Agree	Strongly Agree	N/A
Crisis preparedness should be embedded at lower levels in the organisation to ensure collective ownership and responsiveness	1.83% (4)	3.67% (8)	15.60% (34)	39.45% (86)	39.45% (86)	0.00% (0)
Regular communication within organisations and with other stakeholders is paramount	0.92% (2)	0.00% (0)	4.13% (9)	32.11% (70)	62.84% (137)	0.00% (0)
Clear and effective leadership from organisations, trade associations, and the highest offices of my company is required	0.46% (1)	0.92% (2)	3.67% (8)	33.94% (74)	59.17% (129)	1.83% (4)
Organisations must be flexible to survive	0.92% (2)	0.00% (0)	1.38% (3)	16.51% (36)	74.77% (163)	6.42% (14)
Established operating models can be changed if required	0.92% (2)	0.00% (0)	0.92% (2)	37.61% (82)	56.88% (124)	3.67% (8)

Source: 2022 COEFS COVID-19 Quantitative Online Survey

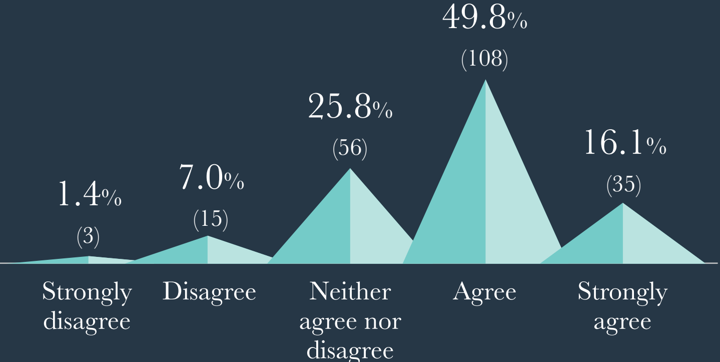
Before 2020, how much preparation did you do to help transition to the pandemic, e.g. scenario planning or simulation exercises?



During 2020, how do you think the impact of COVID-19 on your operations affected your customers?



I believe my organisation's culture is changing and is more staff-centric as a result of lockdowns.



Source: 2022 COEFS COVID-19 Quantitative Online Survey

How FSCF members responded to the pandemic

Active engagement and involvement

- Collaborations and communication
- Understanding vulnerabilities

Risk and Contingency Planning

- Role shifts during crisis
- Crisis management
- Simulation exercise

Migration to digital platforms (remote working)

Relief measures

- Macroprudential measures
- Capital/ economic measures
- Social relief measures

Risk and contingency planning
Simulation exercises
Trigger BCP
Active involvement and collaboration
Communication
Crisis models
Crisis preparedness
Employee support
Flexible working environment
Relief measures

Operational

- Minimising disruption to business
- Creating routine and processes
- Employee support - access to medical care and quarantine facilities
- Ensuring safety (essential service industry)
- Flexible working environments
- Redesigning the workspace (promoting collaboration)

Source: 2022 COEFS COVID-19 Qualitative Analysis

CHAPTER 1

Introduction to COVID-19 and its impact on the financial sector in South Africa

COVID-19 is the most devastating pandemic in living memory, deeply affecting all countries around the world. Yet, in South Africa, the impact varied greatly.

The financial services sector was declared an essential service during the first hard lockdown of March 2020, resulting in the sector experiencing a relatively lower operating impact than other sectors in the economy.

This chapter covers the impact of the COVID-19 pandemic on the financial sector in South Africa over the period 1 December 2019 to 1 February 2021 and introduces the Financial Sector Contingency Forum (FSCF) and the role it played in preparing the industry to respond effectively to the crisis.

Navigating the pandemic required national government to impose hard lockdowns limiting the mobility of its citizens and imposing hygiene and other measures to curb the spread of the virus, which inevitably impacted organisations' ability to operate. Without the coordination of key members in the financial sector, in conjunction with their organisation's own crisis preparedness models, adjusting responsibly to the restrictions imposed on business-as-usual conditions would have been near impossible. This chapter examines the scale of these challenges and the ways in which market participants were able to tackle them.

1.1 Background on COVID-19, key milestones and timelines

On 31 December 2019, the World Health Organisation (WHO)'s Country Office in the People's Republic of China picked up a Wuhan Municipal Health Commission media statement mentioning several cases of what was then being called 'viral pneumonia' in Wuhan. The communication marked the official beginning of what would become the COVID-19 pandemic. The highly contagious respiratory virus SARS-CoV-2 would cause the coronavirus disease known as COVID-19 that was eventually found in 217 countries throughout the world with 562 million recorded cases.[1]

As the WHO continued to monitor the outbreak, three requests were made of the international community: use the window of opportunity to intensify preparedness, adopt a whole-of-government approach, and be guided by solidarity and not stigma. The mandate was clear: to mitigate potential risk where possible.

South Africa's first official COVID-19 case was recorded on 5 March 2020, and on 11 March, the WHO declared COVID-19 a pandemic. On 18 March 2020, the South African government announced an initial 21-day country-wide hard lockdown by enacting the Disaster Management Act and introducing specific regulations aimed at combatting the spread of COVID-19.

The financial fallout was immediate and severe. The country's economy suffered a marked contraction during April, May, and June, when lockdown restrictions were most severe.

In the first months of the hard lockdown

2.2 million PEOPLE LOST THEIR JOBS[2]

The country's labour market lost about

200 million WORKING HOURS

between the first and second quarters of 2020

The onset of the national lockdown had immediate impacts for those working, or seeking to work, in areas designated as "non-essential", with a 14% reduction in employment in these sectors being noted. Workers deemed essential experienced a reduction of 9.8% while self-employed workers were disproportionately affected with a 22.4% reduction in employment opportunity.[3] The impact on the economy as COVID-19 restrictions were imposed was evidenced by a reduction in gross domestic product (GDP), which tumbled by 16% between the first and second quarters of 2020.[4]

The effect on the country's economic activity was devastating.

By 27 March 2020, South Africa had been downgraded to junk status by Moody's and the country's GDP fell to a record five-year low,[5] and by 29 April Standard & Poor's Global Ratings lowered South Africa's sovereign credit rating to non-investment grade (or junk) citing the impact of COVID-19 on public finances. As businesses struggled

to remain financially afloat, it is estimated that one in five employees had a reduction in their pay, while others lost their source of income entirely. Industries such as hospitality and entertainment were badly hit by the regulations, with many forced to close their doors permanently.

For the majority of South Africans, the COVID-19 pandemic emerged on the back of an already weakening socio-economic landscape characterised by service delivery setbacks, rolling load shedding, increased unemployment, and shrinking economic opportunities.

By the end of the first quarter of 2020, the weakening economy evidenced by a third successive quarter of negative GDP had already added an additional 1.0 percentage point to the unemployment rate at 30.1%. With the additional burden of the lockdown on the economy the number of employed persons decreased to 16.4 million and the number of unemployed persons had increased to 7.1 million.[6] The initial effects of the COVID-19 pandemic were to accelerate the already dire economic issues of the country.

COVID-19 Timeline
1 December 2019 - 1 February 2021

Dec 2019

31st
WHO's People's Republic of China (PRC) country office picks up a Wuhan Municipal Health Commission media statement on cases of 'viral pneumonia' in Wuhan, PRC.

Jan 2020

1st - 14th
WHO activates its Incident Management Support Team, and informs Global Outbreak Alert and Response Network partners about the cluster of pneumonia cases in the PRC.

WHO reports that Chinese authorities have determined that the outbreak is caused by a novel coronavirus and confirms the possibility of human to human transmission.

30th
WHO declares the novel coronavirus outbreak a public health emergency of international concern, WHO's highest level of alarm, and reconvenes the International Health Regulations Emergency Committee.

Feb 2020

3rd - 11th
WHO finalises its Strategic Preparedness and Response Plan, centred on improving capacity to detect, prepare and respond to the outbreak, and the UN crisis management policy is activated. WHO announces the disease caused by the novel coronavirus would be named COVID-19.

15th
WHO DG makes three requests of the international community: use the window of opportunity to intensify preparedness, adopt a whole-of-government approach and be guided by solidarity, not stigma.

Mar 2020

5th
SA confirms first COVID-19 case.

7th
WHO issues a consolidated package of existing guidance covering the preparedness, readiness and response actions for four different transmission scenarios: no cases, sporadic cases, clusters of cases and community transmission.

11th
WHO declares COVID-19 a pandemic.

15th
SA President declares National State of Disaster.

23rd
SA Level 5 national lockdown announced.

27th
Original 21-day Level 5 lockdown: Only essential services may work.

Apr 2020

9th
Extended Level 5 lockdown.

16th
WHO issues guidance on considerations in adjusting public health and social measures, commonly referred to as 'lockdowns'.

21st
SA announcement of R500bn support package.

May 2020

1st
Level 4 lockdown: Activities resume, but most industries remain closed.

Jun 2020

1st
COVID-19 WAVE 1
Level 3 lockdown: Most retailers can now sell full merchandise.

Jul 2020

1st
COVID-19 WAVE 1
Stricter lockdown regulations put back in place.

Aug 2020

18th
COVID-19 WAVE 1
Level 2 lockdown.

Sept 2020

21st
Level 1 lockdown.

Dec 2020

29th
COVID-19 WAVE 2
Level 3 adjusted lockdown.

Jan 2021

25th
COVID-19 WAVE 2
WHO issues interim recommendations for the use of the Moderna mRNA-1273 vaccine against COVID-19.

Sources: Banking Association South Africa (BASA). (2022, February). Cash CSC Lessons learnt in time of crisis. Banking Association of South Africa, pp.2-3.

International Monetary Fund. (2022). Policy responses to Covid-19: South Africa. Accessed 25 June 2022 at https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#S.

World Health Organisation. (2022). Timeline: WHO's Covid-19 response. Accessed 24 June 2022 at https://www.who.int/emergencies/diseases/novel-coronavirus-2019/interactive-timeline#!

1.2 About the financial sector ecosystem

South African has a large, well-established and sophisticated financial sector ecosystem. It can be divided into four subsectors:

Banking

Insurance

Savings and investment

Stock exchanges

A common cause of a financial crisis is the irresponsible lending practices of banks referred to as reckless credit that makes consumers over indebted and vulnerable to default through economic shocks. Relative to other markets, the South African financial system is protected in part from financial crises by the implementation of the National Credit Act, which reigns in extension of reckless credit, ring-fences banks, and regulates the exposure to foreign assets, as well as encouraging conservative and prudent management.[7]

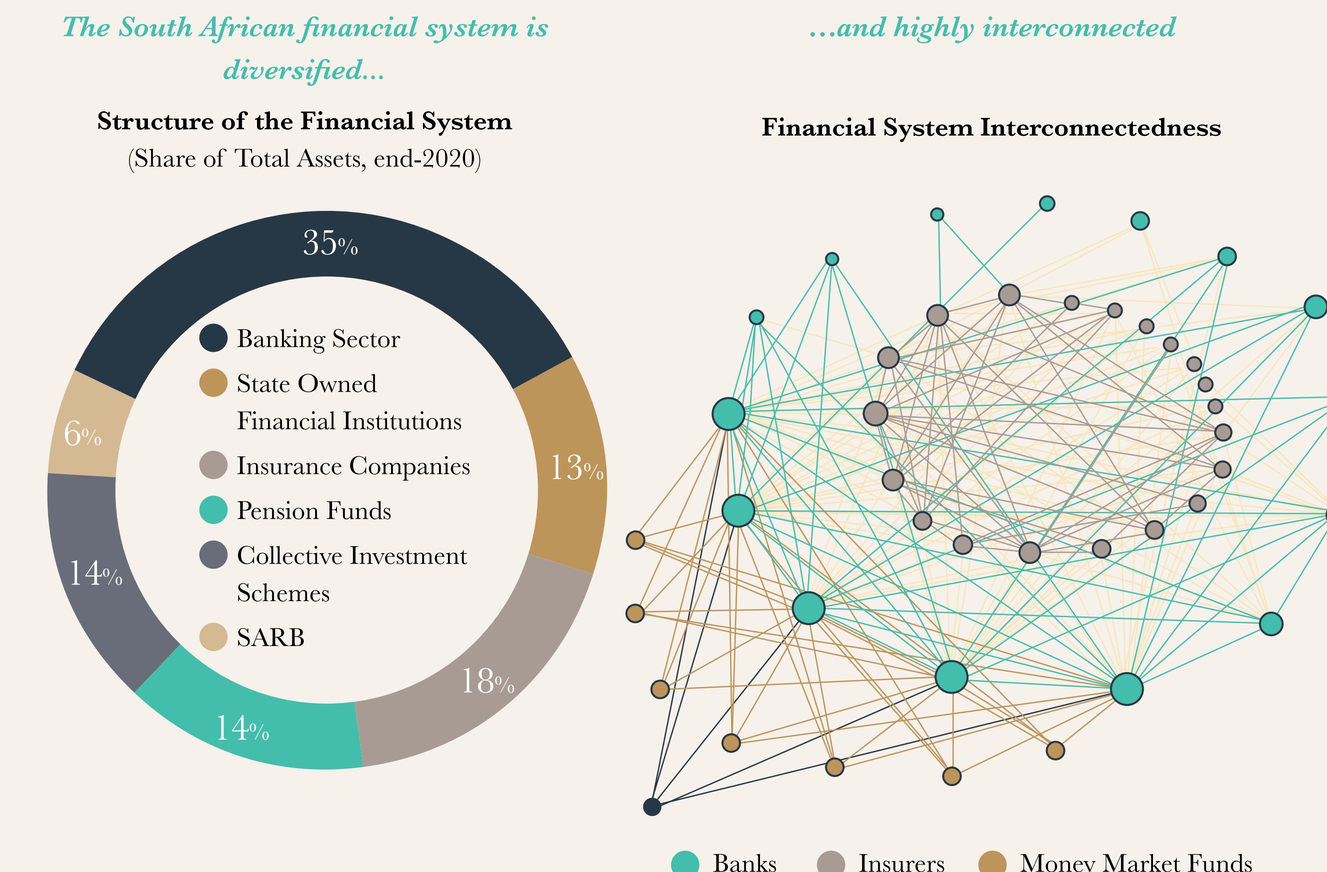
The South African financial sector ecosystem is also complex, with a high level of interconnectedness between different subsectors. The sector accounts for 20% of the country's GDP and the five largest banks account for almost 90% of banking sector assets. Pension and investment funds also represent a significant part of the financial system, with assets under management of almost 140% of South Africa's GDP.[8]

In 2019, the country was commended for having a highly developed and resilient financial sector, and domestic credit to the private sector as a percentage of GDP is significantly higher than those of other countries on the African continent. However, although 81% of the South African population above the age of 16 has access to a bank account, real access to financial services remains low.[9]

In many respects, the country's financial sector faces dual markets; one, a highly developed, sophisticated, digitally literate customer base, and, on the other hand, an unbanked sector with a large dependence on cash transactions.

The existence of a diversified, strong system and structure meant the financial sector ecosystem was well-equipped to handle a crisis of the nature of the COVID-19 pandemic. However, some of its markets were less able to do so. During the pandemic, the very interconnected nature of the financial sector ecosystem necessitated collaboration, which is normally restricted by the Competition Act 89 of 1998, which provides for the establishment of the Competition Commission responsible for the investigation, control, and evaluation of restrictive practices, and abuse of dominant positions and mergers.[10]

South Africa Financial System Structure



Sources: SARB, IMF staff calculations

Note: Right panel is computed using institution-level bilateral exposure data, as compiled by the authorities and money market data. Size of the nodes represents the total outward exposures; edges are colored by the types of institutions.

Source: International Monetary Fund. (11 February 2022) 'South Africa Financial Sector Assessment Program' (Washington, D.C: International Monetary Fund, p12.

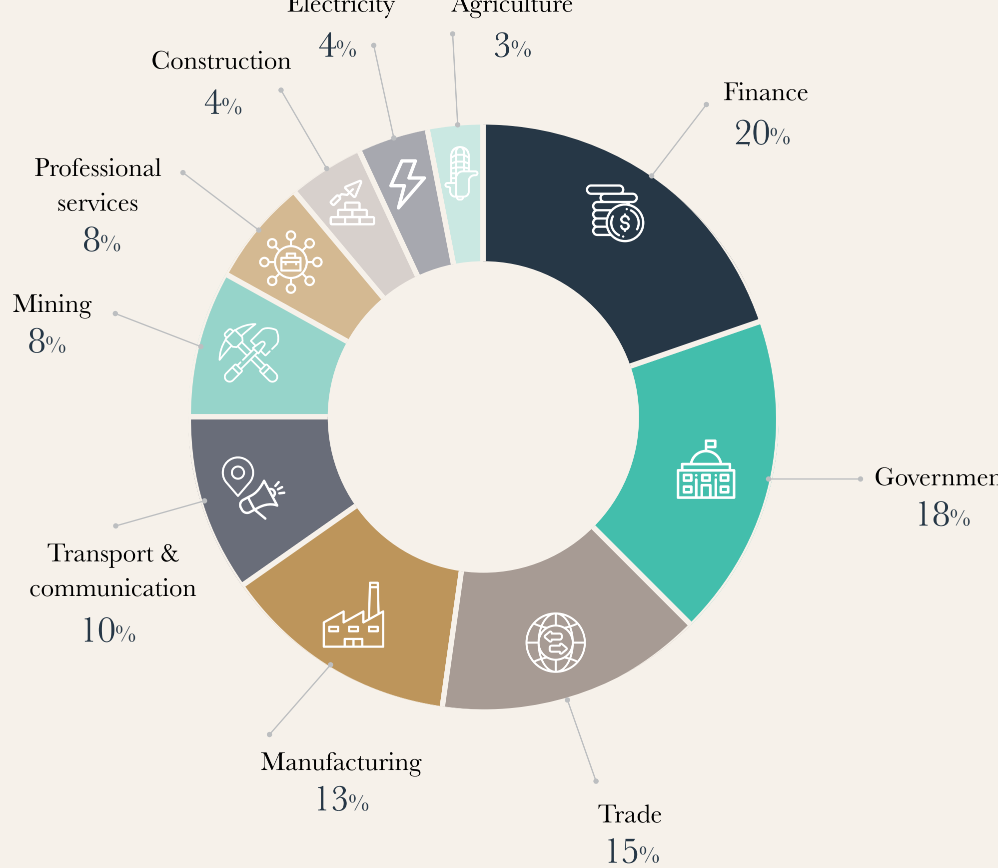
The inherent linkages in the system mean that the major banks are affiliated with insurance companies and fund managers, and bank-affiliated insurers underwrite a large proportion of private pension assets. The financial services sector is highly dependent on the wealth of the banks, with 35% of the share of total assets at the end of 2020 being in the banking sector. Nonbanks are important liquidity providers, which will be seen in Chapter 5, and were also deeply impacted by the hard lockdowns imposed during the COVID-19 pandemic.

The South African financial sector ecosystem maintains a robust regulatory environment, strong financial and operational risk capabilities and a deep level of financial networks, all of which is considered in detail in following chapters. Due to the inherent strength of the sector, it was better positioned to weather the pandemic than other sectors in the economy.

The key question remains: how was the financial services sector impacted by the lockdowns and COVID-19?

With the high percentage of South Africa's economy dependent on the banks, ensuring their resilience during the pandemic was critical.

Economic sectors that contribute to South Africa's GDP



Source: Swartz, M (2021). Chapter 8: The South African Macro-Environment. Lappeman, J. et al, Marketing to South African Consumers. Cape Town: University of Cape Town. Available: https://openbooks.uct.ac.za/uct/catalog/view/29/52/1578

1.3 South African government response

The pandemic was an unprecedented event and governments all over the world struggled to find ways to cope. This resulted in markedly different responses. On reflection, the hard lockdown caused a significant economic impact in South Africa, but at the same time, the country had fewer infections and a lower COVID-19 mortality rate than many other places in the world. In reviewing the government's response, it is important to remember that any government is a many-armed entity. Therefore, there were many initiatives from different departments in play at any given time.

On 15 March 2020, following the WHO announcement of the COVID-19 pandemic, the Minister of Cooperative Governance and Traditional Affairs (CoGTA), Dr Nkosazana Dlamini-Zuma, declared a National State of Disaster and President Cyril Ramaphosa announced a Level 5 "hard" lockdown starting at midnight on 26 March 2020. Further response measures from government were also implemented, which are looked at in more detail in Chapter 5.

Disaster Management Act 57 of 2002 (DMA)

The Disaster Management Act 57 of 2002 intends to provide for:

- an integrated and co-ordinated disaster management policy that focuses on preventing or reducing the risk of disasters, mitigating the severity of disasters, emergency preparedness, rapid and effective response to disasters and post-disaster recovery;
- the establishment of national, provincial and municipal disaster management centres;
- disaster management volunteers; and
- matters incidental thereto.

Section 27 of the DMA was activated for the first time in March 2020 in response to the WHO's declaration of a global pandemic and the Head of the National Disaster Management Centre's classification of a national disaster.

The Minister of Cooperative Governance and Traditional Affairs (CoGTA), in terms of Section 27(1) of the Act, declared a national state of disaster having recognised that special circumstances existed to warrant the declaration of a national state of disaster; and in terms of Section 27(2) imposed regulations and restrictions necessary for the purpose of:

- assisting and protecting the public;
- providing relief to the public;
- protecting property;
- preventing or combatting disruption; or
- dealing with the destructive and other effects of the disaster.

South African Government. (2022). Disaster Management Act 57 of 2002. Accessed 24 June 2022 at https://www.gov.za/documents/disaster-management-act

Prior to the official announcements, the National Coronavirus Command Council (NCCC) was established by the Cabinet as a committee in its meeting of 15 March 2020. The NCCC coordinated government's response to the coronavirus pandemic and made recommendations to Cabinet on measures required in terms of the National State of Disaster. The NCCC chaired by President Ramaphosa included, among others, members of the Inter-Ministerial Committee and the National Joint Operational and Intelligence Structure (NatJoints), who met three times a week to coordinate all aspects of government's emergency response.

The Ministerial Advisory Committee (MAC) on COVID-19 was formally established on 25 March 2020 and its membership list was officially published by the Department of Health on 21 April 2020. The pedigree of MAC represented the best of the country's 'brain trust' including pathologists, laboratory practitioners, clinicians, public health practitioners and researchers. Its mandate was to advise on effective mechanisms for the prevention of onward transmission of COVID-19.

Any updates on the progress of the spread of COVID-19 infection became affectionately known as "family meetings," during which the president relayed the decisions of the NCCC and MAC to the rest of the population.

Originally intended to last 21 days, the Level 5 hard lockdown was extended to 30 April 2020 in a bid to curb the spread of infection and to limit unnecessary strain on an already under-capacitated public healthcare system.

Level 5 was characterised by drastic measures, which included no international or inter-provincial travel, the closing of schools and most businesses, and restricted sale of goods. Only health workers, and those who provided an essential service such as transport, banking, and essential food and medicine retail and production, were exempt from the lockdown.

Frontline workers, particularly healthcare workers, were issued with essential worker permits and in the first months were placing their lives in danger and voluntarily self-isolating from their families. As PPE protocols were being developed, a scramble for N95 masks and other equipment ensued as essential services sectors competed with each other for stock. Handshaking or hugging was forbidden, and any suggestion of a sore throat or similar COVID-19 symptoms resulted in a person being obliged to self-isolate at home for a quarantine period of 14 days, and to inform those with whom they had been in contact. Hand sanitisation when entering a building was mandatory, as was wearing a face mask.

The government measures were swiftly adopted by the financial services sector, which also had to develop many of its own practical, implementable strategies and coping mechanisms when interpreting the generalised nature of these measures.

The economy was impacted relative to each sector's specific designation as essential or non-essential during the different levels of lockdown, which are described below.

2020 COVID-19 lockdown levels in South Africa

Source: Department of Cooperative Governance and Traditional Affairs. Regulations and Guidelines - Coronavirus COVID-19. Available: https://www.gov.za/covid-19/resources/regulations-and-guidelines-coronavirus-covid-19

The lockdown levels came to determine the routines of everyday life in South Africa. Level 5 was the harshest level and made normal economic activity impossible except for those businesses designated as essential services. For those who retained employment, working from home quickly became 'living at work', as work/life boundaries blurred. Each day, the COVID-19 infection and death rates were made public, contributing to a national wave of grief. Mental health issues emerged as colleagues were forced to grapple with a lack of social interaction, a looming deadly disease and, in some cases, reduced financial circumstances. The short-term nature of the lockdown soon became uncertain, adding to overall discomfort.

South Africa, like many countries throughout the world, was responding to the crisis with a focus on protocols aimed at slowing down the rate of COVID-19 infection, as led by WHO. The development of a vaccine was of utmost importance in protecting lives from the complications associated with the virus, as well as ensuring as speedy a recovery as possible from the impact of the measures put in place to contain it.

On 13 April 2020, the WHO published a statement by 130 scientists, funders, and manufacturers from around the globe who were committed to speeding up the development of a COVID-19 vaccine, and the race culminated in alternative approaches, including the use of protein spikes to neutralise the virus.

Phase one of South Africa's vaccine rollout programme began on 17 February 2021, known as the Sisonke Trial for which Johnson & Johnson donated 500,000 of its single-dose vaccines to South Africa to accelerate vaccination of frontline healthcare workers.

1.4 Impact of lockdown on the economy

The impact was broad and extensive and did not only affect the financial sector. Other sectors were also hard-hit, but the financial sector, given its strategic importance to the country, had to navigate the pandemic with as little disruption as possible. This section details some of the generic responses, with more detail on the pandemic's impact on the financial sector to be found in section 1.5.

In retrospect, the largest shocks to the South Africa's economy were sustained as a result of the hard lockdown. Originally intended to last 21 days from midnight 26 March 2020, and later extended to 30 April 2020, the Stage 5 "hard" lockdown was characterised by drastic measures that put severe strain on any economic activity that was not deemed an essential service. These impacts are discussed in Chapter 3.

"If you physically lock down an economy and there's no economic activity, your house of cards collapses, which has detrimental and severe economic consequences, and a domino impact."

Andries du Toit, Group Treasurer, First Rand Limited

Of the 14.2 million South Africans employed in the second quarter of 2020, more than half were expected to carry on working during the lockdown. Only 17% of the approximately 8 million workers did so from their homes.[12]

The rapid move to remote working models necessitated reliable internet, appropriate hardware, such as a laptop or desktop computer, a cell phone and a dependable power connection. The pandemic quickly highlighted areas still not covered by telecommunication networks, requiring a temporary expansion of spectrum, and further divided those who had access to internet and those who did not.

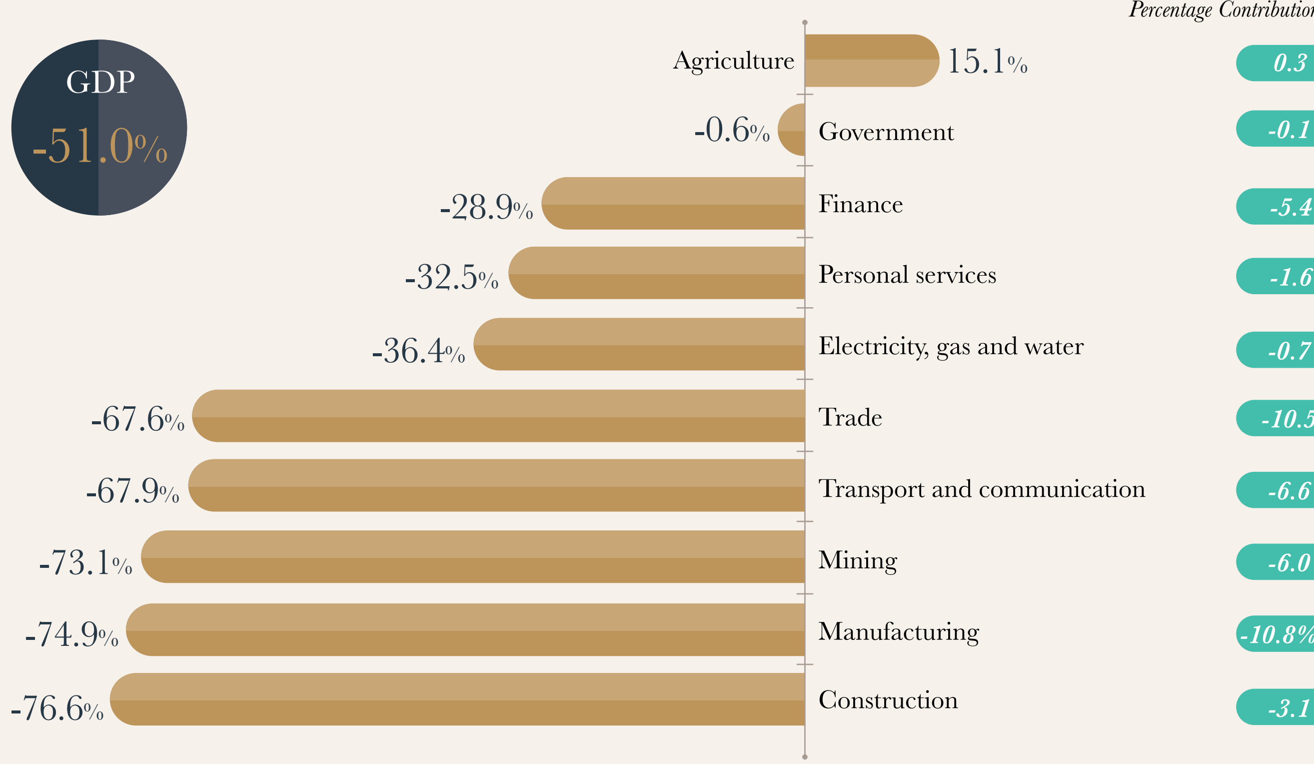
The impact on the economy was not felt evenly by all sectors. Industries deemed as essential services were able to operate with little disruption, whereas those industries that relied on direct contact with their customers and physical movement, such as tourism and hospitality, together with congregant settings, such as manufacturing, suffered.

According to Statistics South Africa, there was a

51% CONTRACTION IN THE ECONOMY IN Q2 2020

Nine industries recorded a contraction in Q2: 2020

Industry growth in the second quarter of 2020 compared with the first quarter of 2020



Source: Department of Statistics (2020) Steep slump in GDP as COVID-19 takes its toll on the economy. Available: https://www.statssa.gov.za/?p=13601

1.5 The impact on the financial services sector

The sector benefited from being deemed an essential service and emerged with minimal disruption. Several factors contributed to this, including various scenario planning, crisis preparedness and risk mitigation strategies and procedures.

The lockdown and resultant restrictions on mobility meant that many of the financial services sector's customers were affected. Businesses remained closed and were unable to service their financial commitments, including payment of premiums to insurance companies and instalments for credit.

Direct impacts to the financial sector were felt as companies became unable to service their rental agreements, while landlords in turn were unable to meet their monthly mortgage payments, electricity charges and municipal taxes. Businesses were forced to reduce staff and introduce short time as a result of curtailed or total lack of income, which also impacted the financial sector as these individuals were unable to meet their credit payments for motor vehicles, mortgage loans, and credit cards, as well as insurance premiums for both life and short-term insurance.

The importance of cash to the South African economy was also highlighted, as a dual economy that has elements of digital as well as large portions of cash. How the cash payments situation was addressed is detailed in Chapter 5.

"The economic impact of COVID-19 has been most strongly felt in the manufacturing and hospitality industries, where a lack of business resulted in a lack of salaries."

