

# COVID-19 OUTBREAK IMPACT

Challenges and Opportunities

# CONFIDENTIALITY

Our clients' industries are extremely competitive, and the maintenance of confidentiality with respect to our clients' plans and data is critical. Oliver Wyman rigorously applies internal confidentiality practices to protect the confidentiality of all client information.

Similarly, our industry is very competitive. We view our approaches and insights as proprietary and therefore look to our clients to protect our interests in our proposals, presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the prior written consent of Oliver Wyman.

© Oliver Wyman

# EXECUTIVE SUMMARY



## Short term impact on China

---

- With efficient government efforts, the outbreak is likely to be stabilized and business is expected to go back on track soon
- Short term hit on the Chinese economy is inevitable; government has introduced a series of stimulus policies to support growth and more can be expected, esp. on the monetary and fiscal fronts
- We expect China GDP lands at 5.8% - 6.0% in 2020 given the expected stimulus
- Due to the risk of a global pandemic and the subsequent slowdown, the Chinese government may have to significantly step up its effort in stimulating the economy and hence overheating could become another watch point



## Non-negligible impact on Hong Kong

---

- Geopolitical tension since mid-2019 has a strong negative impact on HK's economy, leading it into a recession
- Although the number of confirmed cases in HK is still small, near-closure of the Border is reducing the vitality of the economy tremendously; HK SMEs and retailers are now facing a far greater liquidity pressure than ever
- Creative & targeted government support will be proven essential for HK's speedy recovery



## Potential risk of global recession

---

- With China's "shut off", decreasing global trade flow have already inflicted substantial impact on global economic outlook
- As the virus continue to spread in Korea, Japan, Iran, and Italy, the risk of global pandemic cannot be ignored
- There is a potential risk of the global economy entering into a recession, amid of
  - Hard-to-control global pandemic given Cannikin Law
  - Capital market crash
  - Obstructed global supply chain
  - Increasing fiscal deficit in the US and Europe

# EXECUTIVE SUMMARY – OUTBREAK IMPACT ON THE FINANCIAL SERVICES INDUSTRY

	Banks	Securities Firms	Insurance Companies	Asset Managers	Wealth Managers
Industry trend before COVID-19 outbreak	 <ul style="list-style-type: none"> <li>• Growth in asset and profitability began to decelerate, but still above 5%</li> <li>• Proactively address regulatory guidance on de-leveraging and orderly resolution of the perceived asset quality issue</li> </ul>	 <ul style="list-style-type: none"> <li>• Fundamental shifts from ‘shadow banking’ to ‘capital market’ bring tremendous opportunities</li> <li>• Expect market consolidation and pressure for small players</li> </ul>	 <ul style="list-style-type: none"> <li>• Double digit growth with government’s promotion of commercial insurance, esp. in the health lines</li> <li>• Shift in product mix from investment to protection coping with regulatory direction</li> </ul>	 <ul style="list-style-type: none"> <li>• New regulations launched to promote active portfolio management while curb on shadow banking</li> <li>• Systematic shift from “quasi” investment managers to “professional” ones</li> </ul>	 <ul style="list-style-type: none"> <li>• Slowing economy and downturn of credit cycle resulted in multiple product “bursts” and put extensive pressure on the WM industry, esp. for third party WM companies</li> </ul>
COVID-19 outbreak impact on market trend	<ul style="list-style-type: none"> <li>• Increasing penetration of online business</li> <li>• Highlights of capabilities in deal with business continuity planning &amp; management</li> </ul> <ul style="list-style-type: none"> <li>– New NPL accumulating that challenges NPL management capabilities</li> <li>– Loosing in trade finance as global supply chain further diversifying production lines out of China</li> </ul>	<ul style="list-style-type: none"> <li>– Indirect pressure from negative sentiment in capital market in short-term, but expected to normalize in the long-run</li> </ul>	<ul style="list-style-type: none"> <li>– Short-term pressure on new premium and claims pay-out</li> <li>+ Deepening risk education and increasing insurance awareness accelerate long-term growths</li> </ul>	<ul style="list-style-type: none"> <li>– Discounted valuation in secondary and primary market during outbreak, but expected to normalize in the long-run</li> </ul>	<ul style="list-style-type: none"> <li>– Unstable sales team due to sharp declining in new business and commission</li> <li>– Increasing reputational risk with more “blow ups” as economy further slow down</li> <li>– Accelerate Industry reshuffle</li> </ul>

# EXECUTIVE SUMMARY – KEY AGENDAS FOR FINANCIAL INSTITUTIONS

We observe 7 key agendas for FS executives to capture new growth opportunities while defend existing positions

	Key Agenda	Rationale
Offensive Agenda	<b>1</b> Digital acceleration	The outbreak future boosts online usage of financial services; traditional FS players should consider where to compete in the value chain as tech players further flourishing
	<b>2</b> Health insurance growth strategy	With the promotion of insurance awareness by the outbreak, opportunities for health insurers are unprecedented and can be captured with well developed growth strategy
	<b>3</b> Healthcare sector holistic solution	Develop sector specific solutions to ride with the potential healthcare boom after the outbreak will help banks generate substantial growth
	<b>4</b> Supply chain migration opportunities	As the outbreak accelerates global supply chain to diversify production and sourcing lines out of China, Chinese banks' role along the shift should be redefined for new business opportunities
Defensive Agenda	<b>5</b> NPL Management	NPL management will be essential for Chinese banks to deal with increasing bad loans after the outbreak and retain long-term creditworthiness
	<b>6</b> Business continuity management	The outbreak put extensive pressure on business continuity management (BCM), which should have been developed and tested periodically during normal time
	<b>7</b> Recession readiness	As the risk of global pandemic is rising, financial institutions and regulators should be prepared for a potential global recession

**01**

**MACRO IMPACT**

# EPIDEMIC SITUATION

The outbreak is effectively controlled within China, but we are now facing global risk of COVID-19 turning into a pandemic

## Characteristics of COVID-19



Highly infectious through various transmission route



Lower death rate compared to SARS



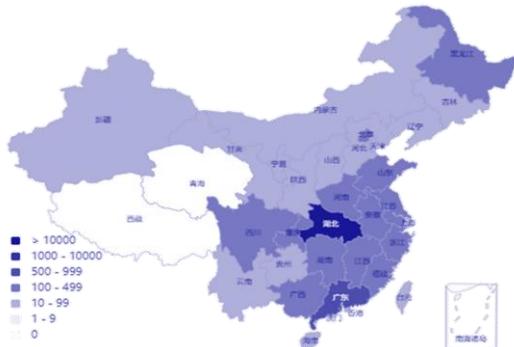
Senior citizen and people with existing conditions being more vulnerable



Spread by Spring Festival transportation peak



With strict government control, epidemic situation in China is stabilizing...