Olano Makhubela, Divisional Executive: Retirement Funds Supervision, FSCA

The importance of being declared an essential service for the financial sector during COVID-19

Essential services means the services as defined in section 213 of the Labour Relations Act. 1995 (Act No. 66 of 1995), and designated in terms of section 71(8) of the Labour Relations Act, 1995.

All businesses allowed to provide essential services were required to seek approval from the Department of Trade, Industry and Competition in order to trade during the period of the lockdown.

In the financial sector, services necessary to maintain the functioning of a financial system as defined in section 1(1) of the Financial Sector Regulation Act were considered eligible for essential services designation, and these included:

(i) the banking environment (including the operations of mutual banks, co-operative banks, co-operative financial institutions and the Postbank);
(ii) the payments environment;
(iii) the financial markets (including market infrastructures licensed under the Financial Markets Act, 2012 (Act No. 19 of 2012);
(iv) the insurance environment;
(v) the savings and investment environment;
(vi) pension fund administration;
(vii) outsourced administration;
(viii) medical schemes administration; and
(ix) additional services set out in directions.

Although it was clear that the financial sector was an essential service, and clearly provisioned for in the legislation, there were some issues between law enforcement and workers around unfamiliar bank names, most notably those without 'bank' in their title.

Issues also arose in the non-life insurance industry as a result of third party contractors, such as plumbers and electricians, not being deemed essential services.

Source: South African Government. (2020). Essential Services Coronavirus - COVID-19. Accessed 2 July 2022. Available at https://www.gov.za/covid-19/companies-andemployees/essential-services-coronavirus-covid-19

Dealing with the financial fallout of the pandemic

Major industries in the South African economy were affected when the hard lockdown kept people at home, with some of the poorest citizens no longer economically active. While the government did take action to assist those in trouble, it took time for these measures to come into effect.

During 2020/21, visitors to the Financial Sector Conduct Authority's (FSCA) consumer education website increased to over 16 000 people, as consumers searched for information on how to manage their money more effectively during lockdown.[13]

With the economy struggling, national government was forced to swiftly intervene to save lives and assist its citizens. The government announced a broad range of measures to mitigate the worst economic effects of the pandemic. For individuals, these measures included tax relief for some workers with a monthly income below R6 500,[13] the release of disaster relief funds, emergency procurement, and wage support through the Unemployment Insurance Fund (UIF). Higher social grants were also introduced until the end of October 2020. A new temporary COVID-19 grant, created to cover unemployed workers who did not receive grants or UIF benefits was extended through to April 2021.[14]

To offer some consumer relief, on 19 and 27 March 2020, the Department of Trade, Industry and Competition (DTIC) introduced regulations against price gouging and export control measures on essential goods. On 21 April 2020, the president announced a fiscal relief package of R500 billion, R200 billion of which would be provided through a Loan Guarantee Scheme, in partnership with the banks, the National Treasury and the South African Reserve Bank (SARB), to help companies with an annual turnover of less than R300 million to pay salaries and suppliers. The SARB made a further contribution by reducing interest rates in various stages, in an effort to minimise the effects of the hard lockdown and the COVID-19 pandemic. These measures, along with the Loan Guarantee Scheme, are discussed in detail in Chapter 5.

In light of the strategically important nature of the financial services sector and the many threats to its stability that exist at any given time, a robust failsafe, or a system of safety measures, had to be put in place to ensure its continued health. The following section introduces one of the most important operational risk bodies available to members of the financial services sector in South Africa.

Introducing the Financial Sector Contingency Forum (FSCF)

The FSCF was created following the events of 9/11. Its primary objective was stated as being to facilitate cross-sectoral cooperation in the identification of potential threats to the stability of the South African financial sector. The FSCF was formed to ensure broad participation and engagement of stakeholder groups in defining and coordinating approaches to crisis management.

Through the establishment of a coordinated network of contingency planning contacts throughout the financial services industry, the FSCF functions as a conduit for dealing with tactical situations that have the potential to affect multiple firms across the ecosystem at any given time – essentially a systemic risk management mandate. The forum does not play an active role in managing systemic events. Rather, it supports the development and testing of contingency plans and works as an established network for coordinating interventions and communicating effectively during a systemic event.

The role of the FSCF was codified, and therefore enhanced, in terms of Section 25 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017). The SARB is responsible for the administration of the forum and provides secretarial functions thereto.

The Purpose

The primary objective of the FSCF, as determined by Section 25(2) of the Act, is to assist the Financial Stability Oversight Committee (FSOC) with the identification of potential risks that could result in potential systemic events; and the co-ordination of appropriate plans, mechanisms, and structures to mitigate those risks.

Composition of the FSCF

Member organisations must ensure that representatives are fully briefed and are empowered senior decision makers with the authority and ability to contribute productively to FSCF processes. There are currently 17 working members of the forum, which is chaired by the Deputy Governor of SARB responsible for financial stability.

FINANCIAL SECTOR CONTINGENCY FORUM (FSCF)

Two virtual meetings during the reporting year

Deputy Governor

Responsible for financial stability

SARB and representatives of financial sector regulators, financial sector industry associations and organs of state

Assists the FSOC and SARB with:

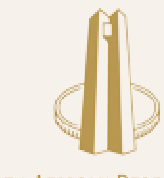
Identifying potential risks that may result in a systemic event occurring

Coordinating appropriate plans, mechanisms and structures to mitigate these risks

Source: South African Reserve Bank (2020/2021). Annual Report 2020/2021: Policymaking for the Long Term. p.51 at https://www.resbank.co.za/content/dam/sarb/publications/reports/annual-reports/2022/Annual-Report-2021-22.pdf

FSCF members

17 Organisations



1.6 The timeline of the FSCF members' actions during the COVID-19 pandemic

The members of the financial sector were cognisant of the potential threat of COVID-19 long before any official communication by the government, which enabled a proactive FSCF response.

As a result of various existing risk measures, members were able to track the impending threat, and activate crisis preparedness measures to ensure that business continued as usual under unusual circumstances.

As early as December 2019, Mastercard's global crisis management team had begun monitoring the situation. Their crisis response teams, set by office location, held daily discussions to assess the impact to the organisation as the pandemic progressed.

From mid-January to mid-February, the SARB advised on escalating travel risk, engaging with the SARB executive, and also at board level. The travel advisory process was initiated to look at restricting travel for SARB personnel to high risk areas, which quickly developed into travel to all areas. The SARB mobilised a small team comprising members from the SARB Group Security Management Department (GSMD) and Risk Management and Compliance Department (RMCD) to stay abreast of the events unfolding. Given the heightened international concern revolving around the outbreak, a decision was taken to formally structure the SARB Group's response capability on 25 February 2020, giving effect to the establishment of the SARB Group COVID-19 Joint Operational Centre (JOC). The JOC integrated a security and incident management response across their facilities and country wide footprint.

In February 2020, Strate and BankservAfrica had already begun discussions to roll out mechanisms to reduce potential risk. BankservAfrica began informal communications with the Board Chairperson from February 2020. The COVID-19 management team, invoked from the members contained within the Incident Response Team Structure within BankservAfrica (Business Continuity Plan processes), met three times a week (Mondays, Wednesdays, and Fridays) at morning stand up sessions from February – April 2020.

After the Chinese Banking Association's presentation on the situation in China to the International Banking Federation on 6 March 2020, BASA's bi-weekly sessions with the Federation gathered information about developments with each jurisdiction. During March, the BASA board began weekly meetings that led to weekly meetings with the SARB, NT, and the FSCA. From there, updates were issued to BASA's operational risk network, SARB, and the National Department of Health.

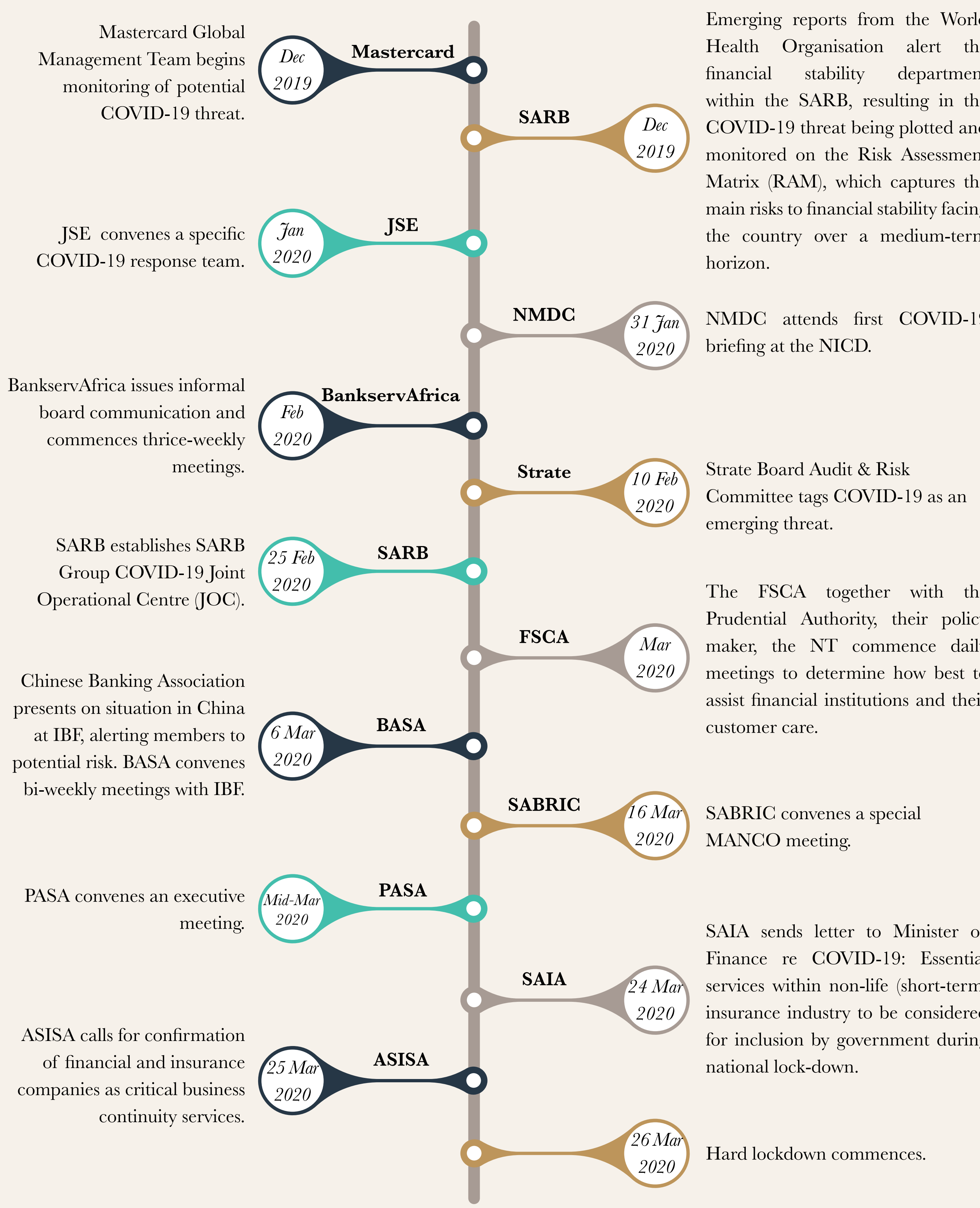
SABRIC and PASA convened a special MANCO and Executive meeting respectively in mid-March 2020 to address COVID-19 risk, and by 20 March 2020 Strate had initiated a series of workshops for EXCO, the JSE and staff to prepare them for a full transition to work from home during hard lockdown with minimal business disruption. In the same time period, SAIA began to issue regular staff communications on operations and COVID-19 health protocols.

Prior to the lockdown, ASISA highlighted a number of potential challenges to the savings and investment industry and the corporate credit market. However, crucially, their submission on 25 March 2020 confirmed financial and insurance companies as critical business continuity services and placed on record critical key staff required.

Timeously, in December 2019, the Financial Intelligence Unit (FIC) together with the Independent Police Investigative Directorate (IPID), the National Prosecuting Authority (NPA), the Directorate for Priority Crime Investigation (DPCI), the State Security Agency (SSA), the South African Revenue Service (SARS) and the Special Investigating Unit (SIU) of the South African government, created the Fusion Centre, an information sharing model, which performed an intelligence-led analysis of information on corruption to mitigate against potential money laundering, which then included those crimes which arose as a result of the pandemic.

Ongoing responses included numerous regular communications between FSCF members' stakeholders to continuously monitor the impending threat. However, it was the members' established risk-monitoring mechanisms, as noted above, that allowed such a proactive and successful response to the imminent threat of the pandemic.

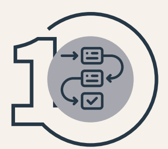
FSCF members COVID-19 timeline



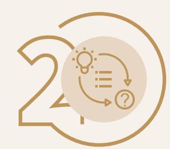
Source: Email correspondence from FSCF members July/August 2022

The COVID-19 pandemic was a once-in-a-generation disruptive event, a full-blown crisis that evoked widespread fear and angst in domestic and business settings alike. The best defence against any crisis is preparation.

In the next chapter, we will investigate the levels of preparedness of the FSCF specifically, and the financial services sector more broadly.



Did members of the sector follow best practices and have extensive crisis preparedness models that included detailed plans and rehearsals?



The industry may have navigated the pandemic in the end, but how effective were these models in the moment?

Did the crisis preparedness measures put in place by FSCF members keep operational risks in the financial landscape in check for the benefit of the sector, and ultimately, the country?

Endnotes

1 World Health Organisation. Overview of WHO Coronavirus (COVID-19) Dashboard.

2 According to the report, job losses in the informal sector and among domestic workers together represent about half of the total employment losses. S Smit. (8 May 2021). 'COVID Kills a Decade of Employment Growth in South Africa', Mail & Guardian. May 2021. [Online].

3 Ibid.

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5 Genesis Analytics and Financial Sector Conduct Authority (FSCA). (2022). '2022 Financial Sector Outlook Study'. Pretoria, South Africa: FSCA. p. 15.

6 Statistics South Africa. (2020). 'Key Findings: P0211 - Quarterly Labour Force Survey (QLFS), 1st Quarter 2020'. Statistics South Africa.

7 Genesis Analytics and Financial Sector Conduct Authority (FSCA). (2022). '2022 Financial Sector Outlook Study'. Pretoria, South Africa: FSCA. p. 6.

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10 South Africa. (Competition Commission). 1998. South African Government. 'Competition Act. 1998', Act No. 89, 1998.

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14 South African Reserve Services. 'Tax Relief Measures'.

15 International Monetary Fund (IMF). (2 July 2021). 'Policy Responses to COVID-19: South Africa', IMF. Policy Tracker.

CHAPTER 2

Crisis preparedness in the South African context

South Africa was not immune to the unprecedented health and economic disaster set in motion by the COVID-19 pandemic, and various sectors of the economy were affected differently based on a complex set of variables, that was ever-shifting according to the progression of the pandemic.

Steps taken by governments across the world to contain the impact of the COVID-19 pandemic caused a massive shock to society and the economy, which was compounded by loss of life. In South Africa, whether sectors were prepared for the shock, and how, made a massive difference in how the pandemic was weathered.

The focus of this chapter is the preparedness of the South African financial sector for this crisis, taking into account the measures implemented by the National Department of Health and other government authorities. Various key areas of risk emerged during the pandemic, and financial institutions relied on risk management frameworks already in place. Within the financial services sector, these frameworks and approaches are developed by means of regular stress-testing of financial institutions through crisis simulations, which aim to mitigate the impact of potential systemic threats and exogenous shocks.

These crisis models were tailored in response to the pandemic, with the sector succeeding overall in restoring and maintaining financial stability. These responses, as well as the preparations that made them possible, and the learnings revealed, are explored here in detail.

2.1 Navigating the uncharted territory of COVID-19

The South African financial sector is well-developed, resilient and highly regulated, and a risk-based approach that was pre-emptive and pro-active formed the basis of the sector's response to the crisis. A wide range of monetary, fiscal, regulatory and supervisory measures cushioned the impact of the COVID-19 pandemic on the financial system.

The financial sector entered the pandemic in a resilient state, despite weak economic growth in the time leading up to the pandemic and a downgrade by the rating agencies in March 2020. As a result of the G20 regulatory reforms that were introduced in the aftermath of the 2008 global financial crisis, which prepared industry structures adequately to deal with systemic threats, the South African financial sector could navigate the COVID-19 pandemic crisis successfully. The lessons from the simulation exercises facilitated by the Financial Sector Contingency Forum (FSCF) served as an impetus for dealing with the crisis, and the speed, scale and scope of the sector's response to COVID-19 was without precedent. The financial system was therefore able to absorb rather than amplify the macroeconomic shock.[1]

Simultaneously, the COVID-19 pandemic demonstrated the interconnectedness of the financial and operational risks in the industry and across the economy. The absence of clarity on operational risk policy response mechanisms resulted in sporadic reactions in some parts of the economy, underscoring the critical importance of an integrated risk management approach when dealing with an exogenous shock.

"Another issue for us as well was to understand interconnectedness in general and interconnectedness within the sector, not only from prudentially regulated entities but also from non-systemic entities like your financial services providers."

Lorraine Van Deventer, Head of Department in the Regulatory Policy Division, FSCA

The pandemic tested the usefulness and adequacy of new approaches for managing risk with respect to harnessing resilience in the financial sector.

What a pandemic means for operational risk

The Basel Framework defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The difficulty in assessing and managing operational risk lies in its almost purely qualitative nature and its diverse risk drivers. Operational risk represents to a large extent the "human factor" in the different kinds of risks that financial institutions face. Thus, it is a risk that can develop a strong dynamic[2] and the COVID-19 pandemic attested to this.

2.2 The pandemic as a real-life stress test for the financial sector

Although the South African financial sector entered the pandemic in a resilient state, the key drivers of operational risk were tested in an unprecedented manner. At the start of the COVID-19 pandemic the financial sector faced issues relating to people, systems, processes and external environments, which go to the core of operational risk. The crisis acted as a real-life stress test of existing frameworks and processes. The stressed environment of the COVID-19 pandemic increased not only market and credit risks but also the operational risks of financial institutions.

According to Francois Gouws, Chairman of ASISA, "The reality is that COVID-19 was a shock, so whenever you have a shock, it shows up potential weaknesses and vulnerabilities." While this crisis did not originate in the financial sector, during higher lockdown alert levels mobility restrictions and reduced economic activity exposed financial institutions to operational challenges.

The common challenges that emerged centred around the following themes:

Remote work

One of the key transformations associated with the COVID-19 pandemic is the impact it had on the nature and future of work. COVID-19 lockdowns and restrictions led to a sudden shift in working models, with nearly all staff remaining at home, leading to significant operational, technology, risk, and compliance challenges. The broad shift to remote working cause friction in the supervisory and risk management roles, since supervisory personnel did not have the same oversight and interaction when working remotely. Reliance on and trust in staff to complete operational duties within required timelines with little oversight was required. This resulted in some employees feeling overworked and pressured to perform, posing threats to their health and general well-being.

Cyber risks

With a sudden imperative to work virtually, the industry pivoted most of the workforce to access the organisations' systems and information remotely. Therefore, cyber risks posed a challenge. The shift in working model resulted in some attempts by third parties to penetrate systems and access sensitive information. While cyber activities such as phishing are not new, they grew with the spread of the pandemic.

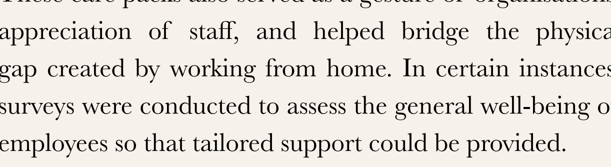
In recent years, cyber risk has become a critical operational risk for insurance regulators to address given the increase in cyber incidents, including data breaches, identity theft, ransomware attacks, and denial of service events. Such incidents can have a material impact on capital through restoration and remediation costs, lost revenue, and regulatory penalties. Subsequently, cyber risk insurance has become a popular product.[3]

Fraud risk

The COVID-19 pandemic created a perfect storm, and fraudsters and organised crime syndicates were quick to respond with orchestrated campaigns that took advantage of consumers' vulnerability during periods of isolation. Fraud risk was heightened by the increased adoption of digital platforms, and phishing and vishing attacks were the most common method of obtaining banking login credentials to commit digital fraud.[4]

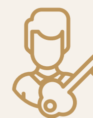
Staff resilience

In the rapidly changing environment, a wave of health risks came to the fore. This meant that organisations were obliged to ensure their staff members were appropriately supported and empowered to safeguard their resilience.



Most organisations supported their staff by providing them with care packs designed to help them deal with the uncertainties posed by the pandemic.

These care packs also served as a gesture of organisations' appreciation of staff, and helped bridge the physical gap created by working from home. In certain instances, surveys were conducted to assess the general well-being of employees so that tailored support could be provided.



Key person risk

Key person risk occurs when knowledge, skills, and important relationships are placed in the hands of one or a few staff members. Some member organisations highlighted instances in which certain business operations were jeopardised because critical employees were absent owing to serious health-related concerns.

In the worst cases, key employees died. This added to the level of stress among employees, resulting in disrupted work processes, which, understandably, was secondary to the loss of life. However, this was adequately addressed as other employees stepped in to fill the gap after a suitable replacement search.

Communication

The common channel of communication through face-to-face meetings was replaced with online communications. The transition to virtual meeting platforms represented one of the biggest changes and therefore endured some challenges. Finding an appropriate platform through which to communicate with staff was essential and organisations trialled several different solutions to find a way to cope during the transition.

Notwithstanding the challenges, the financial sector was able to continue operations in this mode, ensuring that financial markets remained open and orderly.

Digital acceleration

The South African financial services industry was moving to digitise business models long before the COVID-19 pandemic hit. The recent introduction of the digital banks Discovery Bank, Tyme Bank, and Bank Zero are evidence of the changing banking environment. For more than a decade, digitalisation and a move to customer self-service have been a strategic focus for South Africa's largest banks. Banks have introduced banking apps, improved digital payment options and next-generation ATMs that allow customers to perform a wider range of transactions, with the aim of reducing dependency on bank branches.[5]

The pandemic heightened digital acceleration for insurers and associated industries. A significant number of insurers began using digital technology for distribution and sales instead of face-to-face interactions. Tele-underwriting services were made available through remote working arrangements in the lockdown period.

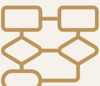
In advisory services, remote working has forced advisors to adopt digital channels, such as online meeting platforms, to regularly connect with their clients. This is a positive development for clients that are able to connect digitally.[6]

Increased use of digital payment methods

An increase in the flow of cash in the economy, coupled with a growth in the use of digital payments, was an interesting phenomenon noted during the COVID-19 pandemic. Cash in circulation reached a decade high due to a surge in demand for high-value banknotes, suggesting that cash was increasingly held as a store of value rather than for making payments.[7]

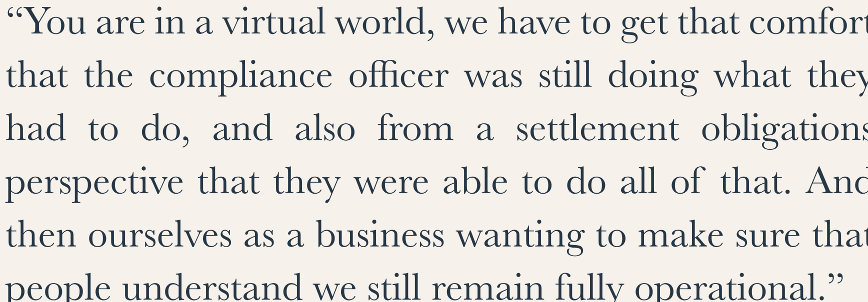
At the same time, the COVID-19 pandemic accelerated the rate at which businesses and consumers adopted technology for transactions, particularly for payments, with many customers preferring to transact with card over cash while tap-and-go transactions increasing significantly.[8]

This increase in both payment methods indicates the dichotomy of the South African economy, a factor which is unique to developing countries.



The need for agile and resilient operating models

For many organisations, the first, most visible effects of the COVID-19 pandemic created a challenge for their operating and business models. Everything came into question, from how and where employees worked, to how they engaged with customers, to which products were most competitive, and which could be quickly adapted. To cope, many turned to the practices of agile teams in order to adapt more quickly to changing business priorities.[9]



"You are in a virtual world, we have to get that comfort that the compliance officer was still doing what they had to do, and also from a settlement obligations perspective that they were able to do all of that. And then ourselves as a business wanting to make sure that people understand we still remain fully operational."

Nicola Comninos, Group Chief Risk Officer, Johannesburg Stock Exchange

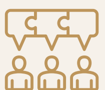
The importance of organisational culture

The COVID-19 experience was a real-life test for the resilience of organisational culture across the sector. Participants reported varying levels of productivity from employees during the period, indicating a need to address performance management in the future. This issue was raised by many interviewees as a key area of focus going forward.

The importance of collaboration during crisis

Collaboration between industry stakeholders was mentioned by most interview respondents as the key success factor in enabling financial institutions to negotiate the COVID-19 pandemic successfully. Under normal business circumstances, companies must protect their intellectual property, but the need to work together was evident during the extraordinary environment created by the COVID pandemic.The experience of COVID-19 was underpinned by a common need to mitigate the negative impacts of the pandemic for the whole industry and across the country.

The trust and relationships between stakeholders and key players in the sector contributed to their ability to respond to the pandemic and find joint solutions. COVID-19 gave organisations a clear indication that they could improve operational models and build on operational efficiency by working together.



The importance of people to the triple bottom line

The COVID-19 experience has brought to the fore that people are critical to the triple bottom line – a sentiment echoed by many in the industry.

Moving forward, operational risk management must improve. Digitisation, automation and outsourcing are increasingly important in financial services, so organisations must continue to evaluate their changing risk profile. Digitisation has become deeply embedded in banking and financial services, as it offers advantages to customer experience, revenue and cost.

The move to digitisation must be aligned to the King IV principles, which focus on the disruptive nature of technology on long-term business models and highlight the significant risk this poses to organisations.

The code recommends that the board governs both technology and information so that these support the organisation in achieving its purpose and strategic objectives. The board is specifically tasked with approving and overseeing the technology and information policy of the company.

The overseeing of these policies should be in relation to:

- Providing for business resilience, continuity and disaster recovery;
- Information security and protection against cyber crime;
- Records management;
- Information privacy; and
- Data quality

The board is required under King IV to periodically carry out a formal review of the adequacy and effectiveness of the organisation's technology and information function.[10]

2.3 Mitigation of potential systemic threats

There are many risks that could significantly damage the financial system, or impede its stability and efficiency. The South African Reserve Bank (SARB) continuously monitors the strengths and weaknesses of the financial system, including the nature and extent of any risks to stability.[11] This is primarily done by applying the SARB's macroprudential monitoring framework, which includes stress-testing financial institutions.

The SARB is responsible for coordinating the efforts of government, financial sector regulators, organs of state, self-regulatory bodies, financial market participants and other stakeholders to protect financial stability. If systemic events occur, the SARB leads and manages efforts to restore financial stability.[12]

The Financial Stability Review serves as a key communication and accountability vehicle, with clear requirements set out in the Financial Sector Regulation (FSR) Act.

The Financial Stability Review must, at least biannually, set out:

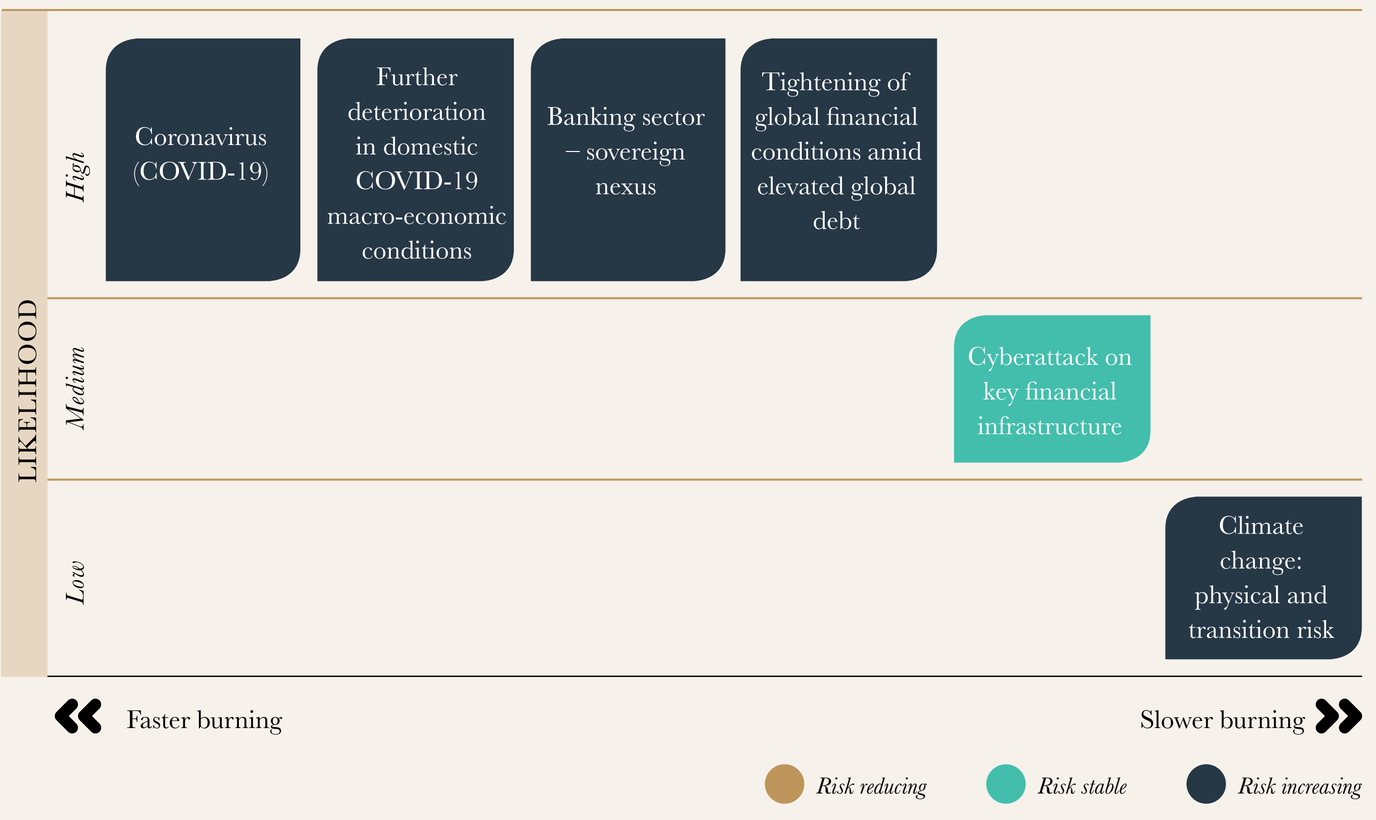
- SARB's assessment of financial stability in the period under review;
- Its identification and assessment of the risks and vulnerabilities to financial stability in at least the next 12 months;
- An overview of steps taken by it and the financial sector regulators to identify and manage risks, weaknesses or disruptions in the financial system during the period under review and that are envisaged to be taken during at least the next 12 months; and
- An overview of recommendations made by it and the Financial Stability Oversight Committee (FSOC) during the period under review and progress made in implementing those recommendations.[13]

As the sophistication of the world financial system evolves, so does systemic risk.