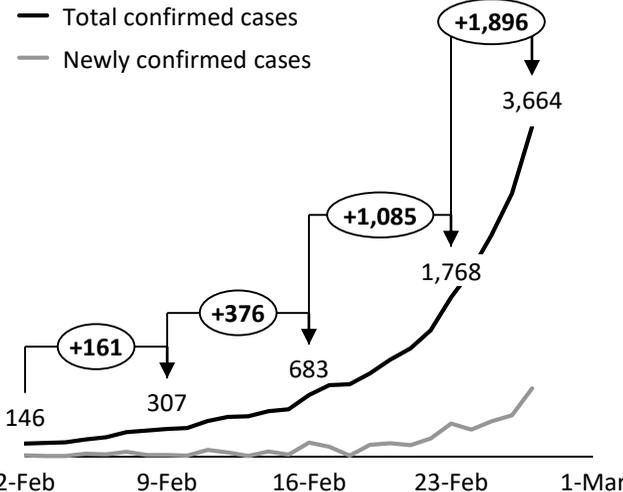


- Number of new confirmed cases has been dropping since Feb 3<sup>rd</sup> outside HUBEI, and since Feb 14<sup>th</sup> in HUBEI
- Number of total existing cases has been dropping since Feb 12<sup>th</sup> outside HUBEI and since Feb 19<sup>th</sup> in HUBEI
- 24 provinces reported 0 new case on Feb 27<sup>th</sup>



... however, the world is now facing growing risk of global pandemic

Total/newly confirmed cases globally outside China



### High risk country (As of Feb 28<sup>th</sup>)

Korea	1766
Japan	186+705 (Princess Diamond)
Italy	400
Iran	141
Singapore	93
US	59
Thailand	40

Source: WHO, China national health commission of the People's Republic of China, Dingxiangyuan, Oliver Wyman analysis

# MACRO IMPACT: CHINA

Challenges – the Chinese government had to put the economy on hold to control the epidemic situation, which would result in short-term negative impact

## Stricter control compared to SARS

Shorter time to start nationwide epidemic control

**5 months** for SARS

vs.

**~2 months** for COVID-19

Stricter control on population movement

**Individual Hospital in Beijing** sealed off during SARS

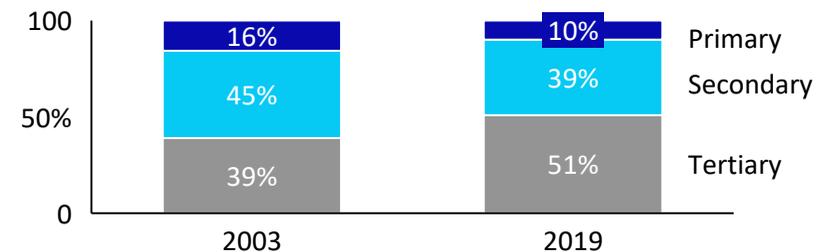
vs.

**Whole HUBEI province** sealed off for COVID-19

Source: WIND, National Statistical Bureau, The Economist, Oliver Wyman analysis

## More severe hit by COVID-19

China GDP contribution by sector in 03 vs.19 (%)



### Shrinking customer demand

- Stricter control on population movement
  - Hubei province sealed off
  - 14-day quarantine required by 20+ provinces
- Decreasing international business due to declaration of PHEIC by WHO

### Insufficient labor supply

- Unauthorized commencement of working days is forbidden under the strict control
- Labor intensive primary and secondary industry will be affected most

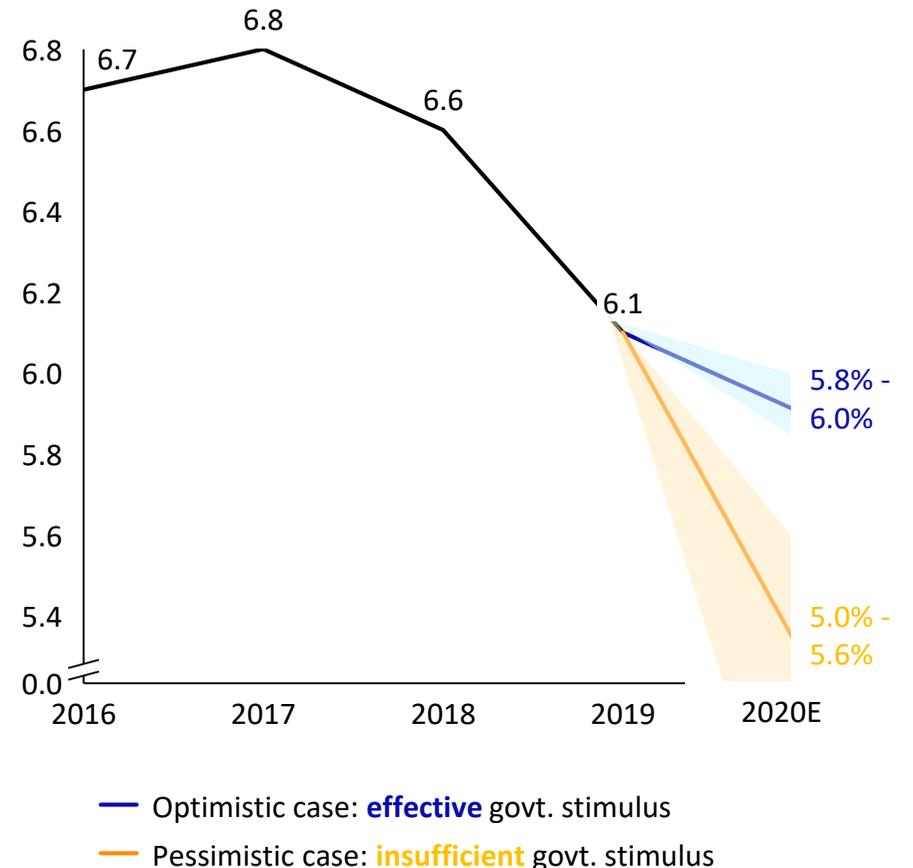
# ECONOMIC IMPACT: CHINA

Challenges – with China coming back online, the government has announced packages to support the economy but with global uncertainties, it might be hard to gauge the magnitude of the stimulus, which should be a watch point

## China government stimulus can be expected but its effectiveness is unclear; risk of overheating also exists

- Till now, as reported<sup>1</sup>, over 60% of firms has resumed production nationwide, and 30% of migrants have come back to tier 1 cities
- Along with the resumption, China government starts to introduce a series stimulus to maintain economic growth, and we believe there will be more to come, incl. industrial, fiscal and monetary policy.
- However, even the stimulus is effective, multiple uncertainties exist for economic growth
  - The world is now facing growing risk of **global pandemic**, which may lead to global recession
  - **World war** may resume considering upcoming US election in Nov
  - With last round of overheating stimulus in mind, how to adjust economy stimulus and combine it with economy transformation & supply-side structural reform will be key focus and challenge of 2020 economy policy
- In the interconnected world, China government is still facing significant challenges

## Oliver Wyman prediction of China GDP growth (%)

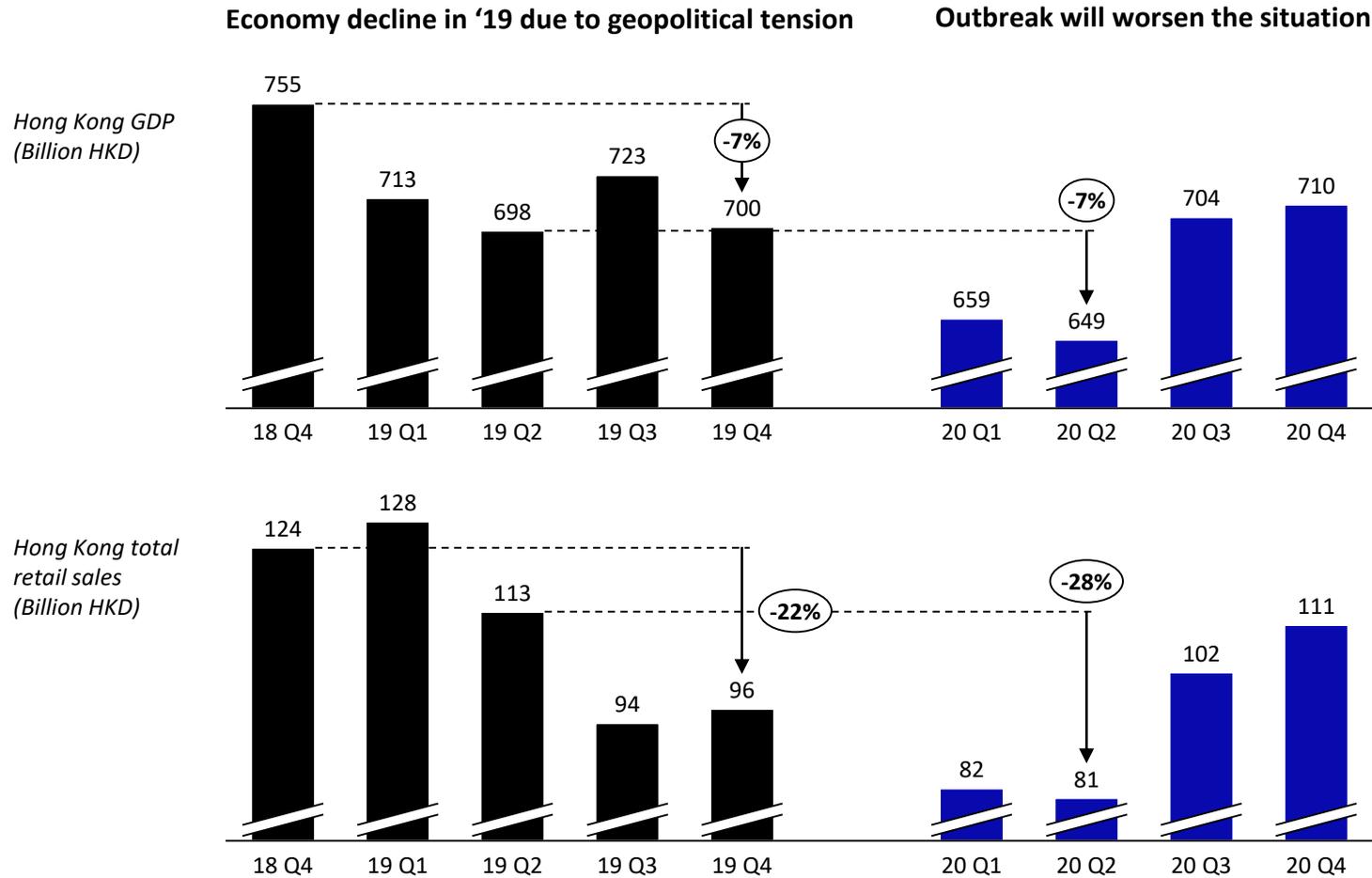


1. Caixin: <http://datanews.caixin.com/2020-02-26/101520776.html>

Source: National Statistical Bureau, Oliver Wyman analysis

# ECONOMIC IMPACT: HONG KONG

For Hong Kong, adding on the declining trend caused by the geopolitical tension in 2019, COVID-19 is expected to worsen the situation – targeted government support will be essential for a speedy recovery



*Creative & targeted government support in providing stimulus will be essential for HK recovery*

Source: HK Census and Statistics Department, Oliver Wyman analysis

# ECONOMIC IMPACT: GLOBE

The outbreak in China alone is expected to lower 2020 Global GDP growth by 0.2%-0.5%; meanwhile, the risk of global pandemic and recession is rising, given the situation in Korea, Japan, Iran and Italy

Known risk  
Loss in China economy

Known risk  
Loss in global supply chain

Unknown risk  
Potential global pandemic

- China GDP has reached ~ 100 TN RMB in 2019 and **ranked #2** after US
  - In 2003, China accounted for **4.3% of global output**
  - Now China accounts for a whopping **17% of global GDP**
- China economy growth is expected to drop by 0.5%-1.6% in 2020,
- **China is current an irreplaceable part in global supply chain**
  - China's **dominant position in mass production** is well established globally;
  - ...and is recently seeking for greater benefits by involving more in higher-end activities
- **Shutdown time in China disarranges global supply chain**
  - E.g. leading car manufacturers RENAULT, SUZUKI, HONDA, JLR are forced to reduce production due to insufficient components supply
  - E.g. Apple and other high tech firms also claim reduction in Q1 sales due to pandemic
- ... this leading to **speed-up of supply chain re-organize out of China** which requires **additional investment**

- **Risk of global pandemic is rising...**
  - Large scale community transmission has started in Korea, Japan and Italy, which increase risk of neighboring countries and even regional outbreak
- If global pandemic happens, it's highly likely to send the **global economy into a recession**
- **Global communication and collaboration** is very essential to deal with the international issue; macro control in individual country is hard to handle cross-country uncertainties



According to Deutsche Bank<sup>1</sup>, the epidemic in China, the world's second largest economy after the US, will **lower global GDP by**

- **0.5% in Q1**
- **0.2% in 2020 whole year**

According to OECD forecast on Mar 2<sup>nd</sup>, **global economy growth is expected to drop from 2.9% to 2.4%** with Japan and Europe facing recession risk<sup>2</sup>



*More severe GDP retreat if global recession happens*

1. Deutsche Bank: Impact of the novel coronavirus on global GDP growth

2. Yicai news: <https://www.yicai.com/news/100529952.html>

**02**

**KEY AGENDA FOR FINANCIAL SERVICES EXECUTIVES**

# IMPACT ON FINANCIAL SERVICE: RISK AND WARNING

Failures in SMEs and a slower income growth may pose a deeper impact on the economy; at the same time, it is often difficult to target precisely with stimulus – defaults from those 2 sectors may have poses further risks