The financial stability department within SARB monitors the systemic risk for financial institutions and non-bank financial institutions. As early as December 2019, information about COVID-19 was published in the media reports, and in January 2020, the COVID-19 pandemic emerged as one of the main risks facing the country. At this point, the available information and data on COVID-19 was plotted and monitored on the Risk Assessment Matrix (RAM).

RAM captures the main risks to financial stability facing the country over a medium-term horizon. These risks are identified using quantitative indicators as well as a qualitative assessment by the FSOC.[14] At the onset of COVID-19, RAM indicated an unusually large number of high-likelihood risks, reflecting the particularly challenging domestic and global environment.

SARB's overall risk assessment as at 2020 is summarised below:



Source: SARB – Financial Stability Review First edition 2020

From the RAM graph above it is evident that in 2020 the COVID-19 pandemic, among other risks, posed a significant threat to the country's financial stability. The pandemic had a material impact on the domestic financial sector. Banks experienced an increase in funding cost spreads and a sharp rise in loan defaults, while insurance companies reported lower profits and rising claims on life insurance policies.[15] The SARB, in collaboration with National Treasury and other relevant stakeholders, acted swiftly to mitigate these risks. The measures that were implemented in addressing the risks are discussed later in this publication.

The SARB has established quantitative methodologies that primarily play a diagnostic role in pre-crisis times. The SARB regularly stress-tests individual financial institutions by simulating a significant and plausible economic downturn that would stress funding markets. These tests help the SARB to understand the system's resilience to large-scale risks and they help institutions to assess their risk management frameworks. Every two years, the SARB conducts common scenario stress tests across the banking sector.[16]

"It tested the resilience of the SARB as an institution, when faced with the significant disruption, and I think the SARB withstood the test very well."

Rushdi Edries, Divisional Head: Regulation and Infrastructure, SARB

Macro-stress tests and scenario tests, as well as bank rehearsals, are conducted regularly to monitor the impact of potential shocks at institutional level.

The use of these testing frameworks by macro-prudential bodies is also justified by their task to assess and warn about systemic risks. In particular, by simulating losses and failures for different scenarios, they contribute to the prioritisation of different risks and potential policy responses such as the need for additional capital.

Example of a common scenario stress test of the banking sector

In 2018, a stress test was conducted with the six largest banks in South Africa that included two severe, but plausible, macroeconomic scenarios.[17]

One scenario assumed a sharp recession and a relatively rapid recovery (the so-called 'V-shaped scenario'), with GDP growth over the four worst consecutive quarters of the scenario averaging -4.8%. The other scenario modelled a longer, but shallower, downturn (the so-called 'L-shaped scenario'), with a recession that lasted almost three years. Over the three-year horizon for both scenarios, all banks maintained adequate levels of capital without taking mitigating actions.

This scenario was modelled again in 2020 and the results indicated that, on average, the banking sector's capital position was similar to what it was when the stress test was conducted in 2018.

The stress test results highlighted the resilience of the banking sector to a severe shock.[18]

Stress testing for the insurance industry

In 2020/21, as part of the development of a stress-testing framework for the insurance sector, the SARB conducted an exploratory sensitivity stress test of the South African insurance industry. The exercise design, developed in consultation with the industry, provided insights into the impact of identified stresses on the solvency position of selected insurers and an approximation of the impact on the wider insurance industry.

This exploratory exercise also partially assessed the interconnectedness between the banking and insurance industries. The exercise was conducted on a solo-entity basis, with identified stress parameters treated as instantaneous shocks. Overall, the insurance industry was found to be largely resilient to the identified shocks.[19]

The financial sector's overall high level of resilience is attributed to the industry's experience in dealing with volatility and systemic events in the past.

The industry has built robust crisis models over the years that can withstand major disruptions.

The role of the Financial Sector Contingency Forum (FSCF), Operational Risk Subcommittee (ORS) and Cybersecurity Resilience Subcommittee (CRS)

Since the FSCF was created following 9/11, the forum has addressed the potential of system risks to the financial sector. This forum works within two related subcommittees to address areas such as telecommunications failures, loss of SWIFT capability, infrastructure, power, key skills, road or CIT transport capability, concentrated service or regulatory capability, water shortages, extraordinary cyber security events, collusion in trading, catastrophic weather events, disruptive innovation, and geographic proximity issues.

In terms of the Financial Sector Regulation Act[20], a systemic event means "an event or circumstance, including one that occurs or arises outside the Republic, that may reasonably be expected to have a substantial adverse effect on the financial system or on economic activity in the Republic, including an event or circumstances that leads to a loss of confidence that operators of, or participants in, payment systems, settlement systems or financial markets, or financial institutions, are able to continue to provide financial products or financial services, or services provided by a market infrastructure."

In support of its primary objective, the FSCF develops a monitoring framework for the identification and reporting of potential risks that could result in systemic events through inputs from relevant structures, including FSCF meetings dedicated to the identification of risks. There are two main structures that provide input:

1. Operational Risk Subcommittee (ORS) – ORS Risk Matrix

The ORS is established as a subcommittee of the FSCF. The objectives of the ORS are to identify and monitor operational risks in the financial sector that could potentially have a systemic impact, and to develop, test and maintain suitable crisis management and contingency plans to mitigate these risks. Members of ORS include the SARB, the Financial Sector Conduct Authority (FSCA), the Banking Association South Africa (BASA), the South African Insurance Asiciation (SAIA), the Johannesburg Stock Exchange (JSE), the Payments Association of South Africa (PASA), BankservAfrica, the Association for Savings and Investment South Africa (ASISA), the National Disaster Management Centre (NMDC), Strate and the six largest commercial banks, as well as any other representatives identified by the ORS Chairperson that will assist the ORS in achieving its objectives.

2. Cybersecurity Resilience Subcommittee (CRS) – risks pertaining to cybersecurity

The CRS is established as a subcommittee of the FSCF, with a focus on the cybersecurity resilience of the financial sector before, during and after cyber and/or information security crises. The CRS is composed of representatives of the South African Financial Sector's association (SARB, PASA, ASISA and BASA) as well as financial entities (commercial banks, insurers, and Financial Market Infrastructures) from SARB, National Treasury and SARS departments.

The functions of the CRS are to co-ordinate appropriate plans, mechanisms and structures that aim to mitigate the potential risks; compile and table reports at the FSOC on a regular basis, or at the request of FSOC, on matters related to the work of the FSCF; conduct exercises, including, but not limited to assessments and simulations, to test and enhance the plans, mechanisms and structures of the relevant FSCF participants; and work in consultation with relevant local and international organisations in exchanging ideas and experiences as deemed necessary.

2.4 Embedding mitigation into risk management

Identifying systemic vulnerabilities early on remains a priority

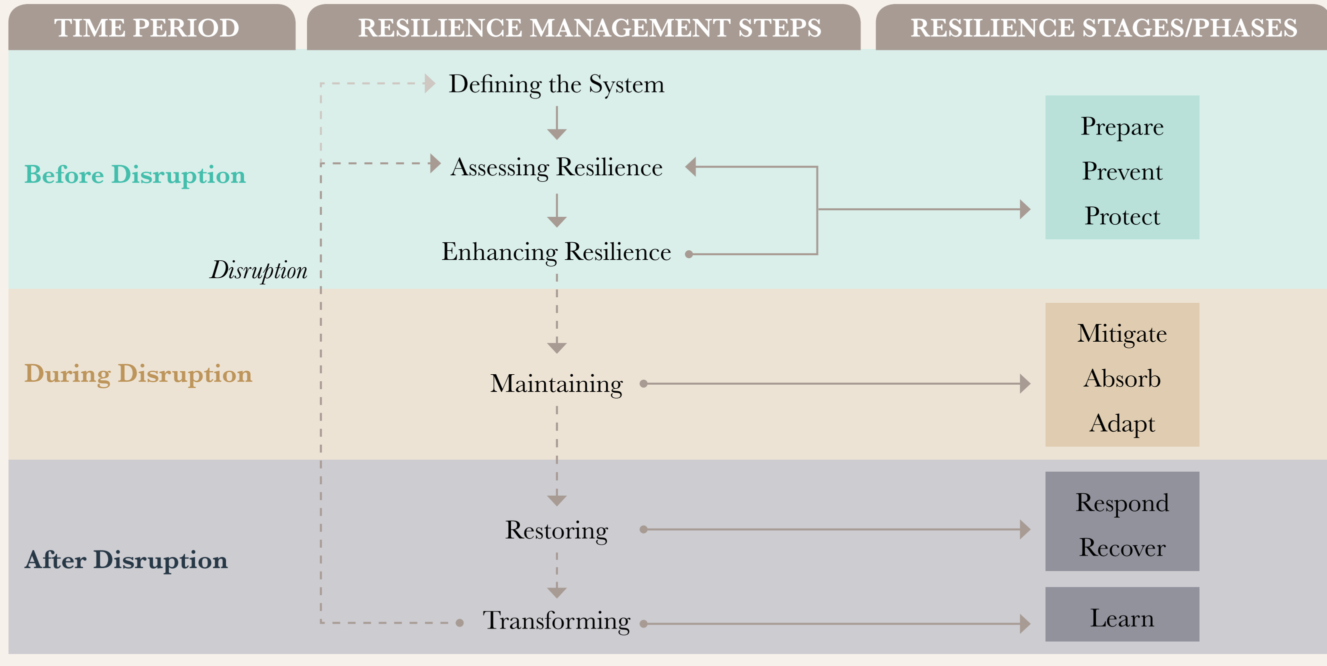
Incidents similar to COVID-19 have occurred in the past, for example outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2002–2003 and swine flu (H1N1) in 2009–2010. Learnings from these health-related incidents were used to provide guidance on how financial institutions could maintain business continuity during the COVID-19 crisis.

The implementation of a hard lockdown was dominated by the need to shift swiftly from an on-premises setup to working remotely. According to Dale Connock, Chief Risk Officer from Strate, "One of the initial concerns was around the ability of everyone to handle a market crisis remotely in a manner that still delivered the services required by the market."

During this period, not only the business continuity plans of financial institutions, but also the resilience of the IT systems and technical infrastructure, were put to the test. Given the size of the task, the transition of the financial sector was generally considered successful.

In part, this is owing to the preparation work facilitated by the FSCF in testing the resilience of the financial sector to potential exogenous shocks. The FSCF has been instrumental in facilitating efforts to build resilience in the financial system through simulations happening long in advance of the COVID-19 pandemic. Although the FSCF does not play an active role in managing systemic events, it supports the development and testing of contingency plans and coordinates interventions and communications during a systemic event.

The following diagram outlines the role of resilience in systems, emphasising the importance of combating disruptions.



Source: https://www.oecd.org/naec/averting-systemic-collapse/SG-NAEC(2019)5_Resilience_strategies.pdf.- Figure 2: Role of Resilience in Systems, Emphasising Importance of Combating Disruptions

The significance of preparing for a crisis cannot be underestimated, and mitigating the negative effects of a disruption is embedded in the concept of pro-active risk management. According to Mark Brits, Head of Prudential Division, BASA, "The FSCF has enabled a better level of communication between organisations, so that we could build a trusted network. The fact that we've done this for many years means that the players are known to one another, and I think that's incredibly useful and needs to be maintained."

2.5 Regular simulation exercises

Regular simulation exercises are an important aspect of crisis preparedness, and the FSCF has supported the identification of risks that could lead to a systemic event through such exercises.

Crisis simulation exercises are not a stress test done with numbers on a spreadsheet or a gap analysis of crisis framework. Rather, they can be seen as asymmetric information games to practice communication, coordination and decision-making.

While stress tests assess the quantitative impact of a single or a series of shocks on the financial soundness of institutions and the financial sector as a whole, financial crisis simulation exercises test the adequacy of the financial sector stability arrangements (laws, regulation, protocols, procedures, systems, database, reporting) and the way decision makers utilise them to effectively operate while a simulated crisis unfolds.

https://www.worldbank.org/en/news/feature/2010/06/07/mena-is-offering-a-new-tool-the-financial-crisis-simulation-exercises

The objective of the simulation exercises are as follows:

Increase awareness of the emerging threats facing the financial services sector.

Provide the sector with an opportunity to review their preparedness.

Enable individual organisations to exercise their crisis management plans and teams.

Develop the skills to strategically respond to major incidents, including stakeholder management and coordination, crisis communication and crisis management skills.

Potential systemic vulnerabilities that can be simulated, include:

- Cyber attacks, such as ransomware
- Distributed Denial of Service (DDoS)
- Unauthorised money transfers
- Settlement and clearing system disruptions
- IT failure
- Extended power outage
- Extended water shortage
- Failure of a Systemic Important Financial Institution (SIFI)
- Climate change

The RAM is also used as a source of potential systemic risks to be simulated.

Measures taken by the FSCF and member organisations to ensure crisis preparedness

As part of best practice, the FSCF aims to facilitate at least two simulations a year. These rehearsals are role-played by participants that would be affected by the simulated event.

For research purposes, a recent simulation of a cyber attack that was coordinated by the FSCF and facilitated by the World Bank was reviewed and assessed for its effectiveness in terms of crisis preparedness. The simulation was bespoke and designed to reflect the South African financial system, institutional framework and crisis management tools. In particular, the simulation was designed to test:

- Information gathering and sharing;
- Co-ordination of decision-making;
- External communication and press handling;
- Functioning of legal and institutional frameworks;
- Adequacy of current policy design for crisis management; and
- The sector's preparedness in dealing with a systemic crisis.

It was concluded that the results of the simulation exercise successfully rehearsed the work of the FSCF and demonstrated the sector's ability to respond to a dynamic and challenging disruption scenario.

Juxtaposing the results from the simulation, we extrapolate some important observations about the simulation that provide learnings for the COVID-19 pandemic:

- The simulation allows players to rehearse beforehand what an actual event may lead to.
- It is a good mechanism to test incident response.
- Role players have used past experiences from the exercise in real-life scenarios.
- The post-simulation can be important for decision-making associated with the recovery of operations.

Externally-facilitated liquidity stress simulations for banks

On 14 April 2021, the Prudential Authority released a directive stipulating the requirements for Domestic Systemically Important Banks to conduct externally-facilitated liquidity stress simulations at least once every four years. Non-Domestic Systemically Important Banks may also be requested to conduct similar liquidity simulations.

The simulations should be based on a plausible crisis scenario, which is customised to the bank's specific business model and operating environment. This scenario is designed to trigger liquidity and/or recovery plan thresholds and thus prompt a realistic response by executives, the crisis management team and relevant stakeholders of the bank, in a safe and secure simulated environment.

The liquidity stress simulation should meet requirements set out by the Prudential Authority, as well as the Basel Committee on Banking Supervision (BCBS) Principles for Sound Liquidity Risk Management (Principles 10 and 11).[21]

The Key Lessons in Crisis Simulation

- Awareness of information asymmetry is important and may lead to more information sharing
- Handling the problem depends much on individual and collective behavior of everyone involved
- The same information can be interpreted differently
- Human elements play a bigger role than crisis management plans
- Clear understanding of respective roles and mandates is important
- No two major crises are similar, so exercises should be held regularly

Source: 2022 COEFS COVID-19 Qualitative Analysis

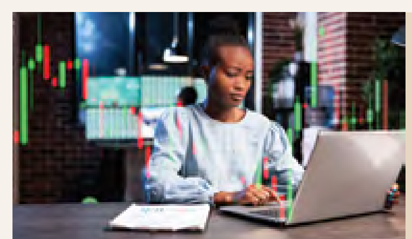
The importance of information sharing may be forgotten during the chaos of a crisis. It is important to have one central communication channel that is responsible for co-ordinating all the role players. During a crisis, the need to understand how a system works is highlighted because time is scarce, stakes are high and confusion often reigns. A clearly defined roles and responsibilities matrix is essential during a crisis.

Crisis simulation is an important exercise to practice communication, coordination and decision making. By participating in simulations, participants are better prepared when an actual crisis occurs.

The need to develop a playbook of possible actions organised in accordance with crisis severity would provide member organisations with guidance on the responses. A crisis toolkit identifying actions for a given crisis severity in advance, combined with supervisory judgement may provide a guideline on responses to unprecedented external shocks.[22]

2.6 Crisis models tailored to the COVID-19 pandemic

The **capacity-based model** was adopted to enable communications, back up plans and readiness for remote work. During the hard lockdown, when working from home was rapidly adopted, most organisations demonstrated agility, effectively adopting a Risk and Control Self-Assessment approach to promptly scan the changing risk and control environment.



Risk and Control Self-Assessment is a process through which operational risks and the effectiveness of controls are assessed and examined.[23]

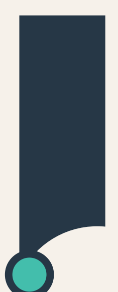
The approach involves gathering management and staff to collectively identify and evaluate risks and associated controls.

Some organisations deployed their business continuity plans to assess the risk and acted swiftly to mitigate the impacts of the evolving COVID-19 crisis. In many organisations COVID-19 Response Teams were put in place to assess the impact of COVID-19 on business operations.

The role of the COVID-19 Response Teams varied for each organisation, but generally included:

- Monitoring government regulations and the potential impact on business operations
- Monitoring COVID-19 events, including infection rates
- Meeting regularly to evaluate the emerging risks and assess any residual risk
- Conducting situational awareness and threat assessments and advising senior management on the appropriate mitigations
- Examining the environment for potential incidents that could put the national key points at risk
- Dealing with all the pandemic-related matters and giving guidance and advice to senior managers

A multi-disciplinary and multi-stakeholder approach was adopted when dealing with issues that affected various financial markets participants. At the same time as the financial sector was engaging crisis teams, organisations throughout the country were also engaged in crisis management, and there was no co-ordination between these sectors.



"We put together a cross-functional COVID-19 task team that included all of the critical areas of our business, included HR, IT, risk management, clinical personnel, facilities, teams, and that was incredibly powerful. Just looking at the data, coordinating the various aspects of the response was the COVID-19 task team. This was a key learning for us around quick response."

Ronald Whelan, Chief Commercial Officer, Discovery Health

Early indications suggest that not all financial services institutions were leveraging their mitigation plans in the same way. Some organisations relied on existing business continuity plans, others used modified plans, and some created new models that were tailored to the COVID-19 crisis.

The Basel Committee on Banking Supervision's Principles for the sound management of operational risk explicitly mention a pandemic as one of the scenarios to take account of in business continuity planning.

Basel III principles stipulate that banks should prepare forward-looking business continuity plans with scenario analyses associated with relevant impact assessments and recovery procedures, grounded on potential disruptions that identify and categorise critical business operations and key internal or external dependencies.[24]

The following section takes a closer look at how financial institutions and other market participants in the sector mitigated the impacts of the COVID-19 pandemic.

2.7 Operational risk models

Managing risk and ensuring business continuity – scenario-based model

Historically, operational risk scenario analysis within financial services firms served one primary purpose – risk measurement and capital calculation. During the outbreak of COVID-19, the pandemic scenario was added to the list of must-haves, prompting banks to explore extreme but plausible outcomes and consider actions, as well as evaluate their potential impact on the capital position and their operating models.

Most organisations adopted the scenario planning framework to navigate the uncertain COVID-19 environment. The scenarios were tailored to each institution's internal environment as it related to the external pandemic situation, and the main driver was ensuring business continuity. Dr Alex Mitchell, Senior Researcher from South African Banking Risk Information Centre (SABRIC), indicates, "We immediately compiled scenarios and, based on the scenarios, we made informed decisions."

One of the organisation's planning models used "the Mind of a Fox" principles to determine the potential consequences of the COVID-19 pandemic. The scenarios helped organisations to build awareness of possible outcomes and highlighted warning signs to help the organisation measure themes of information against the scenario planning. The JSE used econometrics models to ascertain economic impact, to understand what the different scenarios would be for the organisation and determine the appropriate response. Other organisations were tracking news headlines and various other sources to build into their scenario planning.

"Data played a critical part with the onset of COVID-19. It gave incredible insights into the economy over the lockdown period. As early as April 2020, the bank started developing their own in-house models. These models were tailored to the COVID-19 pandemic situation as it unfolded. The model was based on real transactional data in the bank to build a view of what was happening in the economy. Quantitative data on various key indicators on consumer expenditure and incomes were modelled."

Christoph Niewoudt, Chief Data and Analytics Officer, First Rand Limited

The results of this exercise provided significant insights on the organisational responsiveness to the crisis. For example, household income was severely impacted, which resulted in the banking industry experiencing significant impairment losses as customers struggled to keep up with their financial obligations. This situation improved with the easing of the lockdown restrictions. Niewoudt points out that overall the "banking industry was able to operate relatively effectively during the COVID-19 response period."

Resilient operating models

Resilience goes beyond an organisation's ability to prevent, respond, and recover during a major crisis or operational disruption. The COVID-19 crisis has exposed the value of technologies, which enabled the economy to operate at arm's length and partially overcome social distancing.[25]

Technology is driving huge change in the operational landscape of the financial services industry.

Building digital platforms to enable speed and efficiency

According to CIO[26] before the pandemic it was estimated that as much as 80% of manual front-and-back office business processes that could benefit from automation were still undiscovered. However, while the vast majority of securities transactions are straight through processing (STP), the dramatic changes in transaction volumes experienced during the first months of the pandemic highlighted how better levels of scalability could be achieved through fully automated processes. Even a small additional percentage of failing transactions can lead to significant operational impacts, with ripples felt across the ecosystem.[27]

The COVID-19 pandemic has impacted the operating models of financial institutions, notably with an accelerated increase in the adoption of technology to provide products and services.[28] A positive consequence has been the accelerated adoption of technology and digital financial services among consumers.

The financial market infrastructures (FMIs) provide a critical foundation for the financial system, and the level of development of South Africa's financial sector infrastructure is an important contributor to the sophistication of the overall financial market.[29] The disruption in business activity resulting from the lockdown in 2020 affected the performance of the FMIs at a relatively minimal level. The exchanges, Strate and associated clearing houses maintained operational resilience and continued to provide uninterrupted trading, clearing and settlement services.[30]

When asked about the resilience of FMI's operating model during the COVID-19 pandemic, Beverley Furman, Head of Operations and Change at Strate noted that,

"There are very high levels of interdependence and interconnectedness in the ecosystem. Everybody knows that on a particular day there are certain activities that have to be performed collectively as a market - thats what settlement is. Thats what corporate actions processing is - and we did it!"

This resilience shown by FMIs in 2020 can be attributed to continued investment in technology in previous years. FMIs like the JSE, Strate and Bankserv have all invested progressively in technological infrastructure to improve the efficiency of their business models and their operational systems, these advanced technical systems played an important role in 2020 as it allowed these critical infrastructures to continue operating when lockdown restrictions were imposed. The system leveraged technology acquired prior to the pandemic to facilitate secure and reliable remote working models.[31]

Effectiveness of the crisis models

The crisis models adopted were effective in dealing with the impact of the COVID-19 pandemic. The business continuity scenarios were adjusted to relate to the COVID-19 environment, and this robust approach allowed financial institutions to dynamically react to sudden events, foreseeable and otherwise, during the crisis. The pandemic response teams assessed the uncertain COVID-19 environment effectively and facilitated prompt decision-making by senior managers.

Another important factor of effective crisis management is the ability to leverage technology and continue to operate the business as usual. When facing unpredicted crises, such as global pandemics, organisations fare better by developing their capacities to deal with the unforeseen event. The fit-for-purpose agile responses and resilient systems assisted financial institutions to adapt and absorb the impact of an external shock.

Shifting operating models to build resilience

The pandemic highlighted the importance of effective operational risk management arrangements being in place before a shock hits. Challenges and disruptions to operating models and technology platforms varied significantly for each organisation, and often correlated with levels of past investment in those areas.

In the pandemic era, resilience has become one of the defining characteristics of the financial domain, coming to the forefront on both people and operational ends. This reinforces the need to assess the financial stability implications of fast-paced financial and technological innovation, as well as to ensure that supervisory and regulatory frameworks and approaches provide a solid basis for harnessing the benefits of such innovation, while containing their risks.[32]

Resilience must become a core philosophy within system management and operations to ensure that the sector can continue to function despite disruptions like COVID-19, and is able not only to adapt, but also to seize upon new opportunities revealed during the course of the disruption.

What this means for building operational resilience

By embedding operational risk management tools into their company value propositions, organisations will derive the business benefits much more clearly then when a tick-box approach is applied. It is also about the risk culture of the organisations and the situational awareness mindset of senior leaders who come together at times of crisis.

For this reason, crisis preparedness and ensuring resilience must become the new ethos for the financial services of the future.

The COVID-19 pandemic has highlighted the importance of effective operational risk management being in place before a shock hits. The pandemic laid bare the truth about the effectiveness of financial institutions' operational risk portfolios.

Collaboration was also important during this time, with the pandemic providing an opportunity to create platforms for multi-stakeholder engagements when resolving industry-wide matters.

In terms of crisis preparedness, the pandemic highlighted the importance of coordination and risk-sharing. The regulatory oversight and regular simulations, as well as macroeconomic modelling, were key to understanding and mitigating the risks during the crisis.

The pandemic accelerated the adoption of technology by providing better access to financial services. It also underscored the need for improved scenario planning, which enables organisations to be agile and adapt to the multiple eventualities presented by a pandemic.

The COVID-19 crisis showed that some of the most important risks that boards and senior management need to plan for are not idiosyncratic. Large, systemic events that threaten the functioning of financial markets, or the economy as a whole, happen with sufficient frequency that they need to be taken seriously, even when crises become a distant memory.

The management of operational risk is a critical element of dealing with a pandemic, but the interviews revealed that one of the greatest impacts was on workforce and organisational culture. This was to be a key element as organisations moved towards operating in a space where nothing was certain. For so long, organisations had maintained that people were their most important resource; now was the time to show how they would protect this important capital.

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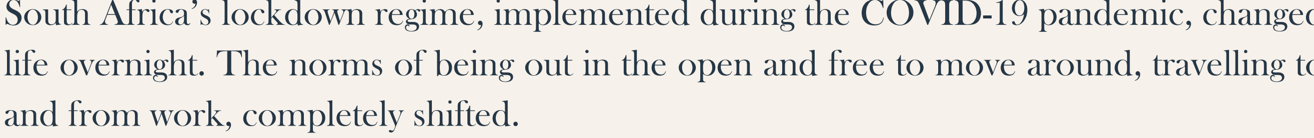
CHAPTER 3

Living in a world of uncertainty

The COVID-19 pandemic created a new world, characterised by great uncertainty. Much was unknown about how the pandemic would progress, how long it would be a reality and how people's lives would be affected.



South Africa's lockdown regime, implemented during the COVID-19 pandemic, changed life overnight. The norms of being out in the open and free to move around, travelling to and from work, completely shifted.

The financial sector's designation as an essential service meant that it was able to continue operating. For those who had already digitised their work processes, the transition to working remotely was easier. As the pandemic stretched from days, to weeks, months and years, how to manage its impact also shifted.

The pandemic affected different people in different ways. During the highest levels of lockdown, many worked excessive hours at times to find solutions to the challenges of the pandemic as a result of emergency measures instituted by both their organisations and the government. In some cases, workers remained on duty for many more hours than was healthy. Parents were anxious over the state of their children's education. Access to good internet, or lack thereof, became an issue requiring attention in order to smooth the transition to a work from home model.

While the lockdowns and changes implemented during COVID-19 were temporary, for many people working life has permanently changed, not only in South Africa, but around the world.

3.1 Variable lockdown restrictions

The lockdown came into effect on 26 March 2020 and impinged on all South Africans in many aspects of their lives.

As people were confined to their homes, commercial hubs became ghost towns and there was a rapid move to online commerce. Initially, the lack of traffic and cleaner air in urban areas were welcomed. It was possible to schedule online social appointments because people across different time zones were all confined to their homes. Online streaming entertainment services offered a variety of good-quality viewing and accessible online activities proliferated, which helped to take the edge off people's frustrations. However, the few encouraging characteristics were not long-lived or sustainable. South Africans soon faced difficulties related to loss of income, school closures and lack of access to domestic support structures. Strictures on the trade in alcohol, food and other delivery services, an inability to move across provincial borders, and a host of other previously unimaginable scenarios all contributed to the complexity of the situation.

With no in-person meetings allowed, business interactions happened only remotely.

Adri Grobbler of the Banking Association South Africa (BASA) says, "Nobody was prepared for it." Certainly, no one expected the COVID-19 pandemic and related lockdowns to last as long as they did. Even the health industry was taken by surprise.

"I think it's honest to say that we completely underestimated the global and local impact of [COVID-19] at that point of time."

Dr Ryan Noach, Chief Executive Officer, Discovery Health

The government's risk-adjusted approach to lockdown levels left some businesses and citizens frustrated, as there was no clear indication of when restrictions would be eased or tightened. Social distancing, requiring up to two metres between people, coupled with the wearing of masks and regular hand sanitisation became the norm to curb the spread of the virus. It was a 'new normal' that felt unlike anything anyone had experienced before.

With the declaration of a National State of Disaster, rules were implemented requiring hand sanitisation in offices, supermarkets, and other public spaces and the "deep cleaning" of public facilities, such as schools.

Soon providers of sanitisers and masks were accused of price gouging, and contracts for deep cleaning government facilities were shrouded in controversy. In South Africa, anxiety over the potential shortage of groceries and other essentials, such as toilet paper, resembled the stockpiling that occurred ahead of the 1994 elections.

One of the most important aspects of the lockdown was the impact on people.

"In my view, we forgot as human beings to care on a personal level – that need for human touch. COVID-19 forced us to realise that it's not about deliverables, but just to check in on a human level."

Vuyolwethu Nkambule, Enterprise Risk Manager, Johannesburg Stock Exchange

Though at first the number of COVID-19-related deaths were relatively low in South Africa, wall-to-wall media coverage of death tolls both in South Africa and elsewhere in the world heightened anxieties. With a viable vaccine still in question, South Africans and citizens worldwide were bombarded by misinformation. During this time, Tedros Adhanom Ghebreyesus, Director-General of the World Health Organisation (WHO), called the misinformation and fake news that accompanied the COVID-19 pandemic "an infodemic" that spread alongside and as rapidly as the virus itself.

With organisations unable to plan with any degree of certainty, South African workplaces were largely abandoned, and for those forced to go into an office, the workday routine could not be broken by a quick stroll to a coffee shop or out of the office for lunch. Under strict lockdown, restaurants, cafes and shops were unable to operate, opening gradually as restrictions became less severe.

With most people working at home, work-life balance became a serious challenge. Staff began to burn out as a result of too many meetings, too little time, and nothing to break the sense of monotony. One of the biggest challenges many faced, says one interviewee, was "being tired of non-stop work. And that's one of the direct consequences of COVID."

3.2 How financial sector companies responded to a world of uncertainty

Organisations in the financial sector introduced active measures in response to the pandemic and resulting lockdown restrictions. The sector is known for a highly skilled staff contingent, many of whom are computer-literate, making the transition from the office to remote work easier. In this new remote-working scenario, micro-managing was not possible, and trusting staff therefore also enabled a smoother move to new working solutions.

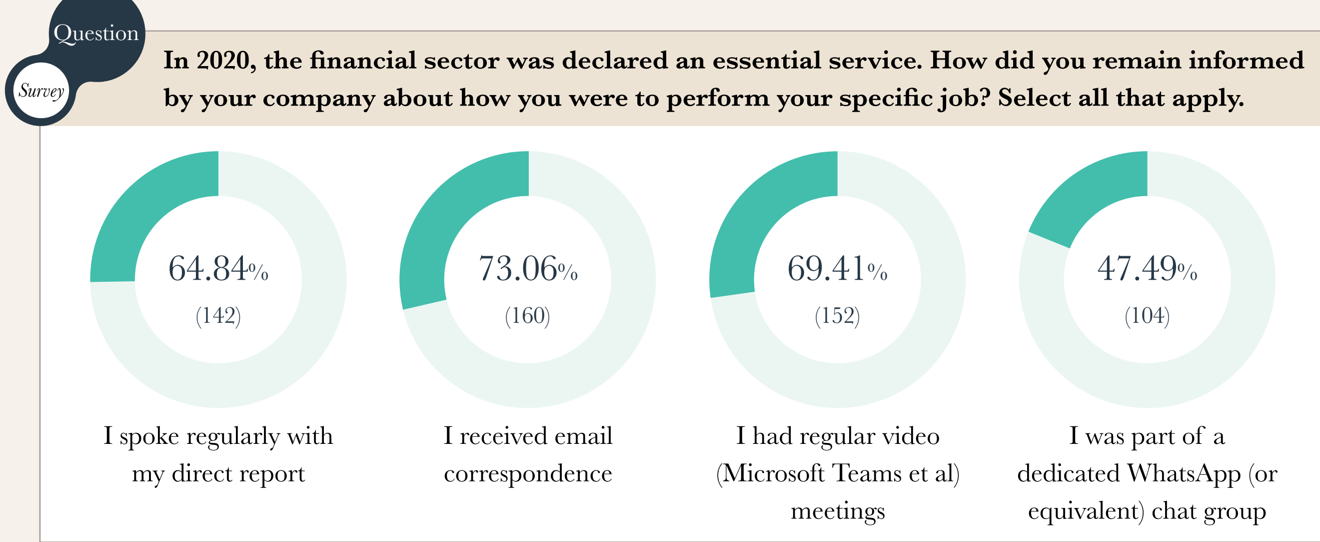
"The acceleration of digitisation meant we were able to adapt to the shift to work from home, which enabled us to have information readily available at all times. While the process of transitioning was still in progress, it was crucial to the management of the crisis at the same time."

Juan Grobbelaar, Head: Analytics and Insights Centre, SABRIC

Communication was essential to sector resilience

As an essential part of a resilient financial services sector, communication played a critical role in the initial transition.

During the COVID-19 pandemic, the FSCF indicated that more than 70% of its members transitioned to video calls and emails, while others spoke regularly with their direct report or used chat groups on platforms such as WhatsApp.



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Contingency plans

The onset of the pandemic caused disruptions the sector was unable to anticipate or fully prepare for. Contingency plans developed in anticipation of a terror attack or similar event were adapted to deal with the pandemic, and those organisations that had implemented digital practices were more readily able to adapt.

Many companies sought to ensure a general sense of alignment to government on the five lockdown levels, and questions arose internally regarding what was already in place and what could immediately be implemented. Etienne Kruger, Risk Specialist at BankservAfrica indicates, "We implemented a three-phase plan. And as government then introduced their five transition levels, we repurposed and realigned that to their transition levels."

Though the financial sector was declared an essential service, the logistics of permits were unclear. For certain organisations, this meant deciding which employees are 'essential', and how to handle a workforce with call centres or work requiring active participation.

"One of the challenges was, first of all, identifying essential workers. There were some that were quite obvious – who could not go and work from home, and then all of the logistics in terms of permits for those people. Then [it was] managing the anxieties of those people, because they were not allowed to retreat to the safety of their homes."

Wendy Orr, Head: Group Inclusion, Standard Bank

While the response to the pandemic varied between organisations, the following factors were among the best practices that emerged:

Implementation of pandemic-specific actions

- **Rapid identification of essential workers**
  By speedily identifying and getting permits for essential workers, organisations were able to continue functioning smoothly.
- **Dedicated teams**
  In many instances, teams and sub-committees in different business units were set up to deal with the changing lockdown rules, enabling the safe return of staff to the office when conditions and rules allowed.
- **Equipment was readily available**
  Where there had been shortfalls, firms were able to buy laptops, mobile WiFi devices and software updates for remote work and, where necessary, office chairs were taken home.

Ensuring the safety, health and well-being of staff

- **Staff trust, agility and resilience**
  Staff were agile and displayed resilience. Trusting staff enabled a smoother move to remote work.
- **Handling of health and safety**
  With most staff off-site, some organisations found that their designated health and safety officers were unavailable in an emergency. However, drastically reduced numbers of staff on site meant that they were able to manage any incidents that did arise.
- **Medical assistance**
  Hospital network relationships were leveraged to secure beds and ambulances for staff when necessary, or ensuring staff were on priority lists for treatment. Care packages included pulse oximeters and oxygenators. In cases where staff medical aid schemes were insufficient to cover charges, medical costs were covered. Medical teams were contracted to monitor and guide staff who had contracted COVID-19.
- **Concession for families and parents**
  Parents were granted extra leave days to enable them to settle their children who were suddenly out of school.
- **Special quarantine zones**
  Where infected staff could not quarantine safely at home, hotels were approached on behalf of the staff members for accommodation in designated quarantine zones.
- **Allowances made for branch staff**
  Transport was provided for branch staff, thereby avoiding the risks of using public transport to get to work.
- **Mental health and wellness**
  In an effort to address mental wellness, staff were provided with educational materials that would help them to develop coping strategies to deal with the impact of lockdown on their mental health. There was a also need to address the anxieties regarding exposure to increased viral load of employees who had to work on site.

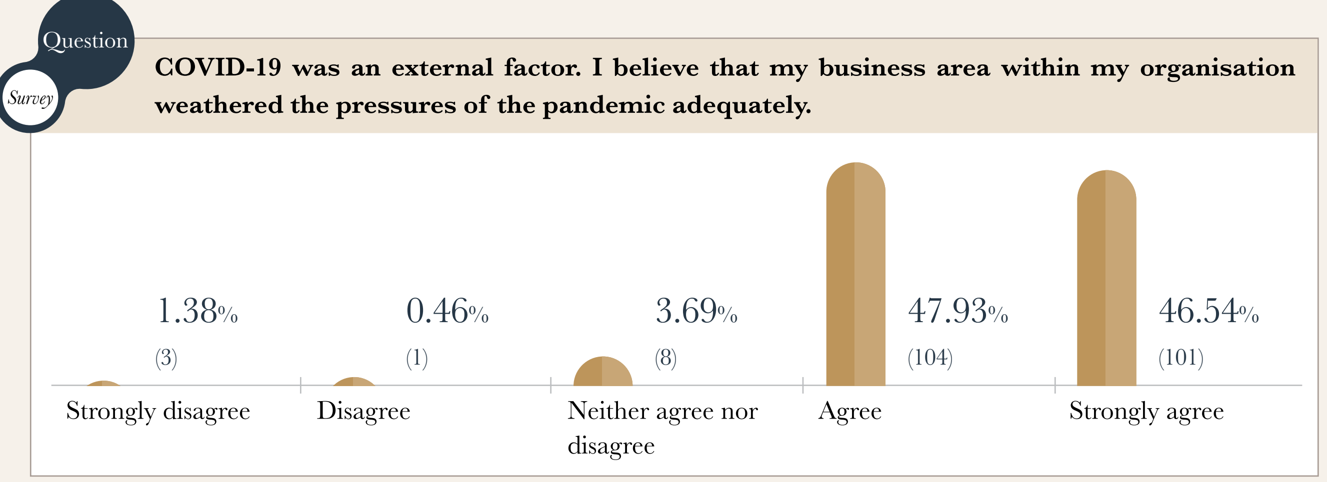
Ensuring business continuity

- **Functioning operating systems**
  Financial sector stakeholders were committed to ensuring that their operating systems functioned to deliver financial services. Most already had safeguard measures in place.
- **Business continuity plans**
  With the focus of the FSCF on contingency planning, most members of the sector had continuity plans, with some including pandemic situations, based on previous experience of outbreaks such as Severe Acute Respiratory Syndrome (SARS) in 2002–2003.
- **Connectivity solutions**
  At times, connectivity was an issue that had to be resolved. Many organisations had faced connectivity issues in the past and had equipped themselves and their staff with back up measures. Consideration of the need for WiFi, availability of bandwidth and individual affordability were part of the challenge.

Above all, the focus was on what worked. The pandemic forced organisations to be agile in terms of implementing pandemic-specific actions, supporting staff and ensuring business continuity.

COVID-19 was an external factor that had to be dealt with, and the graphic below indicates that the sector took extensive actions to ensure its resilience during this time. Over 90% of FSCF members indicated that they strongly agreed or agreed that their business area within their organisation weathered the pressures of the pandemic adequately. Only a small percentage of less than 5% either strongly disagreed or were neutral.

These actions and findings indicate that the financial services sector was resilient, was able to take expedient and effective action and, in reflection, most felt that their organisations were able to cope with the pressures of the pandemic.



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3.3 Work from home

In a blended or hybrid working environment, policies were often drawn up to cater for specific situations as they arose. In 2020, for the first time in most organisations, everyone able to work from home was sent home to do so. No organisation had policies in place to cover every eventuality – it had not been necessary before.

"Working from home wasn't a new concept for us. We'd already started piloting it and the pandemic just accelerated that journey," says Esti Mari Langer, Divisional Head: Operational Risk of First Rand Limited, "What was different for us is we had already started our journey to what we call productive optimisation of employees." This was echoed by Elsa Tshatedi, Head: Organisational Effectiveness at Nedbank, who says, "We already had flexible work practices as a policy, but it was a new thing from the perspective of having everyone who could work from home working from home."

Organisations spared no expense or delay in procuring the necessary equipment to ensure business continuity. In some cases, shortages of selected items emerged within local hardware equipment suppliers as a rush of new orders depleted their stocks.

Organisations were able to find solutions through a combination of rationalising who needed new equipment in which department, as well as procuring according to internal priority lists. Businesses also became increasingly aware of which residential areas could provide more stable internet connections, as staff relayed their connectivity challenges to their superiors.

Though equipment was rarely an issue, some organisations had to accommodate staff who had used only desktop computers at the office to make the transition to work from home. In most instances, only a core complement of essential workers (as stipulated by health and safety rules) remained in the office and the core team was able to cope when an emergency arose.

Work from home meant changes to social life

During lockdown, normal life was disrupted. Without sports events, church services, the theatre or live music to smooth social interactions and provide necessary relief, work was a grind for those reporting to an office.

Within a matter of a few days, many organisations had to put very different policies in place to manage the pandemic from the perspective of quarantines and isolations.

The context of March 2020 is complex. Without support from domestic staff, many single parents in financial services organisations had to balance their jobs with family responsibilities, whether young children with learning difficulties having to study remotely, or elderly parents, or relatives ill with COVID-19. Maintaining staff morale was one of the biggest challenges faced by human resources teams.

Parents were granted additional leave days to assist their children with the transition to home schooling. Children learning from home meant additional internet usage at home, and practical steps needed to be taken to respond to this. Most financial service organisations made provisions for higher internet bandwidth. As the number of infections rose, care packages included oxygenators for home use, transport to and from hospital and covering treatment beyond what was offered by medical aid schemes.

Adjusting to working from home left no sector of the workforce unaffected. People such as those with hearing and sight impairment were not additionally burdened by the need to wear masks, which meant lips could not be read, adding to the stress for those with disabilities.

Isolation had multiple impacts, and the extended time period of the lockdowns affected individuals differently. In many cases, without a commute or having to dress for work, remote working and learning soon gave way to cabin fever. Even people in relatively large homes rapidly tired of each other.

The emergence of back to normal after working from home

As the waves of infection ebbed and lockdown levels eased, many organisations called staff back into the office, making it necessary to manage the anxieties and resentment of those who had to venture out into the world of COVID-19 on a daily basis.

As companies adjusted their working methods from fully remote to blended models, workers returned with varying levels of enthusiasm. The authorities had stipulated the wearing of masks, regular hand sanitisation and thorough cleaning of public spaces. Returning to work brought its own complexities, but not nearly on the scale of sending an entire staff cohort home in the first place.

As South Africa continues to navigate its way out of the pandemic, emerging themes from the lockdown and Work from Home include:

- There are challenges with mental health – it is likely that mental health is for the first time being spoken about openly within organisations.
- Managing the anxieties and resentment of people who were required to be physically in the office while under lockdown was a key factor.
- Supporting staff wellness is as important as providing the appropriate equipment.
- Relationships are already changing. In the financial services sector, like other sectors, the pandemic has influenced people's desire for a better work-life balance.
- The employer-employee balance of power has shifted. It is now necessary to be flexible when making an offer to a new staff member, with organisations finding that new recruits flatly refuse to relocate if their desire to work remotely is not obliged.
- The importance of risk and human capital – and the way in which both the functions can work together – is now being discussed.
- It is now important to look at resilience, planning and agility as critical business functions together with supporting functions such as human resources or human capital.
- The war for talent ultimately affects organisational culture.
- The human aspect is now fundamental. The fact that people are needed to manage organisations was emphasised by the pandemic.
- Certain rules, for example only using Skype for business, were replaced in real time. Written Standard Operating Procedures may not always be relevant in an era of blended working models.
- Health and safety in an era of blended work remains a challenge as staff assigned to those responsibilities are not always able to be in the office.
- Human resources and operational risk were elevated, with a greater appreciation emerging of the value proposition of employees.

3.4 Strengthening the role of human resources

By all accounts, being well-resourced helped the financial services sector navigate the lockdown with relative ease. Some organisations, such as TransUnion, BankServ and the Johannesburg Stock Exchange (JSE), moved to off-site work weeks before the mandatory closure of offices at the end of March 2020. Senior staff in these bodies were also in touch with colleagues elsewhere in the world, which facilitated an understanding that COVID-19 was a "clear and present danger" requiring decisive action to ensure work continuity.

Being declared an essential service meant the financial services sector continued to operate and people continued to work, with few exceptions. Compared to other sectors that faced complete shutdown, such as manufacturing and tourism, this meant work was able to go on, and yet the new scenario brought challenges nonetheless.

Human resources teams found themselves at the centre of a new drive to prop up the remote workforce and keep them healthy, engaged, and productive. With close to the entire workforce working from home in most organisations, and codes of practice being adapted on the spot as the situation developed, a major shift in thinking was required even for the most progressive business leaders.

How hard lockdown affected staff

In 2020, lockdown rules persisted and days stretched to weeks and then months. It soon became clear that the more persistent challenges were the intangible ones. A sector accustomed to observing strict rules and doing things "by the book" had suddenly found itself navigating numerous uncertainties as planning was only possible to an extent.

Given the elevated levels of pressure – whether from anxiety about the threat from the virus, performance at work, family members who were ill, or the demands of taking care of school-age children and aging relatives simultaneously – staff in most organisations were dealing with unprecedented levels of stress. Even if people were not exposed to the virus, the risk was high that they were suffering burnout amid non-stop work, which was a challenge experienced in many sectors.

In the early stages and amid the uncertainty of the progression of the pandemic, a track-and-trace system to keep tabs on the spread of COVID-19 further fuelled paranoia. Stories of death and debilitating strains of COVID-19 abounded. While ensuring that staff were adequately equipped to continue working in an infrastructure sense, organisations also stepped up to ensure that physical and mental health were taken care of.

Human resources responses

Organisations tried to alleviate stress by offering advice on how to conduct meetings online, guidelines for online meeting etiquette, remote staff assessments and almost every other aspect of work. Even counselling sessions, the mainstay of addressing stress and anxiety, became a remote activity.

With so many restrictions on human movement, and with staff now on duty almost permanently, cracks began to show in employee performance and morale. Work from home fatigue meant that human resources teams across the sector came to the fore. Staff wellness – usually a "nice to have" – became a central part of operations as the often unforeseeable effects of the pandemic emerged.

Remote working gave human resources teams an unprecedented volume of concerns. Issues such as gender based violence, substance abuse and an uptick in divorces, as well as a greater need for stress counselling were seen during this time. Shresti Bijou of First Rand Limited comments, "From our stats, we also found that with people being confined to being in the same space, there was an increase in domestic violence cases."

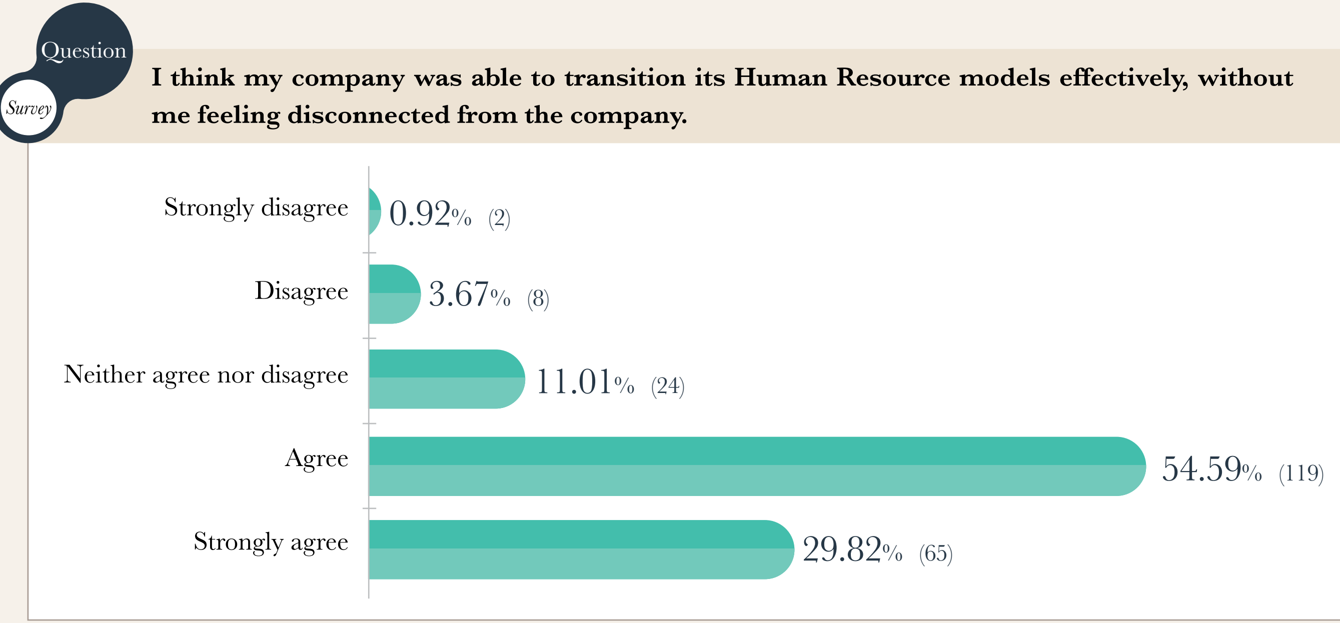
Even though organisations introduced remote counselling and encouraged staff to not remain "switched on" 24/7, working remotely under lockdown fundamentally changed the world of work.

At the JSE and other organisations, mindfulness awareness campaigns – including online yoga sessions and meditation practices – became the norm.

Many of the interview respondents in this study flagged the need for a more people-centric approach. The work from home scenario lent itself to higher productivity levels to begin with and illustrated greater trust in staff, yet the human element still needed greater attention down the line.

As difficult as that initial time was, the financial services sector was able to transition successfully. These efforts translated into members from the sector realising a level of support from their companies.

The following graphic illustrates that over 50% believed their company was able to transition its human resources models effectively without feeling disconnected from the company, and over 30% strongly agreed, resulting in over 80% of the sector feeling the transition was effective.



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Move towards blended working models

Many organisations had made a smooth transition to remote work, and in some instances were more efficient because there was no need for people to physically be in the same place. On reflection, some respondents felt that work from home needed to be combined with a return to the office.

The increased productivity and lack of travel that were classified as wins from working from home had to be balanced with the loss of familiar routines. It became clear that people missed the countless daily rituals involved in spending time with colleagues with whom they had built relationships over many years.

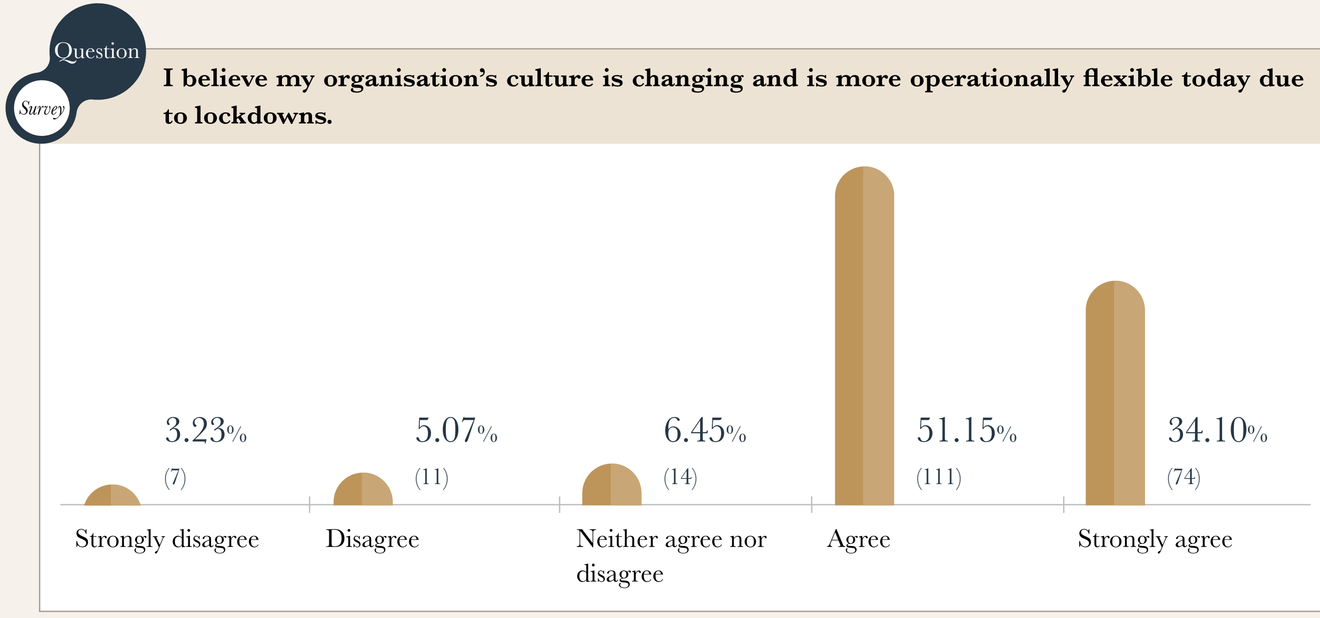
There is now emerging a sense of the importance of social interactions in a work environment. "A large part of your learning is socialising – that actually happens around the tea table in the break. A sense of belonging is important for the workplace, especially among younger people, that social interaction is part of the value proposition of working in an office," says Faizel Jeena, Head: Risk Support Department of the SARB. He adds, "Young recruits especially need the stimulation of meeting others in the cafeteria or in meetings."

There was a recognition that COVID-19 impacted those individuals who were new to the company and were unable to benefit from the interaction with the community, which is often the way in which they take comfort in their choice of company as they build their careers. Some employees began their careers by entering a virtual world of work without ever meeting their teams live. Leaders were also impacted by managing teams virtually, as management had to adapt to limited face-to-face contact.

While the COVID-19 pandemic caused many issues, it also led to positive change – the importance of people interacting with people has never been more appreciated.

> "We became a very human-centric organisation, and as much as we've always aspired to an organisation that focuses on health and well-being, I think the pandemic forced us to really walk the talk."
>
> **Lesego Rametsi, Senior Executive: Human Capital, Absa**

This is reflected in the survey results seen below. More than 50% of people agreed that their organisation's culture is changing and is more operationally flexible today due to lockdowns, while over 30% strongly agreed. For the financial services sector, the impact has resulted in a deeper level of humanity with more than 80% of the respondents indicating that their organisation's culture has shifted.



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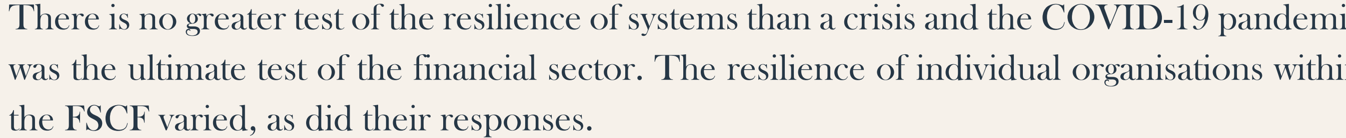
Navigating the effects of the pandemic on a human capital level was difficult. It is often said that people are at the heart of every business – spending time on launching initiatives to maintain staff health and productivity was vital. Yet, that was only half the job.

What remained was to execute on the very reasons companies are in business – to continue to deliver services to their broader clientele in the hopes of turning a profit. The next chapter seeks to understand how businesses were able to deliver financial services during a pandemic.

CHAPTER 4

Delivering financial services during a pandemic

Each stage of lockdown implemented by the government during COVID-19 brought challenges requiring innovative solutions to mitigate the impact of the restrictions on operations.



There is no greater test of the resilience of systems than a crisis and the COVID-19 pandemic was the ultimate test of the financial sector. The resilience of individual organisations within the FSCF varied, as did their responses.

This chapter seeks to document the plans, measures and responses taken by the FSCF members at organisational and individual levels. There was extensive communication during this period, which will be explored and how these engagements took place. The chapter also looks at the handling of cyber threats and triggers, and documents overall internal and external stakeholder responses during this period.

The purpose of this chapter is to identify and assess the role of operational risk in delivering financial services during a pandemic. Both the expected and unexpected consequences of the pandemic are explored, which leads into the following chapter that focuses on how this resilience served in supporting the South African economy.

4.1 Identifying the role of operational risk in delivering financial services

The South African financial services sector is resilient by design. Every organisation has appropriate operational risk management frameworks in place and the regulatory environment that envelopes the sector seeks to ensure the effectiveness of these structures. The unique attributes of the COVID-19 pandemic and the resulting responses by governments across the globe tested the operational resilience of the financial sector. While many organisations had prepared for various crises, few were ready for the full impact of COVID-19.

"The nature of two shocks are never the same, however they do reveal where there are systemic weaknesses, and COVID-19 hit an already weakened system."

Francois Gouws, CEO, PSG & Chair, ASISA

Organisations initially envisaged that their worst case scenarios around operational risk for the COVID-19 pandemic would be framed within the context of responses of the financial sector and global markets to previous viral outbreaks, such as the Severe Acute Respiratory Syndrome (SARS) in 2002 and the swine flu (H1N1) in 2009. Many interviewees indicated that the extent of the impact that would result from COVID-19 had not been anticipated.

The pandemic significantly impacted global financial markets, leading to increased volatility, an increase in trading activity, and a contraction in liquidity.[1] The widely implemented initial response to the pandemic used lockdowns as a means of curbing the spread of the virus. This heightened concerns around economic impact and the capacity of many businesses and organisations to continue operating during a period of uncertainty and instability.

How the financial sector managed operational risk during the COVID-19 pandemic

External event

The COVID-19 pandemic was an external risk event that impacted the operations of every firm within the global financial market system. Financial services sector operational risk management mechanisms have always been considered sufficiently robust to deal with crises emanating from within the financial sector, but the implementation of global and national level hard lockdown measures presented as yet unexperienced challenges.

Overall, despite the scenario changing, research respondents indicated that rapid adaptation and the adoption of COVID-19 transmission risk mitigation measures enabled their organisations to continue functioning.

"There was relatively swift organisational adoption of measures such as COVID-19 assessment, tracking, and monitoring as part of operational risk management practices."

Etienne Kruger, Risk Specialist, BankservAfrica

Processes and systems

A wide variety of processes form an essential part of the daily operations of all financial sector organisations. These processes have been developed over time and include robust control measures designed to mitigate the impact of a breakdown or failure. In the unlikely event of such a failure, however, these organisations also have well-tested business recovery capabilities that can prevent or limit the loss that would otherwise result.

To overcome the challenges brought about by the hard lockdowns, organisations were required to shift from on-site to remote working in order to sustain their operations. A rapid transition into the digital realm was required, and manual processes that required physical signatures or in-person interaction had to be re-invented.

As more of these embedded processes were executed remotely, envisaged increase in cyber attacks and cyber crime highlighted a need for increased cybersecurity measures. Data privacy concerns also began to mount as organisations no longer had the same control over end-point computers as would normally have been the case in branch and office environments.

Some research respondents indicated that the risk assessments undertaken during the pandemic on operating systems and facilities raised concerns, given the significant shift of individual and business consumers to online platforms. The market, in general, noted a significant increase in phishing during the hard lockdown periods, particularly relating to the procurement of urgent PPE, although the tactic was largely unsuccessful and the sector did not report any major cyber attacks. This success is attributed to ongoing efforts by organisations to strengthen their IT security, and extensive communication with consumers on how to avoid the potential pitfalls of online transacting.

People

Many respondents described the COVID-19 pandemic as being largely a people-related challenge. Work from home (WFH) strategies were rapidly deployed, with the primary focus being on ensuring that staff were able to continue performing their daily tasks remotely. The initial weeks were characterised by an emphasis on ongoing adherence to organisational procedures, practices and rules, while also ensuring that staff remained diligent and committed to their work. Traditional performance management practices proved inadequate or unsuitable in the new working environment as supervisory structures within organisations struggled to conduct real-world oversight on employees' activities.

The novelty of organisation-wide remote working quickly wore off, and was replaced with elevated levels of concern for the emotional and physical wellbeing of staff. Organisations started to note concerns about their employees' ability to sustain effective performance in a scenario where most were experiencing longer daily working hours.

Organisations had not, traditionally, been equipped or designed to provide large-scale emotional support to employees. As staff began to deal with loss of family, friends and colleagues due to the virus, alongside a host of other concerns relating to measures aimed at containing the pandemic, substantial investment in staff well-being was required. These programmes were also necessarily implemented remotely, further complicating matters.

Legal and compliance concerns

Globally, the financial sector is one of the most highly regulated environments. Organisations are required to comply with a number of laws and regulations, and adherence is diligently monitored by regulators. Every corporate citizen is also required to comply with state laws and regulations that fall outside the purview of the financial services regulators. During the pandemic, this included compliance with the national Disaster Act and the associated regulations.

During this time, affiliate organisations sought to collaborate in finding solutions to the operational risks arising from the COVID-19 pandemic. However, these efforts were constrained by regulations issued by the Competition Commission, which strictly prohibits collaboration amongst organisations competing within the same sector, without express approval.

How individual organisations found solutions during the pandemic

For many organisations within the financial services sector, the first port of call in dealing with the fallout of the pandemic was to invoke business continuity plans, particularly when it came to the disruption of the workforce. Most organisations had a limited capacity for staff to work remotely and operational risk management plans were adapted in a very short space of time to accommodate a large-scale shift to working from home. One challenge presented by this shift was the ability to quickly acquire the necessary tools and equipment to enable employees to work remotely.

4.2 How the financial services sector dealt with communications during the pandemic

Effective communication has always been a key element of the successful management of risk in times of crisis. The importance of reliable and timeous information was significantly heightened during the initial phases of the COVID-19 pandemic. For financial sector organisations to continue to operate effectively, accurate information from reliable sources was needed to understand the risks posed trustworthy sources was needed to inform decision-making with regards to risk management.

Research respondents indicated that the key information sources utilised included the South African Reserve Bank (SARB), the Financial Sector Contingency Forum (FSCF), the World Health Organisation (WHO), the South African National Treasury, and the COVID-19 National Command Council (NCC). Associations such as the Banking Association South Africa (BASA), the Payments Association of South Africa (PASA) and the Association for Savings and Investments South Africa (ASISA) established effective operational distribution networks using email, WhatsApp and SMS distribution groups to disseminate key information quickly and effectively.