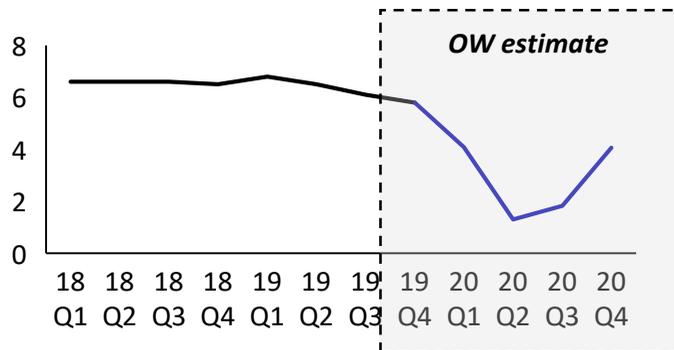
## SMEs facing survival crisis in the outbreak

- SMEs are forced to shut down during the outbreak, and are hard to survive for more than 3 months due to cash flow constraints
  - >90% postponed their business re-open date
  - >50% delayed for 2+ weeks and have no clear re-open till now
- According to PBOC, MSMEs contribute
  - >60% GDP and >50% tax
  - >80% employment in China now



## Higher unemployment and lower personal disposable income due to corporate layoff and SME failure

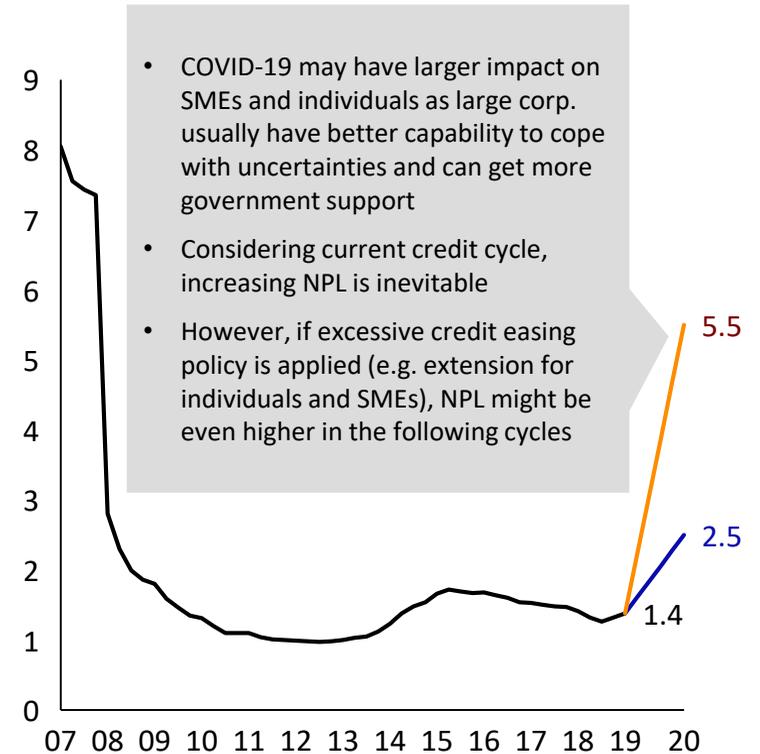
Disposable income growth rate (%)



SME loan default



## China commercial bank NPL Ratio (%)



- COVID-19 may have larger impact on SMEs and individuals as large corp. usually have better capability to cope with uncertainties and can get more government support
- Considering current credit cycle, increasing NPL is inevitable
- However, if excessive credit easing policy is applied (e.g. extension for individuals and SMEs), NPL might be even higher in the following cycles

- Basic case (Defaults naturally caused by epidemic and the credit cycle)
- Pessimistic case (Credit cycle overly suppressed caused by excessive counter-cyclical easing policy)



Personal loan default



Source: WIND, National Statistical Bureau, PBOC, Economy Daily and Postal Savings Bank of China, Oliver Wyman analysis

# IMPACT ON FINANCIAL SERVICE: OPPORTUNITIES AND CHALLENGES

While offline economy is hit hard by the outbreak, an opportunity window has opened for online businesses; it is also a key takeaway for financial institutions

## Online booming in retail space

 <p><b>Online healthcare</b></p>	<ul style="list-style-type: none"> <li>Ping'An Doctor daily consultation is <b>9 times</b> of average number before outbreak, <b>total visitors reaching 1.1BN</b></li> <li><b>30% of consultation</b> on DingXiangYuan is about COVID-19, and visitors to read COVID-19 info <b>reaches 28MM</b></li> </ul>	 
 <p><b>O2O E-commerce</b></p>	<ul style="list-style-type: none"> <li><b>Customers will be better educated</b> for online fresh purchase after the outbreak</li> <li>For major players (incl. Miss Fresh, JDDJ, Hema, Dingdong, Yonghui), transaction during Spring Festival <b>increased by 200%-350%</b> compared to Spring Festival last year</li> </ul>	 
 <p><b>Online education</b></p>	<ul style="list-style-type: none"> <li><b>DAU increased by 20%-100%</b> for major online education APPs after launching online courses during the outbreak</li> </ul>	
 <p><b>Remote office software</b></p>	<ul style="list-style-type: none"> <li><b>New user increase growth rate<sup>1</sup></b> for remote office APP / software reaches <b>580%+</b> during 2020 Spring Festival</li> <li><b>New user increase growth rate<sup>1</sup></b> of Dingding, Zoom and corporate WeChat reaches <b>703%, 662% and 299%</b> separately</li> </ul>	 

## Increasing online financial services usage

<p><b><u>Online financial service to fulfill daily demand</u></b></p> <ul style="list-style-type: none"> <li><b>Online banking &amp; wealth management</b> <ul style="list-style-type: none"> <li>Alipay daily mutual fund purchase <b>increased by 400%</b> in first 2 weeks in Feb</li> <li>Merchants bank APP online WM customer interaction reached <b>240K times</b> in Feb</li> </ul> </li> <li><b>Online insurance brokerage:</b> <ul style="list-style-type: none"> <li>Ant financial insurance premium income in Feb is expected to grow by <b>30%</b></li> <li>Zhong'An has realized up to <b>100% daily premium income growth</b> since Jan 2th</li> </ul> </li> </ul>	  
<p><b><u>Payment / instalment service support for increasing online service transaction</u></b></p>	 
<p><b><u>To-B financial service</u></b></p> <ul style="list-style-type: none"> <li><b>2B SaaS platform</b> <ul style="list-style-type: none"> <li>a 2B turn key asset management platform, signed a <b>dozen new service contracts</b> with FIs, including third party WM, insurance, trust companies</li> </ul> </li> <li><b>ERP system and cash flow management to support business continuity</b></li> </ul>	

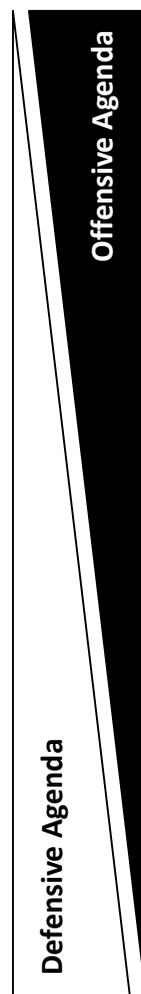
1. New user increase growth rate = (new user increase during 2020 Spring Festival – new user increase in 2019 Spring Festival) / new user increase during 2020 Spring Festival

Source: Questmobile, expert interview, internet data, Oliver Wyman analysis

# BASED ON THE LONG-TERM TREND OF THE INDUSTRY, WE FURTHER ASSESSED THE SHORT-TERM IMPLICATION OF THE COVID-19 OUTBREAK

	Banks	Securities Firms	Insurance Companies	Asset Managers	Wealth Managers
Industry trend before COVID-19 outbreak	 <ul style="list-style-type: none"> <li>• Growth in asset and profitability began to decelerate, but still above 5%</li> <li>• Proactively address regulatory guidance on de-leveraging and orderly resolution of the perceived asset quality issue</li> </ul>	 <ul style="list-style-type: none"> <li>• Fundamental shifts from 'shadow banking' to 'capital market' bring tremendous opportunities</li> <li>• Expect market consolidation and pressure for small players</li> </ul>	 <ul style="list-style-type: none"> <li>• Double digit growth with government's promotion of commercial insurance, esp. in the health lines</li> <li>• Shift in product mix from investment to protection coping with regulatory direction</li> </ul>	 <ul style="list-style-type: none"> <li>• New regulations launched to promote active portfolio management while curb on shadow banking</li> <li>• Systematic shift from "quasi" investment managers to "professional" ones</li> </ul>	 <ul style="list-style-type: none"> <li>• Slowing economy and downturn of credit cycle resulted in multiple product "bursts" and put extensive pressure on the WM industry, esp. for third party WM companies</li> </ul>
COVID-19 outbreak impact on market trend	<ul style="list-style-type: none"> <li>• Increasing penetration of online business</li> <li>• Highlights of capabilities in deal with business continuity planning &amp; management</li> </ul> <ul style="list-style-type: none"> <li>— New NPL accumulating that challenges NPL management capabilities</li> <li>— Loosing in trade finance as global supply chain further diversifying production lines out of China</li> </ul>	<ul style="list-style-type: none"> <li>— Indirect pressure from negative sentiment in capital market in short-term, but expected to normalize in the long-run</li> </ul>	<ul style="list-style-type: none"> <li>— Short-term pressure on new premium and claims pay-out</li> <li>+ Deepening risk education and increasing insurance awareness accelerate long-term growths</li> </ul>	<ul style="list-style-type: none"> <li>— Discounted valuation in secondary and primary market during outbreak, but expected to normalize in the long-run</li> </ul>	<ul style="list-style-type: none"> <li>— Unstable sales team due to sharp declining in new business and commission</li> <li>— Increasing reputational risk with more "blow ups" as economy further slow down</li> <li>— Accelerate Industry reshuffle</li> </ul>

# WE HAVE OBSERVED 7 KEY AGENDAS FOR FS EXECUTIVES TO CAPTURE NEW GROWTH OPPORTUNITIES WHILE DEFEND EXISTING POSITION



	Key Agenda	Rationale
<b>1</b>	<b>Digital acceleration</b>	The outbreak future boosts online usage of financial services; traditional FS players should consider where to compete in the value chain as tech players further flourishing
<b>2</b>	<b>Health insurance growth strategy</b>	With the promotion of insurance awareness by the outbreak, opportunities for health insurers are unprecedented and can be captured with well developed growth strategy
<b>3</b>	<b>Healthcare sector holistic solution</b>	Develop sector specific solutions to ride with the potential healthcare boom after the outbreak will help banks generate substantial growth
<b>4</b>	<b>Supply chain migration opportunities</b>	As the outbreak accelerates global supply chain to diversify production and sourcing lines out of China, Chinese banks' role along the shift should be redefined for new business opportunities
<b>5</b>	<b>NPL Management</b>	NPL management will be essential for Chinese banks to deal with increasing bad loans after the outbreak and retain long-term creditworthiness
<b>6</b>	<b>Business continuity management</b>	The outbreak put extensive pressure on business continuity management (BCM), which should have been developed and tested during normal time
<b>7</b>	<b>Recession readiness</b>	As the risk of global pandemic is rising, financial institutions and regulators should be prepared for a potential global recession

# 1 DIGITAL ACCELERATION

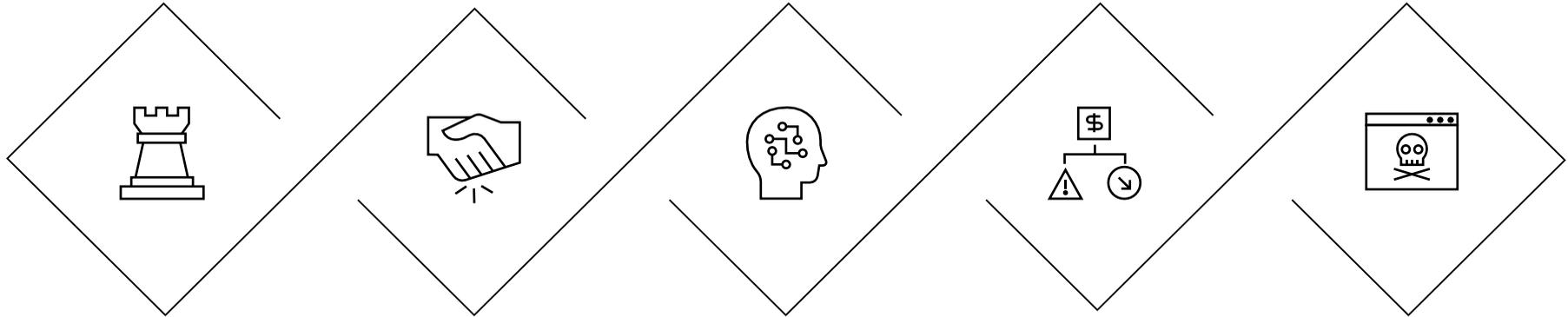
Incumbent FIs are at risk of losing client ownership as 'new challengers' emerge across the FS value chain, while the outbreak has made the situation more urgent for traditional FIs



New
Incumbent
 New Distribution Network
  Traditional Distribution Flows

# 1 DIGITAL ACCELERATION

Accelerated digital transformation could be achieved through the following 5 critical topics