Although the use of WhatsApp groups was regarded as an unofficial communication platform, it was effective in enabling real-time communication between individuals across the financial sector. This was especially true during the periods of hard lockdown where personnel were often engaged in multiple virtual discussions with regulators and counterparts to define and resolve risks to the sector, leaving minimal time to engage offline and discuss pertinent issues.

During this time, social media channels replaced traditional communication channels and, to some extent, this has enabled the exapnsion of the networks of key financial sector role players, resulting in unprecedented connection between officials and senior executives in the industry. Most importantly, this emphasises the utility of informal communications during a crisis as an efficient method of seeking guidance and the sharing of ideas and knowledge, which ultimately informs official decisions and actions.

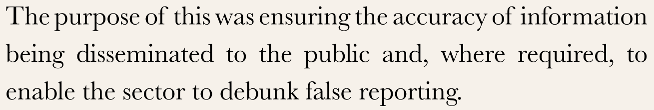
Throughout the pandemic, institutions performed various communication roles within the sector.

SARB remained an important source of information on measures to address risk in the financial markets, applying operational and concessional regulatory measures, and instituting key economic relief measures.

International associations and multinational organisations also provided valuable insights into measures taken in other jurisdictions to address particular threats as they emerged.

Initial challenges in communication across the sector meant that a collective decision needed to be made on whether to rely on information that was 80% accurate and on time; or on information that was 100% accurate, but that took time to assemble and validate. In the interests of expediency, it was often elected to rely on 80% accuracy, as circumstances changed on a daily basis.

BASA also reported having extensively monitored regulatory and media (including social media) communications to assist the banking sector during the pandemic.



The purpose of this was ensuring the accuracy of information being disseminated to the public and, where required, to enable the sector to debunk false reporting.

The key aspects of media reporting that were focused on included:

- the volume of media reports;
- the tonality (the extent to which reporting had a positive, neutral or negative slant); and
- the reach of the media reports, in terms of numbers of readers.

Media reports were also assessed to determine the potential organisational and sectoral risk they posed upon publication.[2]

4.3 Cyber threats and their implications during the 2019/2020 period

The financial sector experienced a higher number of cyber attacks than other sectors during the COVID-19 pandemic, and there were substantial risks from cyber attacks for financial institutions, their staff, and their customers. The causes or methods of cyber intrusion varied, resulting both from intended attacks and unintended incidents.[3]

It is estimated that at least 40% of cyber incidents are intentional and malicious.

Unintended incidents can include accidental disclosure, and implementation, configuring and processing errors.

Many of the research respondents highlighted the need for heightened cyber security and awareness of possible cyber threats during the pandemic. The rapid and widespread use of previously untested virtual meeting applications (such as Zoom and MS Teams), as well as concerns regarding the potential of increased exposure to phishing, data breaches, and denial of service attacks, emerged as a common theme among the respondents. Awareness training, for both staff and customers, and the review and strengthening (where necessary) of IT systems and protocols became a key focus.

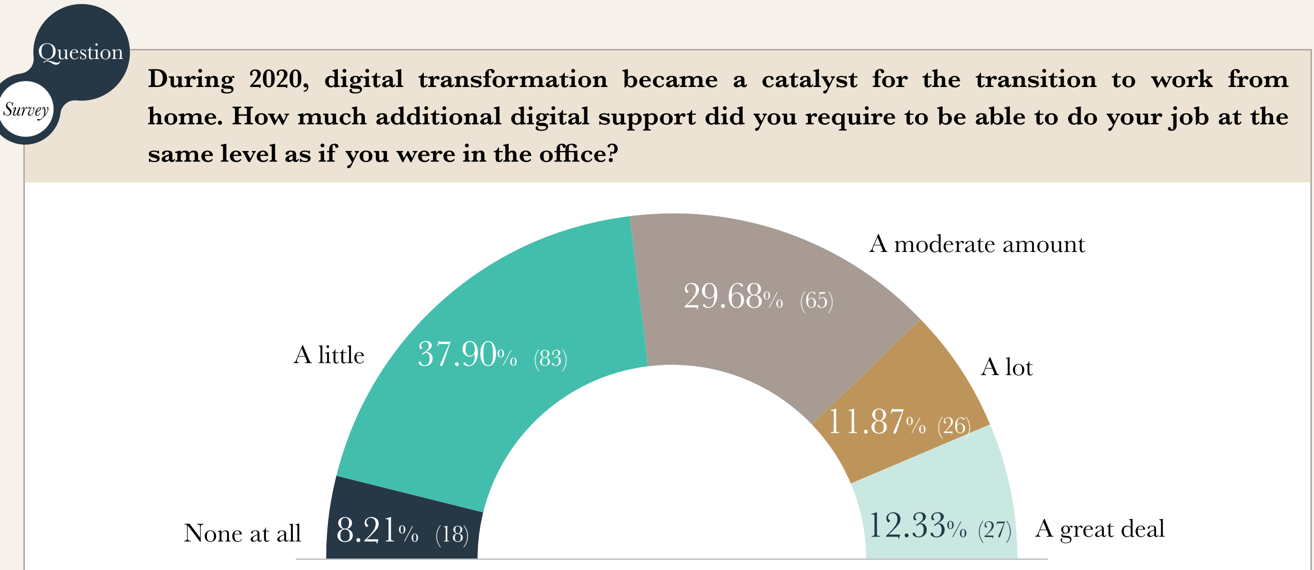
4.4 Expected and unexpected consequences from the pandemic

How organisations and people coped with the hybrid working environments

In recent years, the financial services sector has explored the utility and effectiveness of hybrid and remote working concepts, with the scope and scale being generally limited to small proportions of the workforce. Therefore, while the concept was not new within the sector, fulfilling the requirements that enabled a substantial workforce to perform duties remotely during the pandemic did present some challenges. These challenges included the limited availability of mobile devices and laptops, the need to ensure online connectivity for staff, and the need to provide equipment that enabled critical staff to continue to utilise their devices during periods when there was no electricity.

Research respondents indicated that one of the unintended negative consequences of the remote work scenario was that staff began working longer hours than was expected during normal business operations. This impacted the mental and physical wellbeing of staff, as has been covered extensively in Chapter 3. After the first six months of WFH, once the initial impact of the pandemic and organisational responses had subsided, matters started to normalise.

One of the positive unexpected consequences of the WFH phenomenon was large-scale organisational acceptance of a shift to remote working models. More than three quarters of respondents of the online survey indicated that the introduction of digital tools allowed them to continue to function at the same level as before.



2022 COEFS COVID-19 Quantitative Online Survey

Cash availability during the pandemic

In the South African economy, cash remains a dominant mode of transacting, owing in part to the fact that it is the most accepted means of payment within the informal sector. BASA has highlighted that South Africa remains a highly cash dependent economy, and that supply and distribution could not be interrupted even for the shortest time period. It was further indicated that, during the pandemic, one of the major concerns was the payment of social grants, and the need to make sure that cash was available for citizens when they needed it.

Kumaran Selvarajalu, Senior General Manager for Payments at BASA says, “To improve the infrastructure in the cash environment, you need collaboration and an appreciation that in this country cash is needed by a good 30 million people. It is also important to remember that an interruption in the supply of cash is an interruption in a critical system.”

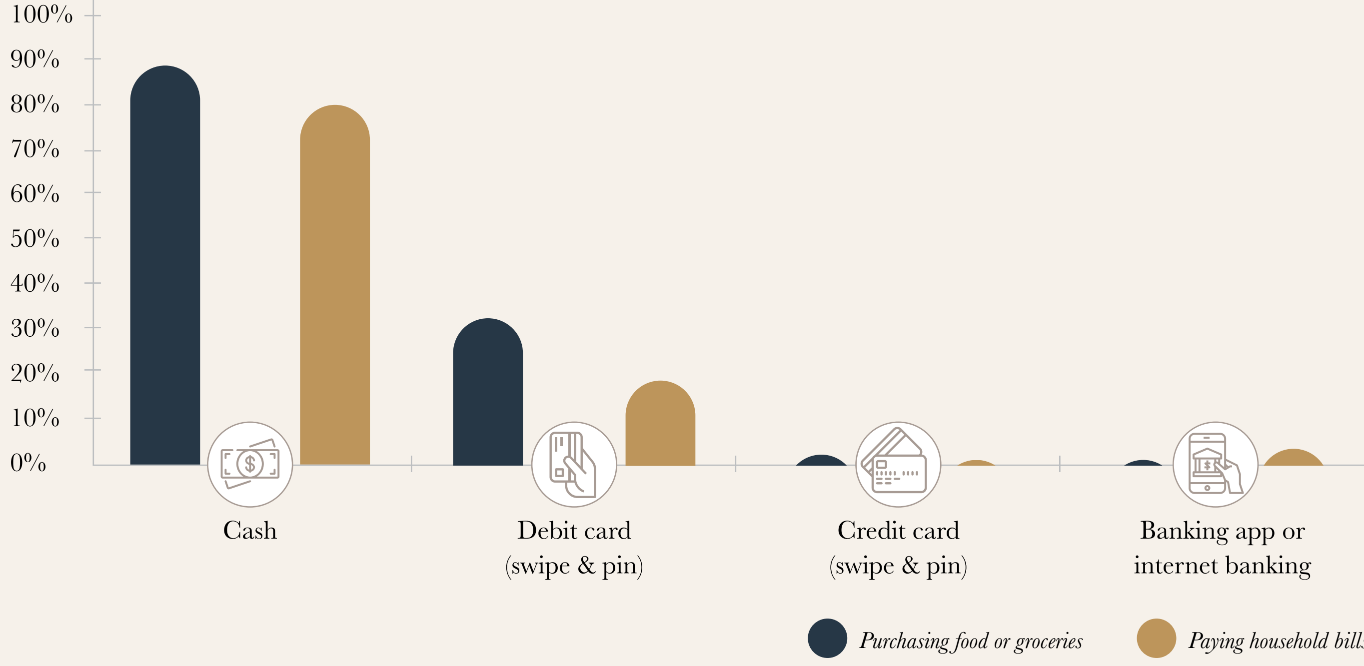
The preference for cash is informed by a number of things, including the ability to do direct settlement, anonymity and the absence of direct transaction fees, as indicated in the following figure. As there are no system outages or requirements for connectivity, cash is reliable and does not require either party to have a bank account or share banking details. Low-income individuals also prefer using cash because it is easier to budget and allows them to keep a real-time track on spending. Cash also presents a natural limit on spending, constraining temptation to spend beyond one's means using credit. Hence, despite growing shifts to digital and card-based payments, cash is likely to remain highly sought after in South Africa.

By adopting a conservative stance in relation to cash during the COVID-19 pandemic, the Reserve Bank was able to maintain the appropriate amount of liquidity, thereby avoiding inflation challenges later.

Cash as a preferred payment instrument

The proportion of adults that used a payment instrument

(% of all adults that reported a payment type)



Source: FSCA Financial Sector Outlook Study 2022 (Pg.81)

Working from home accelerated digital adoption

For many years, and prior to the arrival of COVID-19, the financial sector has been at the leading edge of technological advancements, and working from home increased the rate of adoption of communication, collaboration, and productivity tools that were already being explored.

The pandemic prescribed digital adoption at a speed and scale previously unimagined, giving rise to breakthroughs in areas that had not been considered before.

Commenting on the need to cross language barriers virtually, Billie-Jean Vertenten of SARB points out that it was necessary to embrace platforms featuring virtual interpreters.

WFH arrangements and the demand for online banking services has accelerated the adoption of new technologies and digitalisation in financial services. Outsourcing to third-parties, such as cloud services providers, has enhanced operational resilience at financial institutions.

In general, COVID-19 boosted digital financial services.

However, increased reliance on such services may give rise to new challenges and vulnerabilities. This reinforces the need to assess the financial stability implications of fast-paced financial and technological innovation and to ensure that supervisory and regulatory frameworks and approaches provide a solid basis for harnessing the benefits of such innovation, while containing the risks, under the "same business, same risks, same rules" principle.[4]

The use of alternative data sets to improve credit scoring and minimise risk in lending is a key development. Previously, information on a consumer's credit activity was solely provided by credit bureaus. However, with the use of alternative credit scoring, providers are able to combine data from multiple sources, such as airtime usage, mobile money usage, geolocation, bills payment history, and social media usage.[5]

Digital adoption has also allowed working from home to be much simpler and aided in its acceptance. During the less intense lockdown levels of the pandemic, and in its aftermath, many organisations have grappled with the question of which working model to adopt for the future.

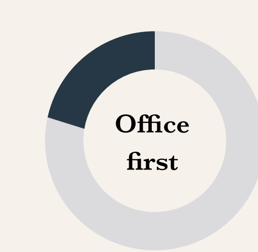
Thanks to a swathe of digital collaboration tools, any number of working models is now possible.

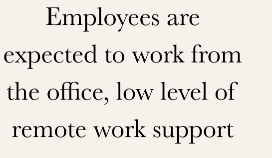
> "Collaboration tools was the one thing we made extremely good use of. We were forced to do it. But I think it's an innovation, we must cherish and use, and it shouldn't just be a COVID innovation."
>
> **Dr Rashad Cassim, Deputy Governor, SARB**

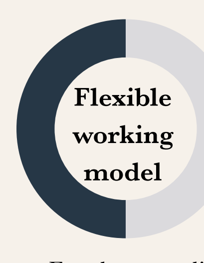
A post-pandemic survey conducted in the United States shows that, internationally, the working models for the future have changed.

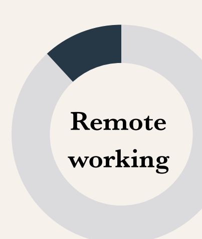
Post-pandemic, what working model are you expecting to implement for the majority of your employees, % of total

Survey respondents, n=18

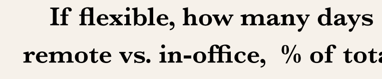


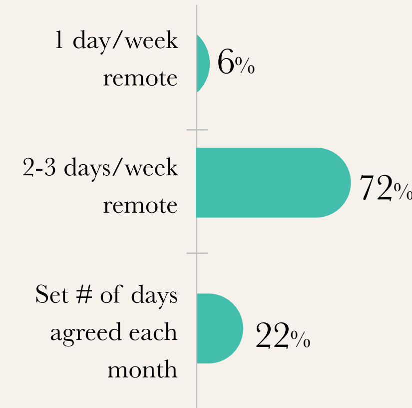






Employees are asked to worked from home as office operations are reduced to the minimum





Source: Managing through a pandemic: the impact of COVID-19 on capital markets operations (pg.13)

Regulatory response to the pandemic

Already a well-regulated and efficient industry, COVID-19 caused decades-old regulation to be stress-tested, requiring every element of the financial sector to be reviewed. For example, the significance of suspending competition rules, a cornerstone of any free market economy, cannot be understated.

The financial regulatory response was a key element of the stability of the financial services sector during the pandemic. Around the world, governments struggled to manage the impact both of the virus and of how measures to contain it closed down movement, and thereby economies. The government's primary response addressed health issues, but quickly the economic consequences became significant.

In South Africa, the cash environment bore the first blows, which consequently impacted the poorest citizens, and looking after them become a priority. One of the major concerns was ensuring that social grants were paid by the South African Social Security Agency. As one of its most crucial initiatives, BASA played an important role in using its mechanisms to ensure that cash was received in good time by grant recipients as and when they needed it. There were no major delays reported and no interruption in cash supply, a significant achievement at a crucial time for such a cash-dependent section of society.

Roy Havemann, Chief Director of Financial Markets and Stability, National Treasury indicated that the sovereign downgrade that South Africa had just undergone amplified the economic impact. Many regulatory bodies and associations became involved in multiple issues at this time. The importance of these discussions and decisions was to determine the solvency of some industries and sectors of the economy.

Havemann also indicated the importance of the SARB's role at this time. "We didn't have to intervene for solvency reasons," he says. "We were not allowed to disclose the exact timing of the purchases, but they were actually very low. The [SARB] didn't intervene heavily in the markets, they just announced they would. And then I think the stress evaporated, because I think the market felt up to that point that the Reserve Bank wouldn't be there."

The indication of support from key financial institutions played a significant role in calming stakeholders and the markets.

Ultimately, many coordinated partners collaborated and took specific measures to help stabilise the economy and ensure sufficient liquidity during the crisis.

"Central banks are in many ways designed for a crisis. In Africa, central banks have certain tools that almost no one else has in a crisis."

Kuben Naidoo, Deputy Governor, SARB
(who was also CEO of the Prudential Authority at that time)

Naidoo continues, "If there is anything I have learned in crisis management, it's that you have to have a coordinated approach. Now, a coordinated approach doesn't mean you have committee meetings for hours and hours and days and weeks on end. But you have to have a rough, loose sense that, especially between the Reserve Bank and the Treasury, and the Ministry of Finance, that we are talking, we are looking at the situation, we are understanding issues. That we are consulting with the banks, with the JSE, we are on top of what's happening in financial markets, and we are doing things in a relatively coordinated way. That's absolutely critical in a crisis."

In South Africa, the SARB took specific actions. "We shot four arrows," Naidoo says.

"There was a significant fiscal expansion; one which is passive which means tax revenue falls, but the other is active which means you are spending money on social grants, on TERS, UIF and those sorts of things.

The second arrow was that we dropped interest rates from 7% to 3.5%, we got by 350 basis points in the space of two and a half months.

The third arrow was these injections of liquidity into the markets.

And the fourth arrow was regulatory relief to the banking sector, Directive 3 of 2020, which allowed banks to restructure loans to give payment holidays or to forego interest payments for a certain period without those loans attracting a higher capital requirement."

The well-coordinated, integrated and managed approach by the financial service regulators gave the banks the tools to pass through relief to the consumers, without which the economy would have been impacted by the regulatory obligations of financial sector firms.

How COVID-19 induced changes in other industries

The pandemic caused many changes within the financial services sector, which induced knock-on effects in other industries. Many sectors were severely affected, and among the research respondents, the two sectors that were referred to consistently as major casualties of the pandemic economy were the airline industry and the commercial property leasing sector.

In the case of the airline industry, regional and international working visits, for so long a staple of the interconnected global financial sector, were completely shut down. Digital communication came to the fore, obviating the need for airline trips to attend conferences and meetings.

With many companies considering a full-time hybrid working model for employees, the need for expansive office space was significantly reduced, and this had a negative impact on the commercial property leasing sector. A number of interviewees reported that with a reduced workforce at the office in a post-pandemic world, the utility of having such a footprint needed to be reviewed, driving a move away from the leasing of commercial property and therefore impacting the value of these properties

Supporting a troubled economy

Regarding the ability of the financial services sector to address the pandemic, the overall response was one of agility, operational resilience and new models and solutions. While the sector itself was well-covered, external markets and other sectors within the economy suffered, and continue to face challenges. The following chapter explores the impact of the financial sector's activities in supporting the economy at large.

Endnotes

1. Carlos Cantú et al. (30 March 2021). 'BIS Working Papers No 934 A Global Database on Central Banks' Monetary Responses to Covid-19'. Basel, Switzerland: Bank for International Settlements. p2.
2. TBC.
3. BIS Bulletin. (14 January 2021). No.37: COVID-19 and cyber risk in the financial sector.
4. SARB. (27 May 2020). 'Financial Stability Review First Edition 2020'. [Online]. Pretoria, South Africa: SARB. Available: https://www.resbank.co.za/content/dam/sarb/publications/reviews/finstab-review/2020/9956/FSRMay2020.pdf. p. 9.
5. Genesis Analytics and FSCA. (2022) '2022 Financial Sector Outlook Study'. Pretoria, South Africa: Financial Sector Conduct Authority. p78.

CHAPTER 5

Supporting the economy during COVID-19

The COVID-19 pandemic was a test of market and institutional resilience. In the face of the crisis, a series of regulatory and other measures to support the financial sector were taken.

The measures taken included prudential flexibility, debt moratoria, and the treatment and classification of non-performing loans.

There were also various regulatory measures introduced by the regulatory bodies, combined with collaborative efforts of the associations and FSCF members, as well as individual actions taken.

This chapter seeks to document the impact on the financial market of the pandemic, examine the measures taken in response by the FSCF members and the financial sector, and to assess the effectiveness of these measures and their overall influence on the South African economy.

5.1 Identifying general measures in South Africa

The hard lockdown was accepted as global best practice in light of COVID-19 case numbers around the world. However, the hard lockdown hampered South Africa's economy by bringing the physical movement of consumers to a complete standstill.

The lockdown, and its various alert levels ranging in severity, were a response to a health emergency and did not, by definition, have to account for their economic impact. The wording of the Disaster Management Act sought to justify its invoking of the lockdown by stating that it was being put in place to "assist, protect, and provide relief to the public." Further wording showed that the Act sought to "protect property and to combat disruption while dealing with the destructive effects of the disaster."[1]

The relevant arms of government launched a raft of regulatory measures to help the economy in the face of the lockdown, such as the COVID-19 Loan Guarantee Scheme, Temporary Employee Relief Scheme (TERS), payment holidays, lowering of capital and liquidity ratios.

Was it enough for businesses to rely on government interventions?

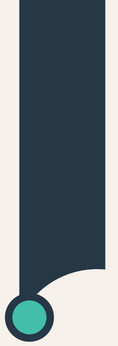
Considering the discretionary support measures launched by private businesses, the answer to this question is a resounding no. For the financial services sector to survive, as part of an interconnected whole, it had to step in to assist where possible. The sector received permission to work as an essential service, but this was cold comfort as its downstream customers were not able to function.

Companies from industries deemed non-essential soon found it impossible to operate without cash flow. Businesses faced with no income were forced to retrench staff or introduce short-time. Many were unable to cover their overheads, such as rent. Landlords in turn were unable to meet their own monthly obligations, such as municipal rates and taxes, electricity charges and mortgage repayments.

It was clear that companies and trade associations across the breadth of the sector would have to act in solidarity with the country's interests in mind, even if it meant facilitating programmes with their own money.

Providing cash to the economy

In South Africa, the cash environment was severely impacted, which consequently impacted the poorest citizens, and looking after them become a priority. The Banking Association South Africa (BASA) displayed exemplary effort in getting government and stakeholders together to find solutions, one of which was to facilitate cash pay outs of social security grants to the unbanked members of society.



"The prerogative was very clear, cash supply and distribution could not be interrupted even for the shortest time period. One of our major concerns of course was SASSA and the payment of social grants. I'm very proud to say that, up until now, there has been no interruption from a cash supply and distribution point of view."

Kumaran Selvarajalu, Senior General Manager For Payments, Banking Association South Africa

Stemming the tide of job losses

Many firms in the financial services sector took up the challenge to retain staff, in order not to add to the job losses. While it was not always possible, many business leaders attempted to keep all their staff on through this difficult time, though this came at cost to the firms.

Protecting staff in other ways

Many companies also were able to assist staff in ways that were not considered the norm. Shresti Bijou, Head of Risk at Firstrand Group describes how they decided to cut out the red tape of paying death benefits to staff, which was "normally quite an arduous process." Rather than following the regular processes that apply to such payments, a decision was taken to "pay out the benefit on the provision of certain minimum documents without waiting for clearance from the underwriter." Some companies reported going to great lengths to arrange transport and accommodation for staff, putting them up in hotels at the company's expense when quarantining safely in their own homes was not possible.

Protecting vendors

Other companies tried to help members of their value chain by paying vendors faster and, in many cases, by paying vendors for work that was not rendered. As many industries were deemed not essential, their funds quickly dried up. Hence, the relief provided by the members of the financial services sector kept their businesses afloat during this time.

Evidence of working outside their normal scope

Some firms took it upon themselves to offer civic services. For instance, Discovery Health launched an information website that was very well-received by the public.

"We set up this COVID-19 information hub on the Discovery website, and we wrote to about 5 million members. What we didn't expect was the volume of traffic. Our cyber security systems blocked the traffic as a denial of service attack to our website."

Dr Ryan Noach, Chief Executive Officer, Discovery Health

Vaccination sites

Many firms launched their own vaccine sites. They provided real estate and disposables at their own expense to allow people to be vaccinated in order to get back to work.

5.2 The regulatory measures put in place during COVID-19

In the face of the wide-ranging and deep social and economic effects of the COVID-19 pandemic, the various South African regulators, working within their mandate, took decisive action using monetary policy and a variety of regulatory tools at their disposal in order to limit the impact that the crisis had on the South African economy.

The summaries below highlight a number of the key measures introduced to address the impacts of the COVID-19 pandemic during the period under review:

South African Reserve Bank

The South African banking system has long been recognised as both strong and resilient with adequate levels of capital and significant liquidity buffers to manage stress.

This became critical when the banking sector was called upon in the early stages of the COVID-19 pandemic to continue to extend credit to sectors in need, particularly households and small businesses.

In the face of growing pressure on market liquidity and the supply of term funding, the Prudential Authority (PA) deemed it appropriate to temporarily amend the minimum requirements relating to the liquidity coverage ratio (LCR) to provide some liquidity relief.

Considering the extent of the pandemic's impact on the South African economy, various sectors of the economy required sector-specific assistance. Given the importance of the banking sector's role in the economy and the additional reliance placed upon it in the context of the pandemic, the South African Reserve Bank (SARB), through the PA, issued at least three directives to support the sector.

Directive D1/2020

Directive D1/2020 was published on 31 March 2020 and allowed the banks to comply with a revised minimum LCR requirement of 80% with effect from 1 April 2020 until the PA was of the view that financial markets had normalised.

This directive was issued in response to calls from both government and business for the banking sector to continue to extend credit to small businesses, households and other sectors in need, in an effort to sustain the local economy and maintain financial stability. The banking sector's response to this call, together with a slowdown in economic activity, was expected to reduce bank profitability, and negatively impact capital supply and the ability of banks to meet their specified minimum required amount of capital and reserve funds.

Directive D2/2020

On 6 April 2020, the PA introduced further temporary capital relief measure contained in Directive D2/2020, which allowed for:

- the relaxation of Pillar 2A capital requirements to zero.
- consequential adjustments to qualifying capital and reserve funds. Limits making reference to qualifying capital and reserves (such as large exposures and threshold deductions) could be calculated on the adjusted amount of qualifying capital and reserves.
- banks being allowed to utilise the capital conservation buffer. The additional loss absorbency requirement that had been built up in terms of regulations would serve as an extension of the capital conservation buffer. The temporary relaxation of these requirements would make capital and reserve funds available to banks before any need to draw down against the capital buffer arose. Banks would, however, be required to consult with the PA in the event that the capital conservation buffer needed to be used.

As part of Directive D2/2020 the PA made it clear that the banks would be expected to act responsibly and that the relaxation of minimum required capital and reserve requirements were not intended to allow banks to distribute earnings in the form of dividends on ordinary shares or bonuses. Ordinary share buy-backs during this time were also discouraged by the PA.

The PA's directive essentially allowed banks to conduct business with 0% of the Pillar 2A capital requirement as set out in regulation 38(8)(e)(ii). This directive provided temporary capital relief to banks to enable them to counter prevailing economic risks to the financial system as a whole, and for individual banks.

Directive D3/2020

Directive D3/2020 was also issued on 6 April 2020 and dealt with matters relating to the restructuring of credit exposures as a consequence of the COVID-19 pandemic. Specifically, the PA expressed its support for a variety of relief measures being implemented by the banks to reduce the strain on households and small businesses. This directive focused on enabling banks to continue to extend credit to the real economy during the period of the pandemic without creating the need for inappropriate, higher capital requirements while maintaining overall credit risk standards:

- Without the concessions granted by the PA under this directive, the restructuring of loans would, ordinarily, have resulted in the probability of default (PD) for each of these loans being negatively impacted with resultant impacts on the amount of capital and reserve funds needing to be held against the banks credit risk exposure.
- Provided the bank was satisfied that the restructuring of the loan was due to COVID-19-related factors and could be reasonably certain that the loan would remain in an up-to-date status once the relief period had ended, these loans could be classified as "COVID-19 restructures".
- "COVID-19 restructures" would attract the same risk weighting as the same loan would have prior to the restructure and would therefore not be classified as distressed.

This PA directive was issued in response to payment holidays being offered by banks to certain borrowers in an effort to mitigate the impact of the pandemic. Payment holidays are considered as restructuring of debt, which is governed by specific regulations. The PA recognised that these initiatives were not being driven by profit motives, but rather by banks' corporate responsibility. Therefore, the PA gave banks the necessary regulatory support to provide relief to customers to minimise the adverse economic impact of COVID-19, while still applying sound risk management practices.

Impact and effectiveness of these measures

The SARB directives provided critical financial flexibility to the banking sector that would have been absent had the pre-pandemic banking regulatory framework remained unchanged. These directives provided the scope for the banking sector to ease regulatory capital requirements, freeing up more capital to provide credit and meet other capital demands, as well as providing the scope for banks to offer consumers key support, such as payment holidays.

According to figures reported to the SARB in February 2021, nearly a year after the implementation of the first hard lockdown, banks had provided R293 billion in financial relief to their customers, of which R165 billion was for corporate customers and R128 billion for retail customers. This accounted for 5.8% of the total corporate and retail banking credit exposure at the time. According to reporting by BASA, 84% of individuals and 95% of commercial, small and medium enterprises who requested help from their banks were assisted.

The SARB publicly confirmed that it would not be withdrawing any banknotes or specie from public circulation and re-assured the public that there was no evidence at that time that the COVID-19 virus was being transmitted through the use of banknotes or coins.

The SARB continued to adjust the repo rate in order to make it easier for borrowers to meet their financial obligations.

BY 22 MAY 2020 THE REPO RATE HAD BEEN REDUCED TO 3.75% and remained at this level throughout the extended pandemic period.

The SARB also made additional liquidity available to the banking sector. By increasing the size and duration of repo facilities and by purchasing government bonds the SARB was able to help ensure the continued smooth functioning of the financial markets.

National Treasury, the South African Reserve Bank, and the commercial banks

The Loan Guarantee Scheme was born out of a partnership between National Treasury, the SARB and the commercial banks. The scheme was designed to provide small and medium sized enterprises with access to loan funding that would enable them to continue to meet ongoing operational expenditure. Businesses with an annual turnover of R300 million were eligible to apply.

COVID-19 Loan Guarantee Scheme

The COVID-19 Loan Guarantee Scheme provided loans, substantially guaranteed by government, to eligible businesses to assist them during the COVID-19 pandemic. Funds borrowed from this scheme through the banking industry could be used for operational expenses, such as salaries, rent and lease agreements, and contracts with suppliers.

The National Treasury, the South African Reserve Bank (SARB) and commercial banks, represented by The Banking Association South Africa (BASA), agreed on the relevant legal framework, and financial and operational requirements of the COVID-19 Loan Guarantee Scheme.

Government and commercial banks shared the risk of non-repayment of these loans. The National Treasury initially provided R100 billion to the banking industry through the SARB, with the option to extend the scheme to R200 billion if required.[2]

However, only 25% of applications received were approved as businesses had to be in good standing. Also, small businesses were reluctant to incur further debt with uncertainty around the pandemic's end.

Department of Labour / Unemployment Insurance Fund

The COVID-19 Temporary Employee Relief Scheme (TERS) was created to assist employees who had lost income due to COVID-19. The scheme was tailored to those who:

- had not been able to work at all;
- were working short-time or reduced hours; and
- had suffered temporary salary reductions related to the operational requirements of the employer.

Regulatory reporting requirements and on-site

A number of regulatory reporting requirements were relaxed during this time with the Financial Sector Conduct Authority (FSCA), the PA and the National Credit Regulator (NCR) all issuing notifications to grant regulatory subjects some leeway in the submission of identified standard reports and returns.

In addition, structures were announced to temporarily move away from planned on-site inspections/reviews to virtual or desktop oversight structures.

Pension funds

In recognition of the challenges faced by many employers, the FSCA provided for the temporary suspension of monthly contributions to pension funds by both employers and employees under financial stress. In some instances formal rule changes to the relevant pension funds were required and priority was given to specific requests for such rule amendments.

5.3 Identifying other measures to support the banking sector

The preceding sections of this chapter give evidence of the general and regulatory measures that were implemented to support the South African economy. This section is focused on identifying measures that were implemented that either uniquely benefitted the banking sector or where the banking sector was part of only a select group of sectors in the economy that benefitted from the measure.

Besides the significant role of central banks in economies around the globe, the banking sector is one of the most important financial subsectors. Banks provide a wide array of products and services, but the simplest explanation of the role of the banking sector in the economy is that banks are intermediaries between depositors, who effectively lend their money to the bank, and borrowers, to whom the bank lends money.

Within the context of the COVID-19 pandemic, the banking sector played a critical role in ensuring the ability of consumers and organisations to transact and access services, both digitally and physically.

Some of the other key interventions that the banking sector undertook during the pandemic were:

At a time when many consumers were facing a situation of reduced income or none at all, banks stepped in to provide payment holidays to qualifying customers.

Banks also supported corporate customers, some of whom were significant employers. The banking sector cash flow relief for eligible individuals and businesses was seen as being critical to the preservation of quality of life, jobs, businesses and a functioning economy.

In a crisis such as the COVID-19 pandemic, the banking sector is often negatively affected by the fallout of market reactions. Some would argue that the unique attributes of the COVID-19 pandemic, for example, the need to shutdown significant parts of the economy, meant that the pandemic had an even greater negative impact on the banking sector than the global financial crisis of 2008.

During the pandemic, BASA noted that banks had already been under pressure due to the economic crisis in South Africa and the sovereign credit rating downgrade.

In addition to these challenges, banks' earnings were estimated to be down by at least 70% for the first half of 2020, credit losses were expected to be much higher than during the global financial crisis, and banking shares were down by at least 40%.

Against the backdrop of the banking sector and economic context outlined above, the banking sector welcomed any measures that would enable it to continue to operate and support its customers. The details of some the key support measures that assisted the banking sector during the pandemic are outlined below.

The results of the sector's essential service status

Being classified as an essential service enabled banks to continue to operate and support their customers during the pandemic, and support other key financial transactions. This designation enabled banks to continue to provide limited in-branch services, enabling individual and business customers to seek assistance where required. Furthermore, the essential service status allowed banks to continue providing the established convenience of automated teller machines (ATMs). This was critical, as there are still areas of commerce within the structure of the South African economy where cash remains the primary means of transacting.

Even so, the banking sector faced significant pressures during the initial phases of the pandemic to stabilise their own operations and to continue to provide essential financial services to the public. There was significant pressure from the state for banks to continue extending credit in a period of great uncertainty and instability in the economy at large, as well as within the financial sector specifically. Without the additional support provided by the SARB, it is unlikely that the banking sector would have coped with the growing demand from customers for payment holidays, or been capable of providing the extent of credit support to customers that it did.

A shift to digitalisation and online platforms

The pandemic saw a significant shift of banking consumer activity to online platforms, a factor that somewhat reduced the pressure on in-person services at a time when limitations on the capacity at business premises and social distancing requirements meant that banks were operating at significantly reduced staff levels. However, the fact that selected bank sites remained open meant that customers were still able to access those services that required in-person interaction.

A review of the Loan Guarantee Scheme

Few measures garnered as much attention as the Loan Guarantee Scheme. Through this initiative, banking sector support enabled the consideration of nearly 50 000 applications, of which 26% were approved and taken up by banks. According to BASA, of the R18.4 billion in loans approved and taken up by banks, around R15 billion went to small businesses and overall nearly 82% of the loans went to enterprises with a turnover of up to R20 million.

Overall, demand for the scheme was curtailed by the fact that qualifying business owners were reluctant to take on more debt in a weak and uncertain business environment, and some had already made financial relief arrangements directly with their own banks. However, it is important to note that whatever was achieved under the scheme would not have been possible without support from and collaboration with the banking sector.

Impact and effectiveness of these measures

In assessing the impact and effectiveness of the support measures directed at the banking sector it is also important to contextualise the economic challenges facing the South African economy before the onset of COVID-19. Prior to the pandemic, South Africa was already dealing with the effects of a sovereign credit rating downgrade, unreliable electricity supply, low growth, and high unemployment. The country could ill afford a banking crisis on top of these challenges.

Overall, the support measures had the desired impact, and can be considered effective. They enabled banks to continue providing essential financial services, gave banks the scope to implement extraordinary measures to support their clientele, and assisted in maintaining the financial stability of the banking sector and the economy at large.

However, a more detailed analysis of impact may still be required, particularly from the perspective of quantifying the impact of the measures actually implemented against what might have been the case if these measures had not been implemented at all. Additionally, to define the true extent of the impact it may be useful to undertake a comparative analysis of similar economies that undertook similar measures.

5.4 Economic impact of COVID-19 on the FSCF members

On the whole, the financial sector demonstrated resilience to the pandemic, emerging with minimal disruption as a result of scenario planning, crisis preparedness and risk mitigation strategies and procedures.

A common positive impact on the financial sector was the rapid uptake of already planned digitalisation, including measures of operational efficiency as well as customer products and services. The move to remote working proved relatively seamless, and operations continued much as they had pre-pandemic.

However, the social isolation of working from home, highlighted the importance of employees' mental wellness, and acknowledging collective grief at the shock of the pandemic and the loss of colleagues, family and friends.

In some parts of the financial sector ecosystem, the loss of face-to-face engagement with customers also proved challenging.

Economically, in most cases the financial sector recouped earlier liquidity losses and continued with "business as usual."

"One of the most important outcomes from a business continuity point of view was a leapfrog in terms of our resilience."

Billie-Jean Vertenten, Divisional Head In Risk Management And Compliance, SARB

South African Reserve Bank (SARB)

Like most other organisations, SARB moved to remote working and put together virtual online programmes for their staff that addressed the impact of the pandemic on their mental health. SARB maintained all of their critical processes, some of which needed to be slightly adapted, and maintained continuity with their stakeholders.

Around the onset of the pandemic, there was a liquidity squeeze in the capital market, specifically on bonds and market money. The SARB introduced a number of changes to monetary policy operations to inject liquidity, which made it easier for banks to extend credit to clients.[3]

The CSA engaged with the FSCF NBC to look at regulatory instruments to assist the members in this scenario. International regulations were reviewed and used as a basis for local regulations.

Commercial banking

Overall, the banking industry was resilient to the challenging operating environment, and although profitability decreased, banks remained well-capitalised.

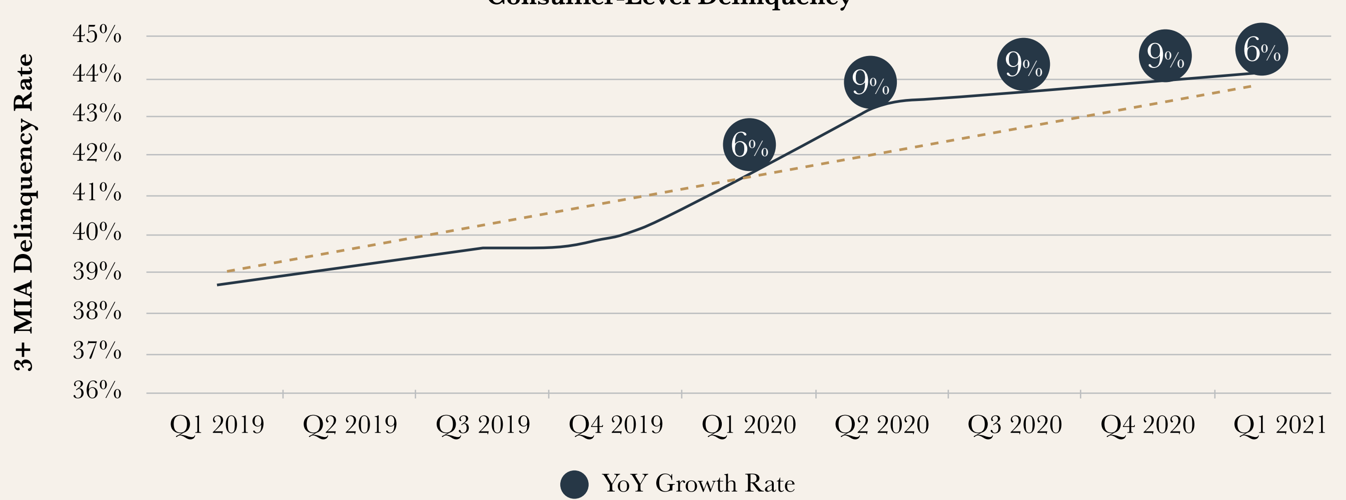
"The psychology of what was possible changed the way we think on a permanent basis."

Mark Brits, Senior General Manager, BASA

Commercial banks provided R293 billion in relief to their customers (R165 billion corporate; R128 billion total retail).[4] Under the COVID-19 Loan Guarantee Scheme, over R18 billion in loans for small businesses had been approved.

There was a drastic increase in non-performing loans (NPLs) which contributed to the steep decline in profitability, from R83 billion in 2019 to R34 billion in 2020. This was further compounded by the lower interest rates, and non-interest revenues.[5] Consumer delinquency has shown significant growth since the start of the pandemic.

Despite relief programmes, consumer delinquency has shown an increase since Q2 2020

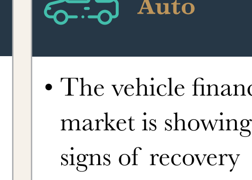


Includes all credit active consumers who have missed 3 or more payments on any of their open accounts, including accounts in legal.

Source: TransUnion South Africa consumer credit database

Consumer Delinquency Rate

As can be seen in the below figure, credit card, mortgage loan, personal loan and retail account holders felt the financial pinch, and a growing number of consumers missed three or more payments on their accounts. Credit cards have been used to fund daily living expenses, leading to an increasingly large balance with outstanding balances increased by 8% and exceeded by 22%. There has been some recovery in auto finance and credit customers, driven by tightened policies.[6] Vehicle finance origination growth has returned to pre-pandemic levels and average loan amounts increased significantly because of a move towards larger vehicles.



Product	Credit card	Auto	Mortgage	Personal Loans	Retail Accounts
Key Insights	• Origination volumes drop significantly resulting in muted balance growth. • The most recent version is performing better as lenders implement tightened policies and book lower risk borrowers.	• The vehicle finance market is showing signs of recovery as the rate of originations decline and delinquencies improve. • Balance growth has been driven by higher new account loan amounts as consumers shift toward higher prices vehicles.	• Interest rates have improved affordability and fueled a growth in originations. • Delinquency rates continue to deteriorate.	• Balances remain subdued as originations continue to experience double digit negative YoY growth. • Delinquency deterioration has accelerated as consumers take strain, however, the most recent vintage indicate better book quality.	• Origination growth has been waning even before COVID-19. • Delinquency rates continue to deteriorate as financially impacted consumers need to prioritise payments.

Source: TransUnion South Africa consumer credit database

Perspective on the credit marketplace

For commercial banks' customers, the COVID-19 pandemic accelerated the adoption of technology and digital financial services, and increased the number of digital payment methods. Many customers who would have previously completed certain transactions at branches migrated onto digital platforms. There is also no longer a standard expectation of how banks engage with their customers – face-to-face is one of a multitude of options, including email, WhatsApp, website and chatbots.

The adoption of remote working and online meetings has changed the fundamental value of associations, many of which had dozens of boardrooms for in-person conversation. With this style of congregation now gone, many were required to rethink how to structure interactions going forward. The office allows a different experience of social networking and gaining the social capital integral to building relationships. Therefore, some banks now support a hybrid working model, with people working on premise two to three days a week.

Traditional workspaces are making way for "hot desks" and collaborative spaces. There is a noted difference in productivity, engagement and collaboration, with the expectation that working from an office space is different from eight hours a day spent at home at a desk. There is an acknowledgement that time spent away from the desk and chatting with colleagues is a vital part of work life and necessary for forming and maintaining valuable connections.[7]

Retirement fund industry

There was an increase of 21.5% of pension funds applying for liquidation in 2020.[8] This was mostly attributed to smaller businesses who could not meet their employer contribution payments. To mitigate these challenges, the FSCA enabled a number of relief measures, which included reminding funds to apply rules allowing for the suspension of paying pension fund contributions, and a reduction of pensionable service where employees were working fewer hours.

The Pension Funds Amendment Bill amended the Pension Funds Act of 1956 to enable pension fund members to access a percentage of their pension fund before retirement as guarantee for a loan.[9]

Financial advisories and intermediaries industry

A number of Financial Advisories and Intermediary Services' (FAIS) licences lapsed as a result of some Financial Services Providers (FSPs) closing their operations in 2020. There was consolidation in the market, and older sole traders were forced to retire early.

On a positive note, the move to an online, digital customer interface meant more advisors could reach their customer base more regularly and efficiently.

Similarly, digitalisation has widened the scope of products and services available for customers, and has allowed customers direct access to investment products at reduced costs.

Insurance industry

Contingent Business Interruption Claims had the biggest impact on the insurance industry, particularly in terms of public opinion. In 2020, the perception was that smaller shops and businesses, especially in the tourism industry, did not get paid out. Insurance paid out all Business Interruption Claims, but not Contingent Business Interruption Claims that were related to a clause that covered localised infectious diseases. However, a National State of Disaster called by the government and a global pandemic were not insurable.

There were expectations from regulators and National Treasury, who demanded the industry pay out, but there was an equal need to remain solvent.

The matter was settled in court and clarity was given to specific wording. Yet, because of this ruling, it will now be difficult to get any cover on contingent business interests or any infectious diseases in the future – there is no reinsurance cover.

Crucially, the value of non-life insurance has been emphasised as the money that was put back into the pockets of businesses to start doing business again, or to enable credit that made it possible for employers to carry on doing business.

Payment providers

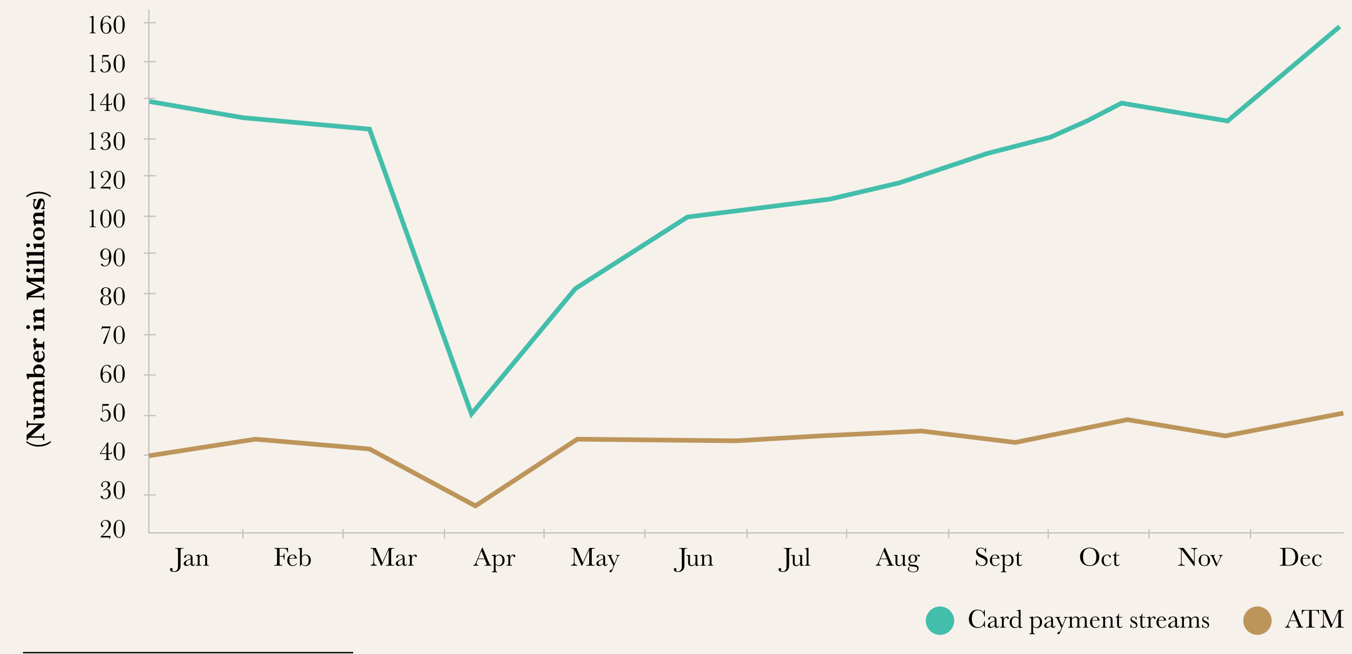
A BASA COVID-19 Cash Response Team (CRT) was constructed on 17 March 2020 and was responsible for the management of all issues related to cash on a pipeline basis, receiving issues on the cash supply chain and other issues that might impact the banking industry and partners. The CRT was also responsible for the provisioning of industry positions on cash to the appropriate BASA channels, to integrate and align with the national agenda.[10]

However, there was a unique situation in that businesses that generated money through ATM transactions and the movement of cash were severely impacted by the hard lockdown. During the pandemic, more consumers adopted digital payments to avoid handling notes and coins, and card transaction volumes grew. By December 2020 volumes were higher than January of that year.

The total value of payments made between 2019 and 2020 decreased by 1.3% from an average of 12.5 trillion to 12.4 trillion as a result of national lockdowns that reduced spending.

There was an expected drop in payment activity in March and April 2020, but as lockdowns eased consumers began transacting again, as illustrated in the following figure.

The total volume of card payment streams and ATM transactions



Source: 2022 Financial Sector Outlook Study. FSCA. p.86

Volume of card payment systems made on a monthly basis in 2020

There was a close working relationship between the South African Banking Risk Information Centre (SABRIC), SARB, the cash centres, and the movement of cash. At any given time during that period, they knew the number of ATMs that had been cashed out, and which areas were cashed up.

Crime-wise, the hard lockdown reduced violent crimes, robberies and cash in transit heists, but there was an increase in online financial crimes, such as phishing emails, and other scams on digital banking platforms. SABRIC reported a 22% increase in debit card fraud for 2020, while on a more positive note, credit card fraud decreased by 7% in the same year. The increase in debit card fraud can be attributed to increased debit card transactions on e-commerce platforms, which made the digital payment method more susceptible to phishing attacks and scams.[11]

South African Banking Risk Information Centre (SABRIC)

Crime risk is a subsection of the operational risk management that SABRIC already engaged in prior to the COVID-19 pandemic. Therefore, a safe space already existed for their members to exchange information and talk about potential risks. Under normal circumstances, this would have been deemed as competitive information, but as people responsible for the physical security within their organisations, the conversation was not competitive – it was a risk management conversation between risk practitioners.

One of the key issues that emerged was that within the law enforcement sector, a key stakeholder, many officers did not have access to the internet, other than what they paid for themselves. Many investigators did not own laptops or computers, so when it came to investigations, they were not only apprehensive of technology, but were also unable to access the system or be contacted.

Capital markets impact

Capital markets around the world do not operate in isolation of one another. It is clear that the initial impacts of the COVID-19 pandemic had begun to influence the South African market at the same time as the first cases of the virus were being detected in the country. Internationally, the early part of 2020 was characterised by historically large and rapid declines in asset values across the board.

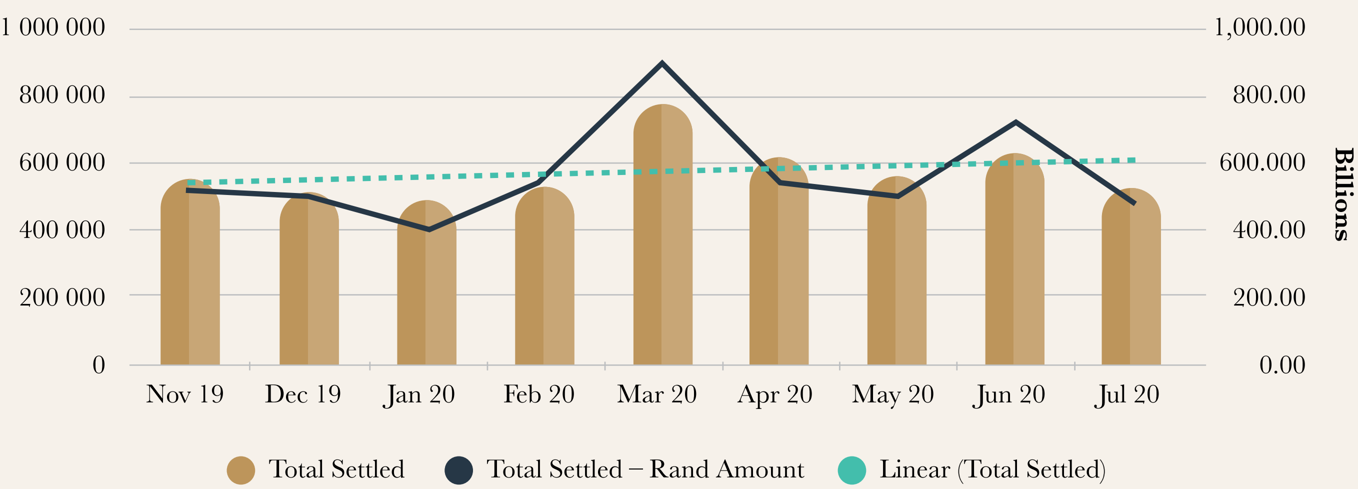
The tide started to turn as major economies introduced stimulus packages, yet this did not shield emerging markets from reallocations of capital between markets and asset classes, which were also larger than usual and with clear

shifts in maturity timelines. Pre-COVID-19 macroeconomic conditions, such as lower sovereign risk ratings and higher levels of openness, as well as expectations regarding the implications of remediation measures being undertaken by governments, contributed significantly to the capital flows that were witnessed during the pandemic. The persistent dislocation being experienced in the South African bond market during March 2020 led to a decision by the SARB to actively intervene on 25 March 2020. The announcement of the SARB bond-buying programme was unique and without prior indication, focusing on addressing financial stability concerns.

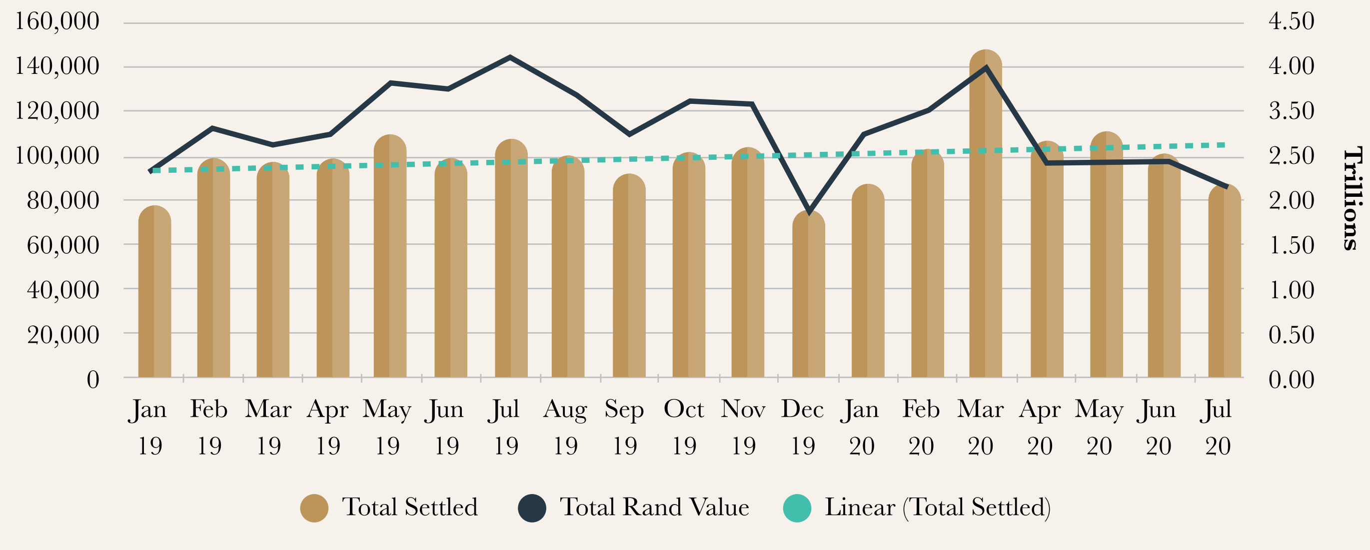
While the immediate intraday impact of the announcement and the initial bond purchases were insignificant, the overall effect of the actions were successful in shoring up market confidence, addressing the dislocation in the government bond market and improving overall liquidity management. The actions of the Federal Reserve during this time also played an important role in helping to support the actions of the SARB and stabilising the South African bond market overall.

The graphs below provide a high-level overview of the activity in the equities, bond and money market environments during the pandemic period, illustrating clearly the significant impact on both volumes and the value of trades during March 2020 in particular.

Total Equities Settlement Nov 2019 - Jul 2020

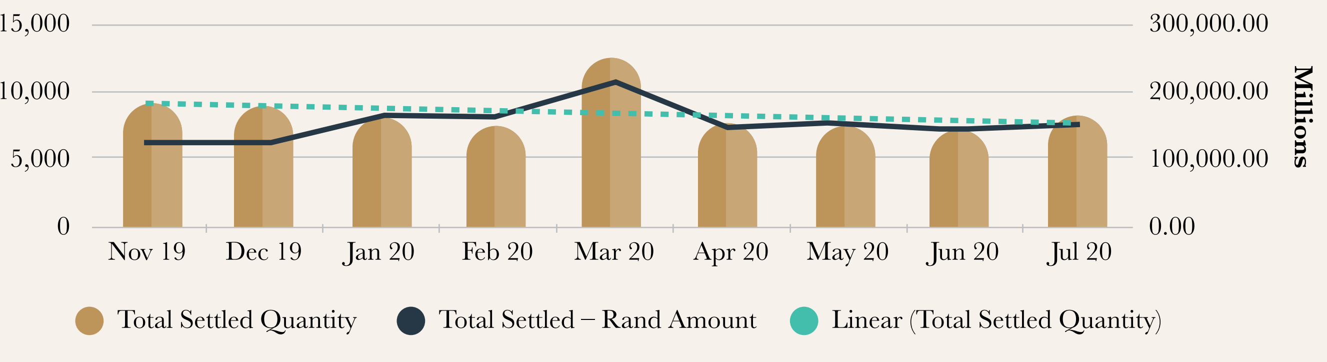


Total Bonds Settlement Jan 2019 – Jul 2020



Source: Strate. August 2020. "SA Financial Market resilience - How does Strate fare?"

Total Money Market Settlement Jan 2019 – Jul 2020



Source: Strate. August 2020. "SA Financial Market resilience - How does Strate fare?"

The extraordinary stresses placed by the pandemic upon the financial services sector and the South African economy as a whole required a coordinated effort from government, regulators, trade organisations and businesses. Without the raft of complementary, and in many cases voluntary, general measures the sector would not have navigated the pandemic in the way it did.

Organisations operated under severe time pressure, having to conceptualise, seek approval for, and implement never-seen-before interventions. There was much to admire about the rapid and coordinated way in which all concerned stakeholders rallied to bolster the financial services sector and those in its value chain against this unprecedented shock. Overall, the effectiveness of the measures was mixed, but that was not for lack of trying.

Unlike many developed nations that could rely on deep reserves of public money, South Africa's measures consisted of government-led efforts, in concert with regulators and trade bodies.

Business leaders had to set aside their profit motive and act in the interests of the collective good. Certainly, there are several lessons to be learned from the ups and downs of these coordinated processes. These learnings will be discussed in the following chapter. With the benefit of hindsight, successful interventions can be studied with a view to replicating them in the future, and in cases of unsuccessful initiatives, learnings can also be gained.

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CHAPTER 6

Lessons learnt from the COVID-19 pandemic

The pandemic was a learning experience for stakeholders across the financial sector and beyond.

Navigating the pandemic required unlearning and re-learning at a scale and pace rarely seen in living memory. The challenges presented by the changes to accepted norms affected people at all operating levels of every organisation in the financial sector.

This research study canvassed the recollections and views of over 50 senior financial sector leaders and referenced surveyed responses from more than 200 of their industry cohorts.

In this chapter, the most important lessons and insights from the pandemic within the South African financial services sector are distilled and captured.

6.1 Critical evaluation of South Africa's operational risk landscape

"Never let a good crisis go to waste" is the mantra of many operational risk and business continuity practitioners. These same practitioners are also quick to point out that there are always two sides to any risk conversation – one of "risks" and another of opportunity".

The COVID-19 pandemic has tested every aspect of operational risk in the modern business environment. The South African financial sector was no exception. Organisations that have paid the appropriate attention to effective operational risk management are able to look back on the last two years and affirm the value of fully embedded risk management practices in their firms.

Understandably, most of the entities engaged during this project already had mature and effective operational risk management frameworks and practices in place.

Respondents conceded that while general business continuity plans and processes were also well established, they did not cater for the specific restrictions that were placed on their operating environments and the rapid shut down that occurred as a consequence of the pandemic.

Organisations labelled as essential services had little time to react, and the maturity of their overall operational risk management (ORM) frameworks helped them do just that.

The levels of general preparedness displayed by most entities in ensuring business continuity meant that every critical market infrastructure was able to continue operating effectively. The transition into a fully remote workforce and a distributed customer base required adjustment, but organisations were quick to adapt.

Most entities were able to ensure that operations continued with as little disruption as possible to customers, with organisations being called upon to adapt their operational processes and procedures as lockdown regulations were implemented and revised, developing 'workarounds' to address the initial challenges as the circumstances unfolded.

The reliability and sustainability of these 'workarounds' was tested as the implications of the pandemic extended well beyond the initial shutdown period. Looking back, key areas of focus emerged as organisations sought to transform their operations.

Enhanced digitisation and the transition into an online workforce brought with it new challenges to be managed – concerns regarding heightened cyber-related threats grew, as did the risks around third-party service delivery. Staff wellbeing also emerged as a major cause for concern.

In an industry where change is often carefully planned before being implemented, the timelines for certain innovations and digitisation were, of necessity, accelerated and careful attention needed to be given to the impact of these rapid changes on existing governance processes and the associated control environments.

Changes initially considered to be temporary needed to be refined to ensure that organisations were not taking unwanted or unintended risks. External factors impacted on past decisions, with many businesses and individuals being affected by the pandemic in some way.

Loan repayments and other contractual obligations of customers could not be met as income streams dried up. Operational processes and procedures usually employed under circumstances of default were, in many instances, still physical in nature and did not lend themselves to being digitised.

The advent of the digital era and work from home (WFH) has brought with it many advancements. The agility displayed by the financial services sector during the COVID-19 pandemic bears testimony to just how rapid the digital transformation has been. The WFH transformation happened overnight and it will continue to define the way the sector operates in the years ahead.

The resilience capabilities firmly entrenched in the financial services sector meant that the key players dealt with the crisis well and some have even seen it as an opportunity for the creation of new and innovative products and services.