## Digital Strategy

- Develop digitalization transformation plan that manage threats and channel disruptive forces for growth
- Tailor strategy with digitization and industry expertise

## Digital Partnership

- Identify use cases for effective partnership
- Prospect partners and support partnership proposition development
- Develop tangential plan and operating model for the partnership

## Digital Analytics

- Prioritize objectives and define business requirements
- Develop and deploy customized analytical tools to accelerate time-to-value

## Digital Cost Allocation

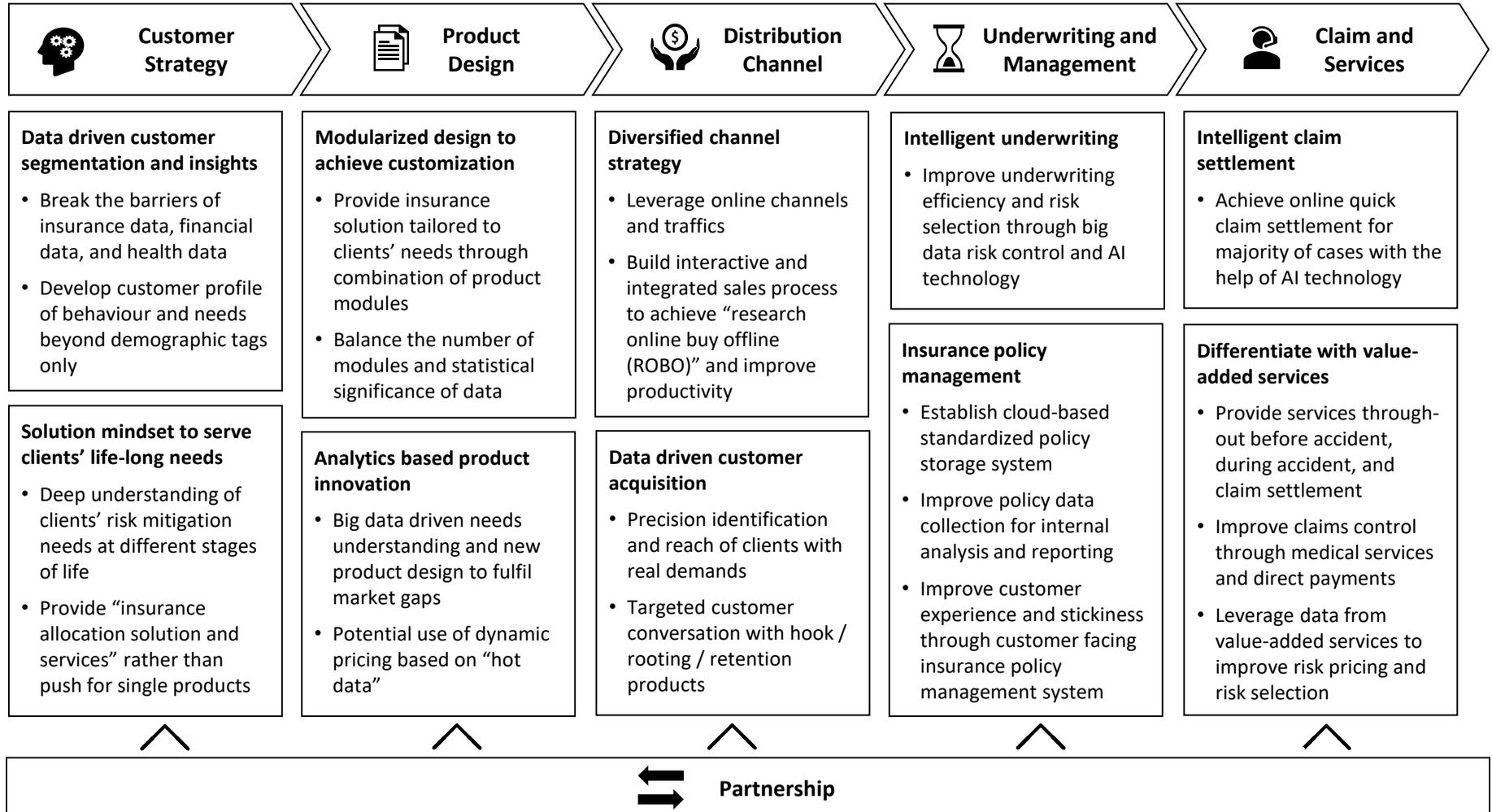
- Create cost transparency and change cross-BU engagement model
- Enable better decisions based on data
- Provide an equity story on digital investments

## Digital Risk Management

- Identity new risks emerging from digitalization
- Redefine risk functions to become risk and digital centres of excellence to both support business and mitigate risks