6.2 The value of trust within the system

At the start of the pandemic, 'trust' featured extensively in the sector's collective vocabularies – not necessarily for the right reasons. The world moved into a work from home reality overnight and employers wondered whether they could trust their staff to do their work without direct supervision. Not only did this represent a massive change for employers but for employees and clients as well.

Traditional operating models were adapted and refined as the pandemic lingered. Organisations evolved and hybrid working arrangements became the norm for many.

Many of the employers who initially struggled with trusting staff to work from home have always been firm believers in the value of trust in the commercial realm, particularly when considering the time and energy that have been invested into personal, professional, and corporate networks.

Successful networking has trusts as its base, and this can only be built up over time. Successful networking is fundamentally about sharing – knowledge, experience, ideas and perspectives. These networks serve as a support mechanism to help individuals manage the unexpected.

What is clear is that it is difficult to develop these networks when a crisis is on the horizon. One of the key objectives of the Financial Sector Contingency Forum (FSCF) is to build relationships across the sector in a way that promotes constructive dialogue between its members, particularly during unstressed times.

This ensures that when unexpected disruptions happen, it is possible to reach out to one another with confidence, knowing that if they are unable to assist with the problem, someone will know who can and will be able to provide the necessary introduction with minimal delay.

The ability to judge the quality of what one is being told by someone else and having the confidence to make business or management decisions based on that advice takes trust, which in a crisis situation often needs to extend beyond those who are most familiar.

The COVID-19 pandemic presented South Africans with a perfect opportunity to explore the value and effectiveness of trust as a business practice. Some of the reactions to the pandemic have been fuelled by engagements that have taken place through these networking relationships.

How did others around the world react in the face of what has been described as an "unprecedented event"? Could their learnings be applied locally?

Executives were able to consider the most appropriate action plans, sometimes fuelled by the trial-and-error efforts of others as they dealt with similar challenges. Many did not have the luxury of time. Mistakes were made, but managing effectively is about recognising that no solution is perfect, and being able to learn from errors.

COVID-19, like any crisis, called for good judgement and provided a testing ground for understanding the qualities and characteristics of good networking.

The South African market has interacted at every level with its international counterparts – from regulator-to-regulator discussions with countries such the United Kingdom and Italy, who faced the full force of the first wave, to engagements with the World Health Organisation (WHO).

Guidance was sought, understood and adapted to deal with local circumstances and challenges. In many instances, South Africans have represented their organisations on steering and working committees run by organisations like the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO), which has led to valuable knowledge sharing regarding the broadest impacts of the pandemic.

Financial market infrastructures across the world have been recognised for the critical role that they play in the financial system and broader economy.

Their ability to share information with one another at an operational level through associations such as the World Federation of Exchanges (WFE) and the World Forum of Central Supplier Databases ensured that these critical infrastructures were able to transition into a remote working environment and to continue operating without interruption throughout the pandemic period.

As organisations defaulted to online communications platforms like Zoom and MS Teams, the ability to reach out to others around the world became an invaluable part of the collective action to overcome the impact of COVID-19.

Therefore, one of the foremost lessons presented by the pandemic lies in the value of trust and communication.

"What stood out for me in those first two or three months was the actual extent of involvement from different members."

Johann Van Tonder, Senior Policy Advisor, ASISA

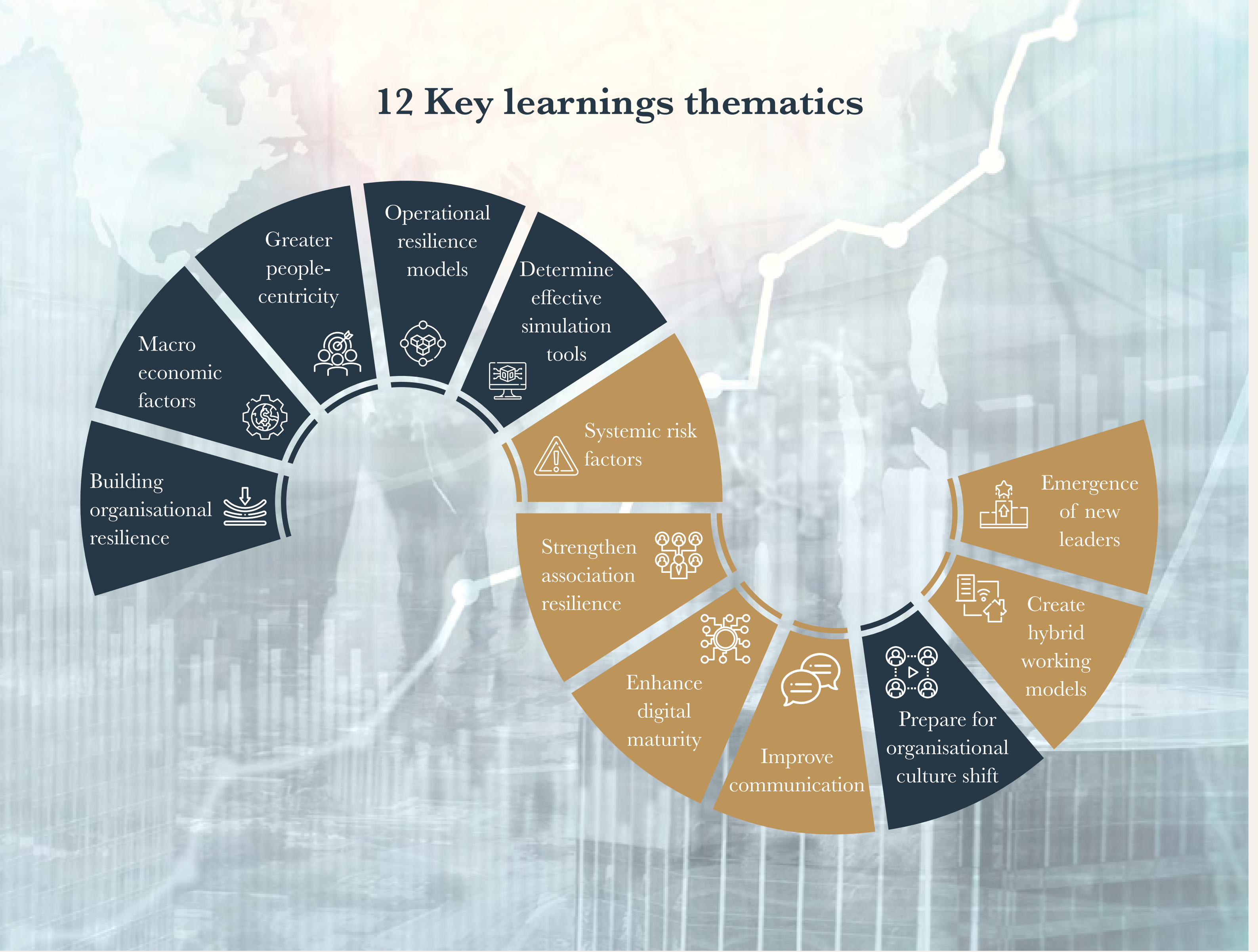
6.3 Key learnings and insights from the COVID-19 pandemic

The following key learnings were extracted from transcripts from more than 50 experts in the financial services sector, reviewed against an online qualitative data tool, and distilled into key themes that emerged from multiple, reflective sessions by the research and project teams.

What is significant about the results is the number of interviewees who indicated the same issues, which in turn led to the thematic quality of the findings. This data was bolstered by over 200 quantitative surveys conducted in the sector.

Early findings indicated that resilience, agility and new models were among the key factors that many respondents addressed. The time period reviewed by this research is December 2019 to January 2021, which saw the most disruptive impact of COVID-19 in South Africa.

Many reviewed this period with reflection of the two years that had passed and were able to carefully consider the implications for their operations going forward.



Building organisational resilience is crucial

South Africa's financial sector navigated the challenges of the COVID-19 pandemic well due to the organisational resilience built within its participant organisations over many years of successful operations. During the interview stage, it was clear that the need to build operational resilience was uppermost in the minds of many interviewees. This feeling was confirmed by the survey respondents.

Organisations in the financial services sector keep the country's economy moving. This strategically important function means that the stakes for building operational resilience are high in this sector. Members of the financial services sector cannot fail if South Africa, or any country, is to function and thrive. Building and enhancing the broad range of processes that underpin operational resilience is vital.

The nature of large-scale disruptive crises are seldom predictable, but a practical substitute is to create a system that can survive in the face of all types of stresses. Organisational resilience has many layers, but it certainly includes people at its core. As such, people-centric organisations, supported by technology must be at the forefront of this evolution.

Organisational resilience also includes myriad business process that must be tested and refined with learnings from the pandemic, and for which appropriate operating best practices must be captured and codified. Only through powerful organisational resilience was the sector able to navigate the challenges of the pandemic. Keeping this on a strong footing into the future is crucial.

Macroeconomic factors impact the nature of crisis response

The pandemic laid bare the macroeconomic realities of countries all over the world. Wealthy developed nations were able to support their citizens with expediency.

In South Africa, several macroeconomic factors complicated what was already a growing socio-economic crisis.

What is clear is that South Africa's response to containing the spread of the virus was rapid and effective in many ways. However, macroeconomic factors, such as high unemployment with a large section of the economy living in distressed financial situations, created a sizeable population requiring social assistance in the form of cash, complicated the nature of the response.

During the COVID-19 pandemic, it could be argued that cash was a method of payment that did not suit the measures taken to flatten the pandemic curve. However, in a country with such a large cash economy, there was no option but to continue to keep this commodity in plentiful supply. This was one of many macroeconomic factors that complicated South Africa's pandemic response.

Several rapid financial stimulus measures were put in place and the industry is to be recognised for the speed of its response. Discussion continues regarding the effectiveness of these measures, including the much-touted Loan Guarantee Scheme, which was designed to provide liquidity and relief to distressed individuals and businesses, yet had mixed results.

The key learning is that prevailing macroeconomic realities can make responding effectively to an already challenging health crisis more difficult.

Greater people-centricity

Some survey respondents expressed the view that COVID-19 was a people-related crisis more than anything else. To continue to operate seamlessly, organisations were forced to become much more attuned to the difficulties facing their staff. In the early stages of the pandemic, the mental strain from the challenges thrown up by the pandemic was not apparent, but the severity of this reality loomed into view as people struggled to cope.

Organisations had to step in to provide more conducive environments within which their staff could operate.

The quantitative survey revealed that

66% of respondents believe their organisation is now more

STAFF-CENTRIC AS A RESULT OF LOCKDOWNS.

In the future, this emphasis on people will continue to be an important factor as organisations realise their success is intrinsically linked to the health and wellbeing of their staff.

As the timing of crises cannot be predicted, people-centricity must become an ever-present factor in preparing for the next challenge.

Operational resilience models

Operational resilience is a subset of organisational resilience and represents an organisation's ability to carry out the many individual operations required to fulfil its overall function. The operations of organisations in the financial sector are multi-faceted and typically involve practitioners from a variety of functional areas.

Operational resilience is not simply about an organisation's ability carry out its duties, but also its ability to prevent, respond, and recover during a disruption.

The number of operating models is as vast as the range of services provided by members of the sector. COVID-19 demonstrated the value of technology in cutting across several operating blockages and enabling organisations to function despite the rest of the economy coming to a standstill. Key parts of operating models, such as approvals, could continue as normal and were ably facilitated by adaptive technology.

More than 90% of surveyed respondents agreed or strongly agreed that established operating models can be rapidly altered when required. Practitioners across all fields exhibited responsive thinking and flexible attitudes after a quick assessment of what they could and could not control.

This allowed practitioners to assess the key uncertainties and evaluate realistic options in the service of making time-bound and situationally relevant decisions.

A feature of the survey responses was the need to move beyond the letter of operating models. While these can be understood as an important starting point and a procedural element, organisations need to be flexible in working around operating models and codified rules in times of crisis.

Thus, having a fluid mindset allowed decision makers to understand that operating models are templates that can be altered in the event of a crisis. Operating models are not tools to teach staff how to perform their roles, but are instead codified learnings that must be absorbed by staff along the way to becoming capable professionals.

Determine effective simulation tools

Determining effective simulation tools is an important part of being able to ride out major events like pandemics. While a pandemic may have been one of the least-predicted disruptive events in the minds of operational risk practitioners, the rapid appearance of such an unexpected event highlights the need for organisations to prepare for a wide array of external eventualities.

As the complexity of the global financial system evolves, so does operational risk. Simulation tools present a vital method of preparing organisations for crises and major disruptive events.

Crisis simulation exercises for the financial services sector cannot only be simulated on paper. The FSCF must continue to encourage realistic simulations of selected stresses are required to learn more about how the industry communicates, coordinates, and makes decisions under stress.

Simulation exercises can either test the adequacy of financial sector mechanisms, such as procedures and systems, or they can test the soundness of institutions as a whole. The pandemic revealed that selecting the best broad-based simulation tools will empower the industry to respond to the next crisis.

Furthermore, in the interests of collective survival, scenario and incident playbooks could be centrally created so that each bank or financial service provider can practice them. All the while, key players must recognise that playbooks are a not often referred to in a crisis and that experienced people often take a crisis decision-making lead.

Systemic risk factors

Systemic risk refers to items that can affect the viability of an entire system and not just its constituent parts. In the case of COVID-19, systemic risks included the sector being unable to operate or having to operate within regulatory requirements or with the appropriate liquidity to support the markets impacting other businesses or participants.

Systemic risk requires that all members of the system take a keen interest in their health for their mutual survival. It is for this reason that systemic risks brought about intense lobbying, communication, and collaboration among members of the financial sector in an attempt to to gain the necessary certainty required for the system to function.

This included members advocating their designation as essential services, as well as lobbying for competition exemptions.

Recognising their crucial role in South Africa's economy and the maintenance of its social stability, in addition to a common understanding that one key organisation's risk is every organisation's risk, many financial sector organisations had spent extended periods of time developing crisis preparedness models, which would be put to the ultimate test during COVID-19.

In laying bare the threat of systemic risk, the pandemic and lockdown brought into sharp focus the level of

interconnectedness between organisations, meaning that rivalries were put aside as competitors collaborated to avert the threat that loomed over all members of the system. As such, future crisis preparedness models should retain focus not only on the operational risk of the individual company but the systemic health of the sector.

Associations are valuable in a crisis

One of the features of the South African financial services landscape is its many associations that have been built over time. A list of these associations is in Appendix IV. These associations were coordinated across the sector in their individual areas of expertise, and each association played a role in ensuring a sustainable and dynamic industry. The associations formed an important part of the FSCF and its contingency exercises, and their ability to facilitate and represent their members was crucial during the pandemic.

Their remit was wide, from conducting markets and ensuring financial stability, to carrying out education and research. Some associations had the task of combating financial crime, money laundering, and terrorism finance to ensure the whole sector was sustainable and profitable.

What is evident from these varied roles is that integrated and coordinated system communication and cooperation is paramount for these associations to fulfil their roles in the height of a future disruptive event.

Trade association networks must remain a potential tool for managing a crisis in the future. The interconnectedness of the health of the financial services sector ecosystem was demonstrated by how many of these organisations worked together under the stresses of the COVID-19 pandemic.

During the crisis, associations became the unlikely catalyst for discussions and filled a void. The next crisis may come in a form that does not require this level of support at an association level. They remain a trusted interlocutor within the industry, demonstrating a value-added role during the pandemic.

Enhance digital maturity

Organisations must continue to be digitally adaptable and adopt new technologies. Digital tools enabled organisations to navigate the pandemic far more effectively, and an agile working environment lends itself to testing new solutions and communication platforms.

Admittedly, the financial sector was already a digitally mature industry, but more than one interviewee indicated that the pandemic forced them to become more agile and accepting of the new digital reality. Organisations had to find rapid fixes for challenges presented by the pandemic while remaining cognisant of important measures, such as security. This digital agility must continue into the future.

Enhance communication

Communication became a central part of how members of the sector navigated the strictures of the pandemic. Without the proliferation of new, technologically-enabled forms of communication, moving through the pandemic would have been significantly harder.

Reaffirming that communication is one of the key drivers of business continuity during a pandemic, organisations must spend more time enhancing communication portals. This starts at a cellular level within companies, before expanding out towards different levels of management and into the greater ecosystem of industry and sector. The better and faster organisations can communicate, the better their chances of minimising the impact.

As such, communications must be reviewed and improved for the future. COVID-19 was an external event, raising the importance of communication and centralised information sharing across competing organisations.

In the future, coordination bodies such as the Business Unity South Africa (BUSA) could assume a greater communication role for non-financial events.

Prepare for organisational culture shift

Many people surveyed indicated that their organisation was able to pivot to a new organisational culture built around flexibility and adaptiveness. This was a non-negotiable if organisations were to successfully navigate the pandemic.

Organisational cultures have long been important identifying elements of businesses, and it is fair to assume that not all were ready to move away from old cultures around staff attendance and productivity.

In the future, organisations must be able to shift to new methods of working more quickly. In the age of hybrid working models, the extent of the cultural shift required for traditional organisations that went to great lengths to set up in expensive working environments and buildings cannot be overlooked.

Many of these buildings had to be abandoned during the pandemic. So too did tried-and-tested measures of productivity and engagement, to be replaced with new ways of managing people and productivity.

Many of these shifts evolved because organisations were prepared to be agile and to change. Some of the recurring terms used by interviewees to describe their responses to the pandemic have been "rapid" and "swift".

There is an element of high-speed flexibility that will need to become a part of new cultures. For so long, words like "agile" have been used liberally in business circles; the pandemic was the ultimate test of this concept.

Many companies policies did not reflect the reality of implementing a staff-centric organisation. As modern operational risk scenarios emerge, the new world must be embraced and the learnings of the pandemic incorporated into the business model of tomorrow.

Create hybrid working models

Today, organisations can operate using any number of working models. This could be staff working full remotely, fully in the office, or a combination. Some organisations in the financial sector were already utilising blended models before the pandemic, but they were in the minority. Now, the number of blended working models has expanded and is now commonplace.

The ability to work in various models is another measure of how flexible and adaptable organisations can become. Similar to the importance of having a back-up location for cyber security purposes, having the ability to allow staff to work from home was the backup system that organisations needed when they were unable to function from their regular offices.

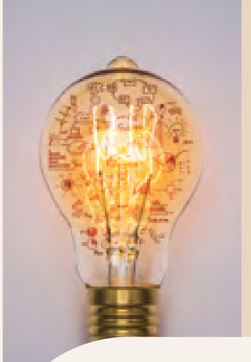
Emerging best practices from industries as far afield as hospitality reveal that blended working models are here to stay. Organisations must still balance the financial savings from dispensing with physical buildings against the possible loss of cohesion and engagement and the effect on staff culture.

However, the pandemic showed that the emphasis on agility allowed organisations to weather the different challenges that lockdown levels presented to them.

New leaders will emerge

The pandemic created new leaders and champions who emerged from unlikely places within every organisation. There is an abundance of stories of key staff rising to the occasion and taking on leadership roles. These staff need to be identified at entity level and factored into the crisis management programme going forward.

Organisations run the risk of losing the experience of these individuals over time, unless that experience is sufficiently nurtured through simulations and crisis playbooks.



The lessons for the pandemic are still emerging in the post-pandemic age. Lessons have greater meaning when they are documented, codified, and applied for future crises, and allow for future generations to implement the best practices and learnings to ensure greater resilience.

The following chapter reflects on conclusions and recommendations and seeks to capture the main learnings from the pandemic in ways they can be absorbed and operationalised. Of note will be the key findings for discussion within the FSCF, which is responsible for considering the financial stability of the sector and the lessons from the crisis that could be adopted by the financial sector.

CHAPTER 7

Recommendations and conclusions

The research conducted for this publication yielded extensive learnings and findings, which have provided evidence-based conclusions and recommendations for the financial services sector.

While the virus impacted the health of the financial sector under lockdown, the sector was able to respond to the needs of the economy. These findings will be broken down into actionable items to be considered by the Financial Sector Contingency Forum (FSCF).

In the previous chapter, the lessons from the COVID-19 pandemic in the financial services sector demonstrated the resilience of the sector, and laid the groundwork for the conclusions and recommendations.

This chapter also explains the position the financial sector found itself in at the end of the research period. In closing the publication, the chapter will underscore some key elements of the research study for its stakeholders, namely the importance of operational resilience in the context of a crisis, in addition to an update on how the financial sector supported the economy.

Lessons from the COVID-19 pandemic

Strategies to promote resilience

Source: 2022 COEFS Qualitative Analysis

7.1 The virus's impact on the financial services sector

The financial services sector is well-regulated, well-capitalised and recognised for the high quality of its staff and management. Where appropriate, international standards are adopted, and the South African regulatory frameworks compare favourably with its international counterparts.

The pandemic came at a time when South Africa's economy was already weakened by a downturn in economic growth and with GDP evidencing a recession and a ratings downgrade. The countercyclical nature of the banking industry means that in times of economic downturn credit extension becomes more conservative as losses begin to emerge.

With the lockdown further depressing economic activity, severe losses were anticipated, and with the majority of staff working from home, the risk of unintended operational failures increased dramatically.

Fortunately, the financial sector proved sufficiently resilient to continue to support the economy and maintain their services, including the generation of new business, although at lower volumes in most cases. With the support of the regulators, concessions in regulatory requirements were applied.

The insurance industry was possibly the hardest hit, as they experienced the impact from both sides of the balance sheet. The insurance industry remained well-capitalised during the period, but volatile financial markets impacted on revenues from investments. Profits from the short-term insurance industry were also markedly down due to the higher business interruption insurance pay-outs, in addition to contingent business interruption insurance. Outflows in claims for deaths as a result of COVID-19 and retrenchment benefits were compounded in part by the decrease in premium income normally associated with new sales of policies. Premium income was also down as the industry supported consumers with lower premiums.

The banking sector remained well-capitalised, possibly due to the South African Reserve Bank (SARB) recommendation that dividend payments and staff bonuses "be suspended". Liquidity, often a cause of a financial crisis, was maintained through liquidity injections from the SARB and a conservative approach by both individuals and firms, as those that had surplus funds stayed liquid.

With the economic conditions declining rapidly, there was a deterioration in credit quality that required additional impairments to be held by the banks. Provisioning occurred for potential losses on loans that had been identified as bad or doubtful, due to them being unlikely to be repaid in full. Credit growth during 2020 was still positive as a result of the regulatory relief measures that addressed excessive impairments.

Profitability of banks declined not only through credit losses and impairments but also due to the relief measures implemented to assist customers through interest rate reductions and payment holidays, as well as the general decline of interest rates over the period.

The financial sector remains profitable, but with the majority of the financial sector's business activity in the local market, the rapid decline in economic activity during the pandemic impacted materially on the profitability of the sector.

The weakening of the business sector and its ability to sustain debt, as well as consumers becoming over-indebted due to changing circumstances, meant that the outlook within the finance sector naturally became more conservative, as each rand lent must be recovered in full. In this context, a credit crunch could easily materialise as funds are invested with government and financial assets rather than the real economy.

It will take many years to recover from the losses experienced under the lockdown and this will in part be a function of the environment created by government to do business, in addition to the confidence of businesses and consumers to make longer term decisions and finance them.

7.2 Response of the financial sector to the lockdown and how it supported the economy

The importance of the financial sector to the broader economy was recognised by the designation of the financial sector as an essential service by government. Even before government declared a National State of Disaster, the financial sector was proactively considering the ways it could support the economy. Casting profitability aside, many industries voluntarily instituted payment holidays and reduced insurance premiums in line with reduced risk.

Recognising that certain small businesses depend on the financial sector for services rendered, even where those services were no longer required under the lockdown, many businesses in the financial sector paid vendors for work that was not rendered in order to keep those businesses afloat.

The banking industry has an extensive regulatory framework designed to moderate its activity. The expectation was that banks would continue to extend credit to sectors in need during a period of economic and financial stress. In response, the SARB issued a series of directives to remove some of these parameters and provide additional financial flexibility, within the caveat of continued responsible lending. Banks did not declare dividends or bonuses to executive staff and material risk takers during this period as the focus shifted to supporting the broader economy.

The cash economy was a critical focus for the banks, and with the lockdown being announced days before government social security payments were scheduled, cash supply and distribution became a focus area, particularly for the unbanked members of society. The banking industry, the cash-in transit industry and the SARB ensured the availability of cash was sufficient to meet demand.

Retaining branch presence was complicated by sporadic peaks in infection rates, necessitating closure and deep cleaning, while the drive to digital banking provided a much-needed catalyst for many to adopt digital solutions and harness the benefits of digital efficiency during the uncertainty of the pandemic.

The pandemic came at a time when the economy was contracting and moving into a recession. Many businesses were already struggling, and several were not going to survive as the credit rating agencies pushed South Africa's country rating further into junk status. Initially expected to be a short-term crisis, the focus turned to measures that would provide sustainable businesses with financial support to enable them to remain viable until the economy reopened.

Aimed at small businesses that lacked the access to credit of their larger counterparts, the Loan Guarantee Scheme was designed to help companies with their lack of cashflow, but restricted the finance provided to targeted expenses such as salaries, rent and contractual obligations with suppliers.

Through this initiative, it was hoped that the velocity of money would continue to flow through the economy, and it would enable businesses to retain staff, premises and suppliers until they reopened. Although it did not meet all expectations, the Loan Guarantee Scheme reached many small businesses that may otherwise have had to close. When combined with the voluntary relief measures, the assistance to business and individuals amounted to hundreds of billions of rand.

Recognising the challenges faced by employers, the pension fund industry was assisted by the Financial Sector Conduct Authority (FSCA), and a temporary suspension of monthly contributions by both employers and employees under financial distress was provided. Amendments to the Pension Funds Act enabled pension fund members to access a percentage of their pension fund before retirement, as a guarantee for a loan.

During this time, the public reached out directly to businesses in the financial sector to ask for help, and the FSCA website registered a significant increase in traffic as consumers searched for ways to engage. Call centres in the financial services sector were allocated additional staff and customers were contacted directly and offered relief.

With many credit products, the uptake of credit life insurance that will settle the outstanding debt in the event of death, and credit insurance that may also settle debt in the event of unemployment were actively publicised as

many individuals forgot about these benefits. The short-term insurance industry, recognising the impact of the lockdown, also adjusted their premiums for motor-vehicle insurance, particularly where vehicles were no longer being used.

Perhaps the single controversial element of the support for the economy during the pandemic was contingent business interruption insurance. Separate to normal business interruption insurance, which was paid, contingent business interruption insurance covered localised infectious diseases, but did not cover a pandemic situation. The matter was taken to court and their interpretation was that the pandemic qualified as an insured risk and the industry was forced to pay out.

Unfortunately, as a result, contingent business interruption insurance will no longer be offered and is specifically excluded from policies, making a local outbreak of any infectious disease that forces a business to close uninsurable in South Africa.

7.3 The importance of operational risk and cyber resilience

Operational risk management (ORM) is about people, processes, system and the threat of external factors. Each had a clear impact on organisations during the COVID-19 pandemic. ORM played a critical role in the resilience of the financial services sector during the pandemic.

A review of the experiences of the pandemic provides valuable insights into the robustness of the environment, the sector's agility and that of the companies within it, and the strengths and weaknesses that emerged when every aspect of operations came under threat of disruption.

It is evident that the industry as a whole was, and is, resilient by design.

Operational risk is more difficult to manage than financial risks, such as credit or market risks. It is complex, involving a growing number of diverse risk types that are not easily quantifiable. Its backbone is the appropriate oversight and transparency of many organisational processes and activities.

As COVID-19 evolved, business processes needed to adapt quickly in order to accommodate the more digital way of work and it became apparent that these changes could also impact the entire governance and internal control framework structure upon which organisations such as banks have been founded. This has meant that organisations have been forced to revisit the full suite of oversight functions and how they interact with one another.

The search for more granular data and the ability to more effectively measure operational processes and employee activity have become key focuses. Measurement remains difficult as risk practitioners seek to navigate the new normal, moving away from qualitative controls to more data-driven and real-time capabilities.

The nuances of much of the real-time world mean that it is not always possible to tell that a transaction or process is impacted or compromised until it is too late. This poses new challenges as the need for a more comprehensive understanding of the business environment becomes essential. Complexity is increasing as the risk landscape expands and new challenges are introduced. Data science combining with operational risk may provide the next generation of agility required.

Digitisation and automation has brought with it a new frontier of partnerships with specialised technology vendors and outsourcing agents. The thread that often runs through it all – customer data – is becoming more and more difficult to protect. The cost of getting it wrong is also growing exponentially.

In the past, single points of failure were easy to identify, but as more sophistication is introduced, these are becoming opaque. The operational risk management job is becoming more complex, demanding a new breed of practitioner. As the following graphic illustrates, digital support became more important to the transition to work from home. However, with increased digital adoption came increased cyber risk.

The digital era introduces cyber risk

Cybercrime has been an ever-present and growing concern. Financial services face significant operational, legal, compliance, and reputational issues with cybersecurity risks. Cyber resilience measures that were in place at the beginning of the pandemic were not designed to address the fact that company networks were stretched and the all-digital working environment expanded, creating multiple new points of attack.

Potential vulnerabilities and latent risks were introduced as the industry rapidly adapted to the new remote way of work.

Ransomware was a bigger concern than normal during the pandemic as attackers exploited remote work, remote schooling and a beleaguered healthcare systems.

In the work from home (WFH) context, protection offered by home networks are not at the same level as what would be the case in the traditional work environment. A spike in phishing activity was witnessed, often wrapped in a shroud of COVID-19-related information. Fake news websites were established and drew unsuspecting users in, exposing them to potential compromise.

There is evidence affirming that hackers have become more sophisticated. Previously, many cyberattacks used unseen malware. This has since grown with new attacks using forms of machine learning that are able to adapt to their environments, potentially remaining undetected for long periods of time. This upsurge in higher-level attacks, compounded by the fact that WFH does not guarantee the same levels of security as can be found on the office or corporate network, calls for new tools capable of meeting these threats.

The pandemic has highlighted the need for management, and those responsible for cybersecurity in particular, to increase their efforts to address security by design and to ensure that this involves all employees, third parties and clients.