# HEALTH INSURANCE GROWTH STRATEGY

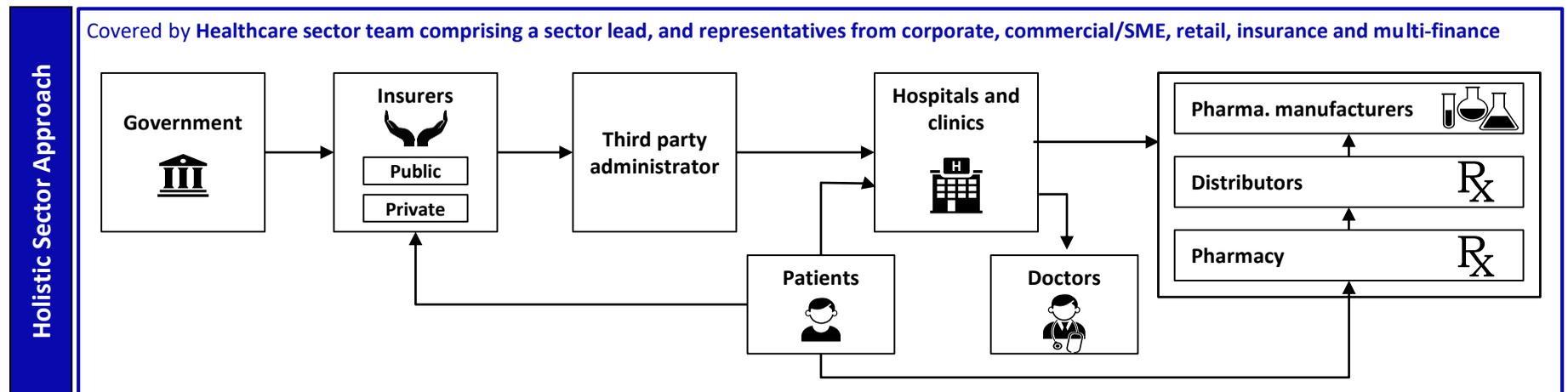
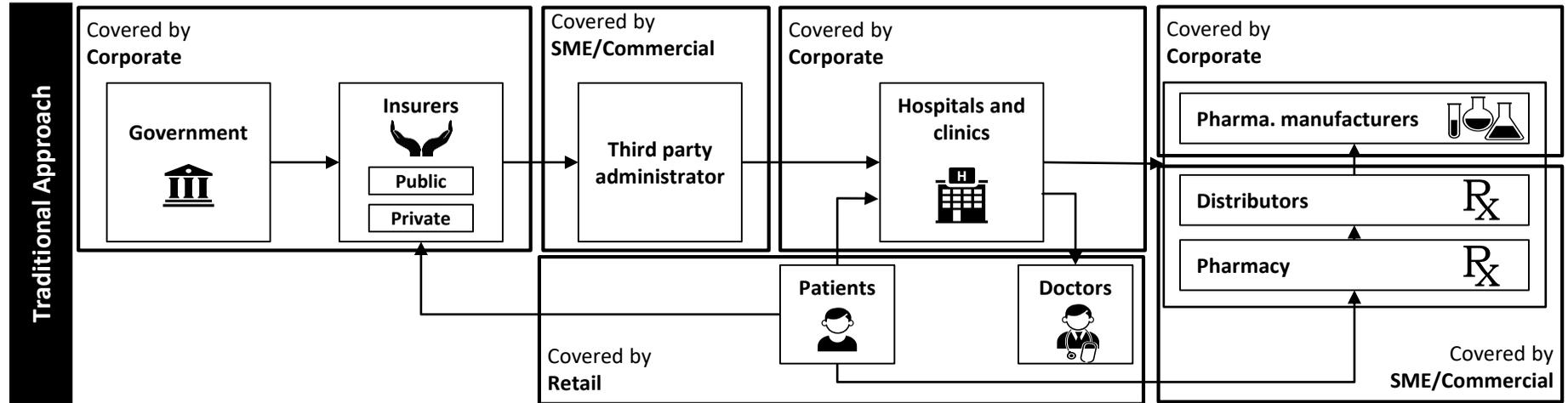
A well developed growth strategy with In-depth market understanding and customer insights can help health insurers seize the next wave of market growth after the outbreak



3

## HEALTHCARE SECTOR HOLISTIC SOLUTION

To ride the expected healthcare boom after the outbreak, banks should transform from serving distinct clients to serving the whole value chain



# HEALTHCARE SECTOR HOLISTIC SOLUTION

Case study: One bank's strategy involved the design of tailor made products to address payments pain-points across healthcare sector's ecosystem

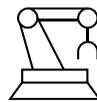
## Exploring broader industry processes and financial interlinkages highlighted pain points



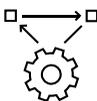
Significant delays and reconciliation issues in claims processing (e.g. insurance claims)



High administrative costs incurred in chasing and reconciling outstanding receivables (e. g. supplier pharmaceuticals)

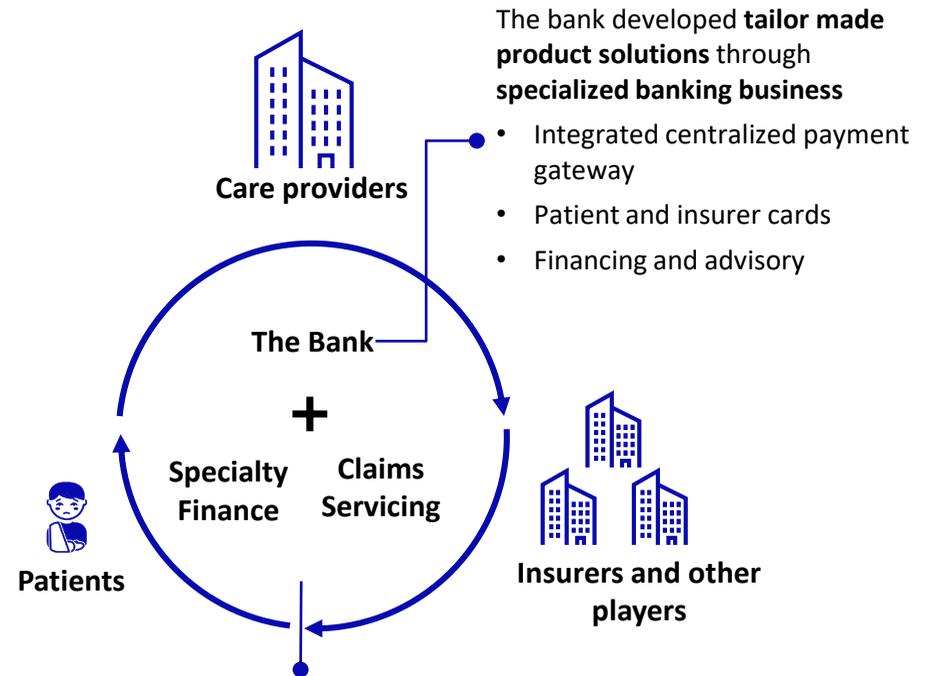


Mostly manual payment processing with no unified platform



Higher working capital requirements, poor service delivery, and duplication and billing issues

## ... enabling the bank to tailor product solutions and become integral part of healthcare ecosystem



## Wider range of tailored products/ services for healthcare professionals through subsidiaries .

- Equipment financing .
- Health claims and payment solutions .
- Practice Purchase & Improvement .
- Insurance, etc.

### 3 HEALTHCARE SECTOR HOLISTIC SOLUTION

Banks which implemented sector strategy solution have enjoyed substantial growth across wide range of business metrics

#### Sector solution strategy impact

Based on past project experience for sectors after implementing sector solutions

**15–20%**

RoRWA uplift



- Driven by a combination of factors:
  - Higher client share of wallet
  - Increased fee income
  - Lower customer acquisition and servicing costs

**30–40%**

Growth in CASA balance



- Achieve transaction bank status to attract deposit-rich sub-segment of the prioritized sectors
- Develop solution that address current pain-points in meeting their banking needs

**20–30%**

Lower customer acquisition costs



- Leverage anchor relationships in a sector to reach attractive customer sub-segments
- Set up value chain solutions and programs to allow rapid customer acquisition

Source: Oliver Wyman project experience

# 4 SUPPLY CHAIN MIGRATION OPPORTUNITIES

Supply chain migrating out of china will be a gradual process, while preamp the business opportunities along the shift will lead to first mover advantage



## Challenges for corporates

### Complicated Planning

- Multiple target countries to fill up the full production capacity of China
- Partial migration vs. end-to-end pending on suppliers of parts and components
- Long ramp up time required leads to reshoring risk

### Multiple-border complexity

- With upstream manufacturing, downstream installation, and end customers potentially all in different countries, it creates complexity for supply chain management

### Treasury capability upgrade

- Increasing multi-country exposures and funding needs increase corporate's vulnerability
- Offshore treasury management as new territory for some Chinese corporates