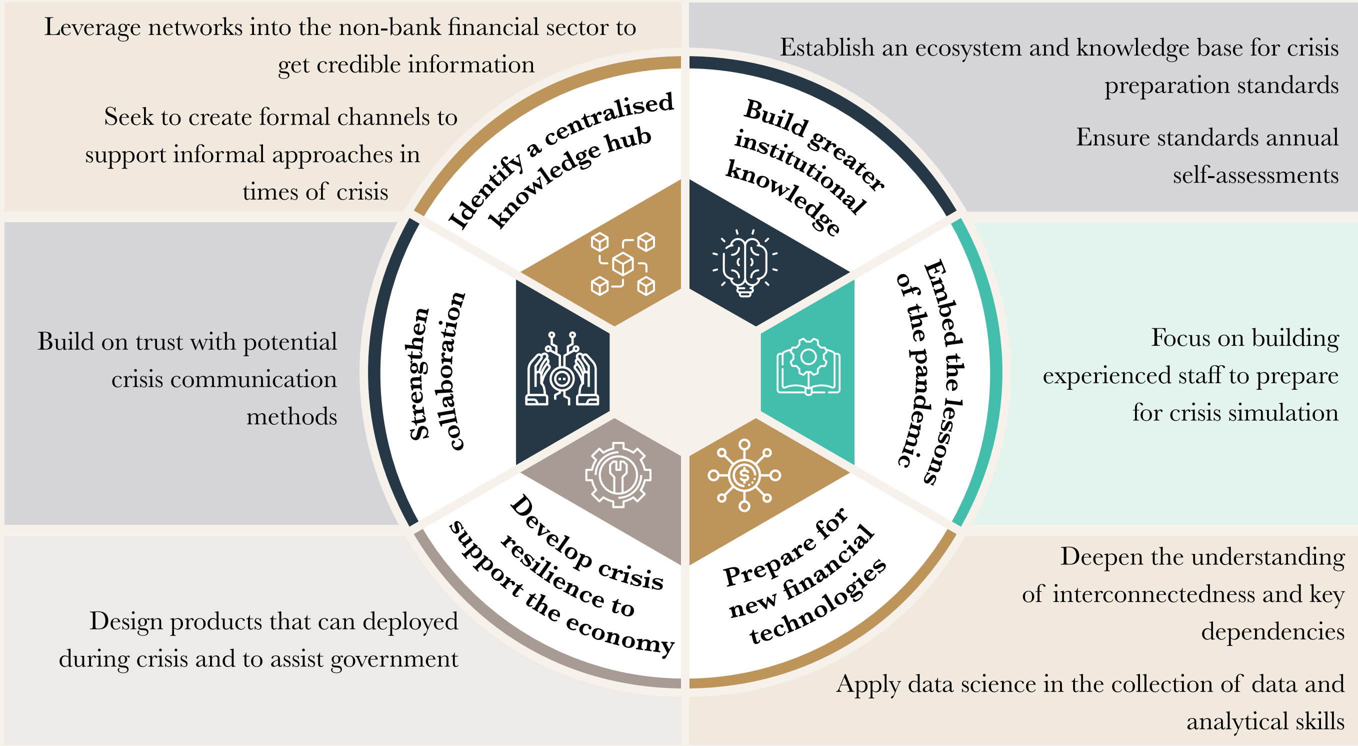
For many years, corporates have focused on controlling access to physical office environments, requesting staff to check visitor credentials. In a world that has now become increasingly digital, the concept of zero-trust has become much more relevant for a dispersed workforce.

To prepare for this threat landscape, a multi-faceted defence is essential. What the COVID-19 pandemic has done is indicate the number of essential components in the war against cyber criminals.

7.3 Key findings for further discussion with the FSCF

From the research, the Centre of Excellence in Financial Services (COEFS) recommends the following six subjects deserve further deliberation by the members of the FSCF.

Recommendations from the COVID-19 pandemic for the FSCF



Build greater institutional knowledge

The financial sector has built sufficient organisational resilience over time to respond appropriately to the COVID-19 pandemic, faring better than government departments and perhaps other sectors of the economy. The online survey that formed part of the quantitative research indicated that nearly half of the respondents involved in the crisis had little or no crisis preparation through simulation exercises or scenario planning.

A key element of crisis management is the ability to adapt to the scenario. Establishing an ecosystem of identifiable individuals within the context of business processes and exposing them to a consistent crisis preparation standard could improve resilience within the organisation.

The COVID-19 pandemic had an impact on organisational culture, which should be sustained. As organisations shift to be more people-centric and with the opportunity for more regular job opportunities, key human resources may be lost. The culture of the organisation should embed crisis management as a key development objective in specific job descriptions. An annual self-assessment could ensure standards are being maintained.

Embed the lessons of the pandemic

While the lessons of "never let a good crisis go to waste" are relevant, each crisis has its own unique challenges and a generic playbook is unlikely to add value during a crisis. However, building experienced staff able to respond appropriately in the time of a crisis should include some form of standardisation, either in the scenario or simulation.

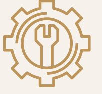
It may therefore be useful to establish a level of common understanding of the idiosyncratic standards being established, and if there can be a common base that will enable the development of a minimum standard of knowledge among industry participants.

Embedding the lessons learned from the COVID-19 pandemic and systematising these benefits would improve the overall resilience of the financial sector and create skills that are interoperable and transferrable.

Prepare for new financial technologies

The rapid uptake of new financial technologies will reshape the boundaries of the financial sector, and a clear understanding of the interconnectedness and key dependencies increases as the new landscape emerges. Payments are the new frontier for much of this change and with the introduction of FinTechs, innovations such as stable coins and central bank digital currencies, and rapid cross-border payments, among others, the traditional responses to providing liquidity support to multiple ecosystems increases complexity, while voluntary relief may not apply to a new wave of smart contracts.

In addition, the increase in the collection of data may require more data scientists and other skills to be included in the crisis simulation network. As a logical shift to high frequency data submissions in times of systemic crisis occurs, a new set of skills will be required to interpret the data, identify outliers and present the information in a usable way for traditional measures of risk countermeasures to be deployed. The combination of new technology, new techniques and traditional responses could be explored further by the FSCF to determine what new processes would be required for a crisis.



Develop crisis resilience to support the economy

The Loan Guarantee Scheme has been popularised by its failure to meet the expectations created by government. The time taken to get this emergency relief to the market was criticised, as was its suitability for the borrower. Despite numerous other factors, impacting on the results, from the expectations of economic growth to the conditions set down to qualify for a loan, there is a clear need for a product to be designed that can be deployed immediately by government to support the economy in times of crisis.

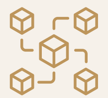
Deciding in advance on the rails to be used for distribution of the funding, the loss sharing arrangements, the contractual agreements and any regulatory relaxations required, will enable the government to agree the parameters of the product and customise them swiftly to meet the needs of the crisis at hand. This would reduce the time to market.

This recommendation on the Loan Guarantee Scheme is limited to the National Treasury and Prudential Authority. Given its current structure, for the FSCF, understanding the infrastructure required to support any pre-identified interventions in any of the industries could be invaluable if factored into a discussion around resilience.

Strengthen collaboration

The South African financial services sector has long enjoyed a robust relationship of open communication between the regulated entity and the regulator. Networks of individuals have built trusted relationships that proved invaluable during the pandemic. The most challenging aspect of the pandemic was gathering relevant information, and as the pandemic was not a financial crisis, the source of information was from outside the financial sector. The search for information that was relevant and accurate tested individual networks.

During a financial crisis, the SARB plays a pivotal role in bilateral engagements with the affected parties. Where the organisation is the source of the crisis then regular reporting to the SARB is required. However, where the spill over effects of the idiosyncratic event is likely to impact other entities and could cause a systemic event, the SARB can play an important role as a source of trusted information. This collaboration is not unusual, especially with cyber incidents, and is the most effective way of addressing the crisis.



Identify a centralised knowledge hub

The pandemic had two distinct elements – a health impact and a lockdown impact. Social media brought real-time information to most people, but this information was not always factually correct, and in some instances deliberately false. Leveraging networks into the non-bank financial sector to get credible information on the health impact was challenging, with regulations providing liberal interpretations. Similarly, the lockdown restrictions were equally testing.

What was not envisaged was a proactive co-ordination and centralised function.

Although trusted information was sourced by some members of the FSCF and shared through non-traditional media channels, such as WhatsApp groups, the potential for a network to be created through a third party such as Business Unity South Africa (BUSA) and Business for South Africa (B4SA) may have provided better access to government decision makers, the National Joint Operational and Intelligence Structure (NATJOINTS) and other structures, with credible and sharable insights.

The FSCF should explore the possibility of identifying a centralised knowledge hub, outside of the financial sector, to create formal channels that would support the informal approach that is inevitably established in times of non-financial crisis.

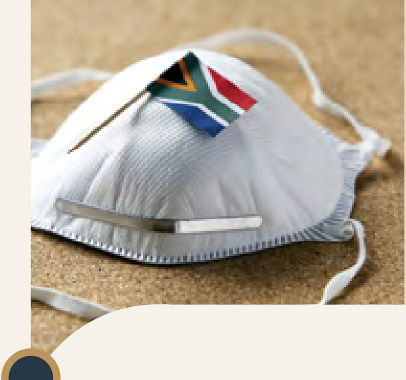
7.4 Conclusions

COVID-19 was a major disruptive event the likes of which has not been seen in generations. Modern economies are underpinned by interconnected and robust financial systems that must constantly stay ahead of systemic threats that can cause financial shocks. The pandemic was an external threat unlike any that could be reasonably foreseen.

South Africa's financial sector ably navigated the challenges from the pandemic. Through this research, which was undertaken by a series of face-to-face interviews and online surveys, it can be confirmed that the financial sector hurdled the challenges through a combination of its inherent robustness, its operating infrastructure, and the willingness of key staff to step up during a time of crisis.

Every key stakeholder from each organisation deserves to be recognised for their unstinting efforts to keep the wheels of the economy turning during the crisis, and this praise belongs to more than just a few people. These were key conclusions from the research.

The financial sector is highly robust	Taking the totality of the interviews and the survey into account, the research reflects that the financial sector in South Africa navigated the COVID-19 pandemic with minimal losses. The sector is highly robust.
Speedy action is required in a crisis	One of the main success factors for navigating the pandemic was the speed with which stakeholders responded to its challenges. Before any lockdowns were announced, key role players had been meeting behind the scenes to map the level of threat posed by COVID-19. Most of the major interventions thereafter were executed with the required level of expediency.
Organisations must be flexible to survive	Over 90% of survey respondents agreed that organisations must be flexible to survive. Indeed, no organisation can claim to have been able to navigate the pandemic without making substantial concessions to the operating principles or models they held dear. Flexibility was key.
A flexible and adaptable mindset lends itself to creating new models	Having the mindset to adapt to a challenge and having the openness to consider previously unheard-of responses was a key element of the success. Over 90% of people surveyed believe that established operating models can be changed in a crisis as needed.
Digital adoption is key	The world today is one in which digital tools are an established part of the way of working. This dependence will only increase as technologies become better at offering solutions to problems from the increasingly complex world of business.
Communication and collaboration remain vitally important	Communication between key players ramped up to levels not seen before. This was facilitated by modern tools that removed barriers of time and location to enable stakeholders to remain in near-constant contact with each other. This level of communication was one of the reasons the sector navigated the pandemic so well. In areas of less-than-ideal communication, for instance, when private organisations collaborated with public entities such as the police service, there was scope for improved results. 95% of respondents indicated that regular communication is required during a crisis.
Crisis preparedness tools help, but are not essential	Only 25% of respondents indicated that they engage in regular crisis simulation exercises. Yet the industry was able to hurdle the pandemic with a combination of resourcefulness, collaboration, and cooperation. The financial sector in South Africa is robust and adaptable. All organisations must have experience with crisis preparedness models to ensure the right level of competency and agility are developed.



The COVID-19 pandemic provided a massive challenge in an unstable environment and credit must be given to those that went over and above their duties. Leaders emerged who will make institutions stronger in the future and the entire sector endured, learning faster than ever before.

It is incumbent upon those same stakeholders to codify the lessons of this pandemic and develop a more resilient South African financial services sector for the future.

Appendices

Appendix I - Interview list

#	Name	Title	Company Name
1	Shresti Bijou	Group Head of Risk	First Rand Bank
2	Francois Gouws	CEO: PSG & Chair: ASISA Systemic Risk	The Association for Savings and Investment South Africa (ASISA)
	Johan van Tonder	Senior Policy Advisor	
3	Pheona Hartel	Head of Legal, Risk and Compliance	Strate
	Beverley Furman	Head of Operations and Change	Strate
	Rudi Steenkamp	Head of Technology and Data Management	Strate
4	Juan Grobbelaar	Head: Collaborative partnerships	South African Banking Risk Information Centre (SABRIC)
5	Vivienne Pearson	Chief Executive Officer	South African Insurance Association
6	Mark Brits	Senior General Manager	The Banking Associaton South Africa (BASA)
7	Susan Potgieter	Lead: Cybersecurity Program and Banking CSIRT	South African Banking Risk Information Centre
8	Billie-Jean Vertenten	Divisional Head in Risk Management and Compliance Department	SARB
9	Dr Alex Mitchell	Senior Researcher	South African Banking Risk Information Centre
10	Kumaran Selvarajalu	Senior General Manager: Payments	BASA
11	Andries du Toit	Group Treasurer	First Rand Bank
12	Nicola Comninos	Chief Risk Officer	JSE Ltd
13	Adri Grobler	Manager: Legislation & Regulatory Oversight Market Conduct Division	BASA
14	Dale Connock	Head of Legal, Risk and Governance	Strate
15	Rushdi Edries	Divisional Head: Regulation and Infrastructure	SARB Financial Stability Department
16	Faizel Jeena	Head: Risk Support Dept.	Prudential Authority (PA)
17	Vuyolwethu Nkambule	Enterprise Risk Manager	JSE Ltd
18	Etienne Kruger	Risk Specialist	South African Bank Service Company (BankServ)
	Zelda Wagner	Head of Human Resources	

#	Name	Title	Company Name
18	Clive Lacy	HR Manager	South African Bank Service Company (BankServ)
	Ntateko Mabaso	Head: Risk Management, Compliance & Ethics	
	Nthabiseng Nhlanhla	Group Head of Finance	
	Shergeran Naidoo	Head: Stakeholder Engagements	
	Michelle Padayachy	Head Systems Operations & Management	
	Dave Dixie	Manager: Remuneration	
19	Ghita Erling	CEO	Payments Association of South Africa (PASA)
	Pierre Coetzee	Regulation and Governance	
	Naniki Ramabi	Chief Risk Officer	
20	Martin van Deventer	Divisional Head: Security Management Dept	SARB Security Management Department
21	Olano Makhubela	Divisional Executive: Retirement Funds Supervision	FSCA
22	Roy Havemann	Deputy Director General	National Treasury (NT)
23	Felicity Mabaso	Divisional Executive: Licensing and Business Centre	FSCA
24	Kuben Naidoo	Deputy Governor: SARB	SARB
25	Martin Kingston	Chair, B4SA Steering Committee	BUSA B4SA / Solidarity Fund
26	Loraine Van Deventer	Head of Department in the Regulatory Policy Division	FSCA
27	Kedibone Dikokwe	Divisional Executive: Conduct of Business Supervision	FSCA
28	Christoph Nieuwoudt	Chief Data and Analytics Officer at FirstRand	FirstRand Bank
29	Hans Zachar	Vice President	TransUnion
30	Bongani Gwexe	Supervisor	National Credit Regulator (NCR)
31 Cyber Focus Group	Gerhard Cronje	Head: Cyber and Information Security	SARB
	Billie-Jean Vertenten	Divisional Head in Risk Management and Compliance Department	
32	Dr Ryan Noach	Chief Executive Officer	Discovery Health
33 HR Focus Group	Chantal Coetzer	Group Business Continuity Manager	Investec
	Ina Steyn	Head: Security & Awareness	ABSA Group
	Lesego Rametsi	Group Head of Health & Wellness	ABSA Group
	Pieter Bosse	Head - Facilities Management	Capitec Bank
	Shresti Bijou	Head: Enterprise Risk Management	FirstRand Bank
	Tumelo Molefe	N/A	Nedbank
	Elsa Tshatedi	Head: Organisational Effectiveness at Nedbank	Nedbank
	Wendy Orr	Head: Group Inclusion	Standard Bank

#	Name	Title	Company Name
34 HR Focus Group	Angelique Reeby	Head of Non-Financial Risk Corporate Functions and Group Operational Risk	Standard Bank
	Esti - Mari Langner	Divisional Head: Operational Risk	FNB
	Naseema Fakir	Head: Human Resources	Sasfin Bank
	Jaun Harmse	Head: Absa Group BCM and Joint Operations Centre	ABSA Group
	Adri Duncan	Senior Risk Analyst	Access Bank PLC
35 Treasury Focus Group	Louis Maritz	Executive Head Credit: Retail and Business Banking	Nedbank
	Bedresh Dhanjee	Executive Head - Risk (Business Banking)	Nedbank
	Michael Blackbeard	Head of Group Compliance	Sasfin Bank
	Nicholas Jay	Co-Head: Financial Resource Management Retail and Commercial	FNB
	Andries Du Toit	Group Treasurer	FirstRand Bank
	Laurence Adams	Deputy Treasurer	Investec
36	Rashad Cassim	Deputy Governor: SARB	SARB

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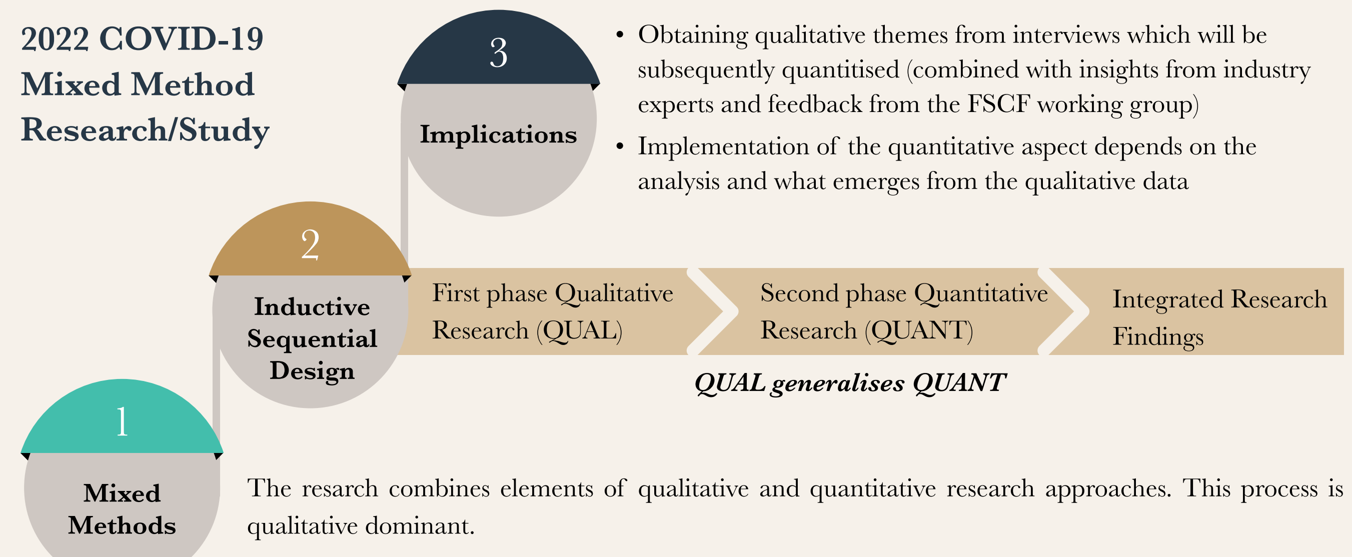
Appendix III - Research methodology

The Centre of Excellence in Financial Services (COEFS) was established to interrogate the role financial services can play in achieving both national and international objectives relating to the provision of financial services in South Africa.

As part of this objective, COEFS was appointed to undertake research and present a thorough evaluation of the impact of the COVID-19 pandemic on the financial sector, with the main objective of establishing the lessons learned from the management of this crisis. The research made use of both qualitative and quantitative methodology to create a detailed report in line with international research standards.

This research framework allowed for data collection and analysis which covered both the operational and market resilience within the broader financial sector during the COVID-19 pandemic. A mixed method approach has been employed, in which elements were combined from both qualitative and quantitative research methodologies to strengthen the data collection and analysis process.

The qualitative aspect was dominant and the themes from the qualitative phase were used as a basis to design the questionnaire during the quantitative phase.



The qualitative methodology made use of interviews, transcripts, coding, and an iteration process to collect and conduct analysis of the data. The quantitative process made use of online surveys conducted across the 17 FSCF organisations to collect data, which was then analysed using several statistical tools.

Qualitative methodology

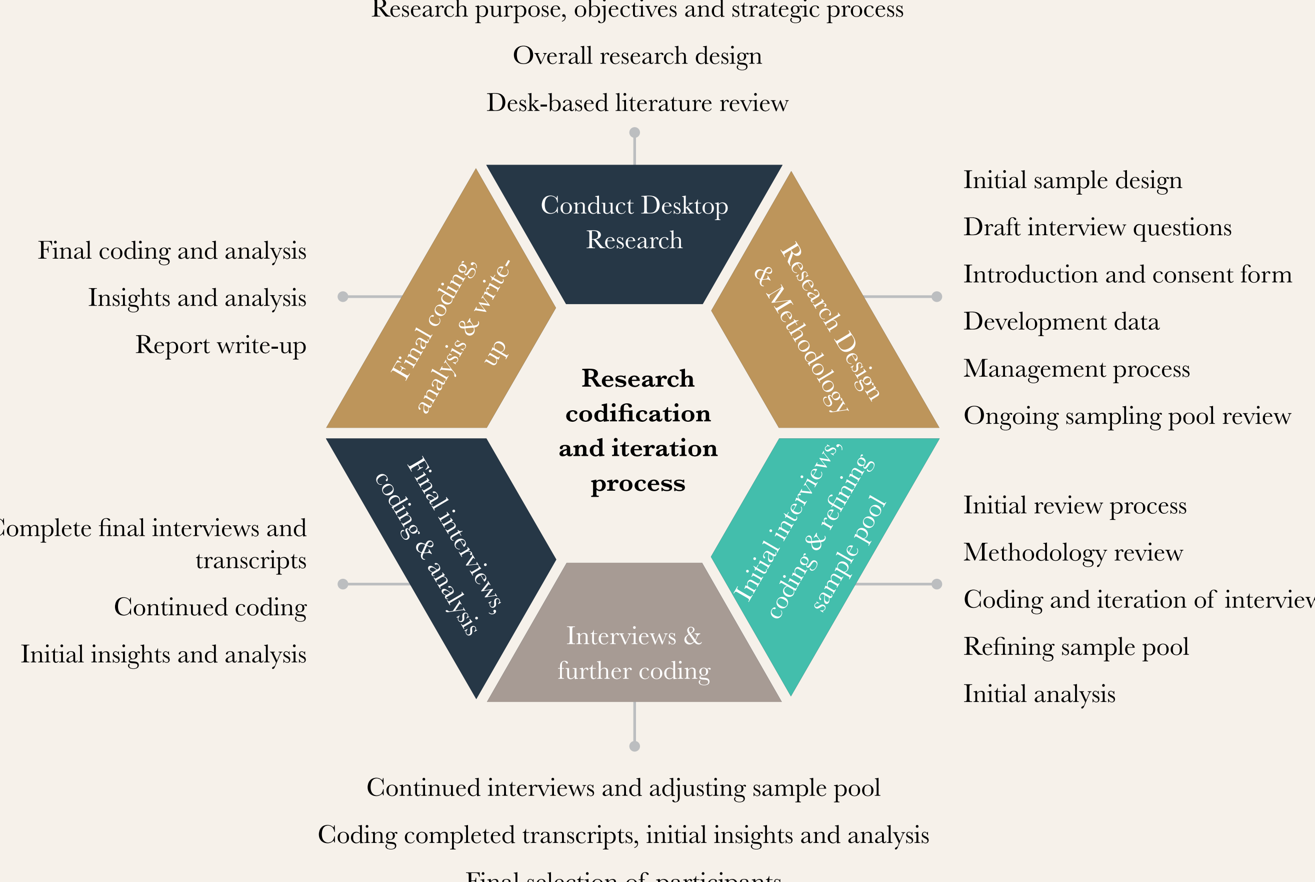
The qualitative methodology process consisted of a six-step process, which began with the overall research purpose where objective and strategic processes were determined. The overall research design was completed with the input of the FSCF Working Group.

This was followed by a desktop review of existing documents on the effects of the COVID-19 pandemic on the financial sector. As COVID-19 is a recent phenomenon, the literature was limited. Following this process, the initial sample design was planned and draft interview questions were prepared while introduction letters and consent forms were finalised.

The third step involved the initial review process, coding and iteration of interviews and a refinement of the sampling pool, followed by an initial analysis. Having verified and completed an initial analysis, the team continued to conduct interviews adjusting the sample pool as needed. An ongoing management and pool review process was maintained throughout the study, the key function of which was to ensure that all decision-making personnel were given the opportunity to contribute.

Respondents were chosen for their extensive financial market experience and stakeholder relationships. Following the final selection of respondents and the completion of interviews and transcript coding, iteration and analysis of the compiled data was completed using NVivo. These key insights and findings were used by writers in authoring their chapters.

Qualitative research codification and iteration process



Quantitative methodology

The quantitative process began with a mapping exercise to determine how the qualitative data would be collected and analysed. The project leadership team played a key role in ensuring the appropriate respondents were selected, and that surveys were sent to individuals who would best represent the target population.

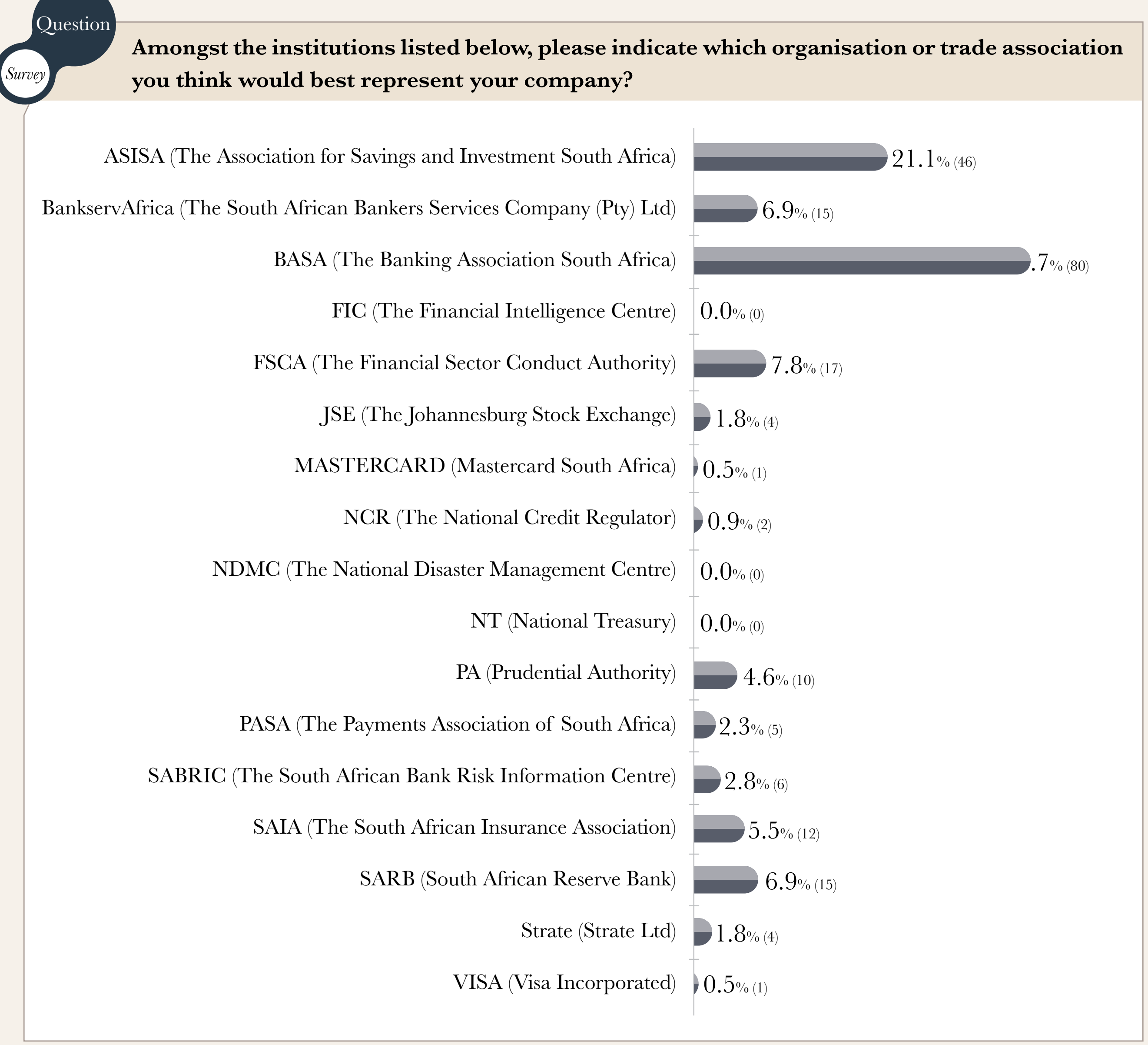
Three areas were important for the development of the quantitative methodology: data collection, data quality and data analysis. The data collection phase involved emailing the online survey to potential respondents, followed by reminders sent to organisations that had low response levels.

Prior to the data analysis, the data was screened to check for incomplete questionnaires and missing values, thereby ensuring that the data was of a good quality. Fortunately, no issues arose is this phase and it was possible to proceed with data analysis. Given the nature of the study's objective, only descriptive statistics were ideal for the study to answer the research questions and achieve the set objectives.

The Survey Monkey platform and descriptive statistics were employed, and frequency distribution tables and bar charts were used to summarise the key data.

The project compiled 218 online surveys across the 17 different FSCF member organisations. The initial key themes resulting from the qualitative data were quantitised and combined with insights from industry experts and feedback from the FSCF, the Operational Risk Subcommittee and the South African Reserve Bank. Implementation of the quantitative aspect depended on the analysis and emerging data from the qualitative data.

Key insights from the two methodologies were applied during the writing of the chapters, with specific graphics used as applicable to the content of each section. Overall the combination of the two methodologies added to the validity of the findings and depth of the final learnings, recommendations and conclusions.



Source: 2022 COEFS COVID-19 Online Survey

Appendix IV - FSCF member associations

One of the strengths of the South African financial services sector is the long-term development of the sector associations. These associations, all FSCF members, played an integral role in coordinating across the sector in their individual areas of expertise. These associations were as follows:

The Banking Association South Africa (BASA)	This industry body advances the interests of the industry with its regulators, legislators, and stakeholders, to make banking sustainable, profitable, and better able contribute to the social and economic development of the country.
The South African Insurance Association (SAIA)	The representative body of the non-life insurance industry. It represents the industry to all relevant stakeholders to ensure a sustainable and dynamic industry.
The Payments Association of South Africa (PASA)	A payment system management body mandated to develop rules, criteria and governance structures as may be required to carry out its function.
The Association for Savings and Investment South Africa (ASISA)	This body represents the collective interests of the country's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies.

Appendix V - About the Centre of Excellence in Financial Services

History

The World Economic Forum Global Competitiveness Report has rated the South African financial sector amongst the top ten in the world and it is by far the most significant contributor to the country's overall ranking. Within the financial sector, both the Johannesburg Stock Exchange and the banking industry in South Africa have been consistently ranked in the top three and top six in the world, respectively.

South Africa provides a financial centre for the African continent and in the State of the Nation Address on 11 February 2016, President Jacob Zuma announced that the Banking Association South Africa (BASA) would establish a centre of excellence for financial services and leadership training in support of this national objective.

The Centre of Excellence in Financial Services (COEFS) was registered on 23 December 2016 by BASA as a non-profit organisation.

Vision and Mission

Vision – to bring together local and international thought leaders to interrogate the role of the financial services sector in achieving national and international objectives, in collaboration with industry experts and academics.

Mission – to identify friction points in the financial services sector and initiate appropriate research to engage policy makers, regulators and industry participants through broader public dialogue and credible thought leadership.

COEFS approach to research

COEFS is organised into three layers of directed research. At the lowest level, problem statements are identified by the financial sector through COEFS, and made available to universities.

The research may be conducted by the staff of the university or facilitate topics for masters and doctoral students. The published article or dissertation can then be used by COEFS at the second level of directed research. This level of research comprises a round table discussion between individuals with expertise in the subject matter, including those with non-financial expertise, to develop working papers.

The highest level of directed research is COEFS board-approved research, in the form of substantive research reports and publications. Research reports may be based on a working paper. COEFS also works in collaboration with other members of the financial services sector to produce high-quality thought leadership documents and publications.

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