### Industry upgrade challenge

- Capital originally deployed in China production lines need to be redeployed after migration ...
- ... which will likely flow into new economy sectors (such as smart automobiles, gig economy, etc.) that are in need of banking solutions

## Opportunities for banks

- **Advisor services** on cross-broader trade and customs processes to help clients make well-informed decisions
- **Provide financing** for suppliers in target country to help build capacity

- **Advisor services** on supply chain management (i.e., procure to pay solutions) and working capital (i.e., funding strategy)
- **FX and rates solution** across various countries to improve production margin

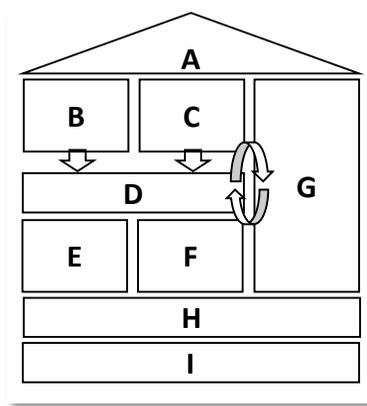
- **Risk management solutions** (such as forwards) to hedge new business risks
- **Treasury advisory** to help corporate setup and optimize offshore treasury management structure

- **Next generation banking proposition** for new economy sectors to help them grow, such as
  - Micropayment services in smart automobiles
  - Massive payment and reconciliation flows in gig economy

# 5 NPL MANAGEMENT

Oliver Wyman’s NPL management framework can help Chinese banks effectively deal with accumulating NPLs and improve credit positioning

## Oliver Wyman’s NPL Management framework



Core dimensions	Examples of typical components of each dimension
<b>A Organization and Governance</b>	<ul style="list-style-type: none"> <li>Organizational structure, team and channel configuration, departments and committees</li> <li>Units responsibility perimeter</li> </ul>
<b>B Customer segmentation</b>	<ul style="list-style-type: none"> <li>Customers segmentation, as the foundation of tailored resolution strategies</li> </ul>
<b>C Analytics and tools</b>	<ul style="list-style-type: none"> <li>Suite of analytical tools (segmentation, solutions, valuation, impact assessment)</li> <li>Tools required to support processes</li> </ul>
<b>D Resolution strategies and processes</b>	<ul style="list-style-type: none"> <li>Differentiated resolution strategies and processes for each customer segment</li> <li>Level of industrialization required vs. case-by-case management</li> <li>Processes to enable identification and treatment of clients at risk</li> <li>Client handover processes</li> </ul>
<b>E Collateral Management</b>	<ul style="list-style-type: none"> <li>Collateral management and valuation</li> <li>Standardized and clear process</li> </ul>
<b>F Out-sourcing Management</b>	<ul style="list-style-type: none"> <li>Analytics based out-sourcing decision making</li> <li>Out-sourcing counterparties evaluation in batches</li> <li>Redistribution of cases among out-sourcing counterparties based on evaluation</li> </ul>
<b>G Monitoring and reporting</b>	<ul style="list-style-type: none"> <li>Resolution efficiency monitoring</li> <li>Resolution dashboard and reporting</li> <li>Operational and financial reporting</li> </ul>
<b>H Talent and personnel</b>	<ul style="list-style-type: none"> <li>Training and up-skilling</li> <li>Capacity management</li> <li>Performance management framework</li> </ul>
<b>I Technology and Infrastructure</b>	<ul style="list-style-type: none"> <li>Case manager tools to support decisioning and workflow management</li> <li>Data management infrastructure</li> </ul>

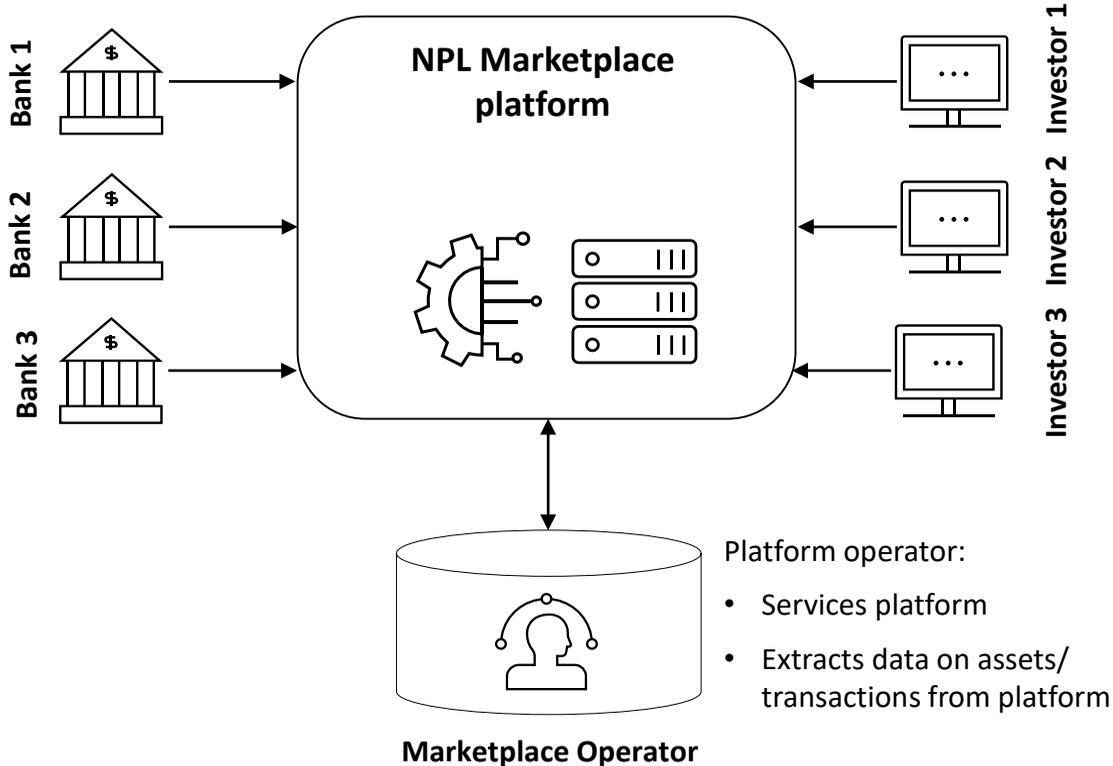
# 5 NPL MANAGEMENT

Meanwhile, market leaders and/or regulatory could potentially build an NPL electronic trading platform to help improve NPL management efficiency for the whole market

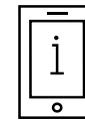
## Illustration of NPL marketplace

Banks submit NPLs to platform

Investors acquire assets via platform



## Benefits of NPL marketplace



Information transparency



Lower costs



Increased liquidity

# 6 BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management is a holistic management process that improves an organization's resilience to disruption of normal operations, such as the outbreak

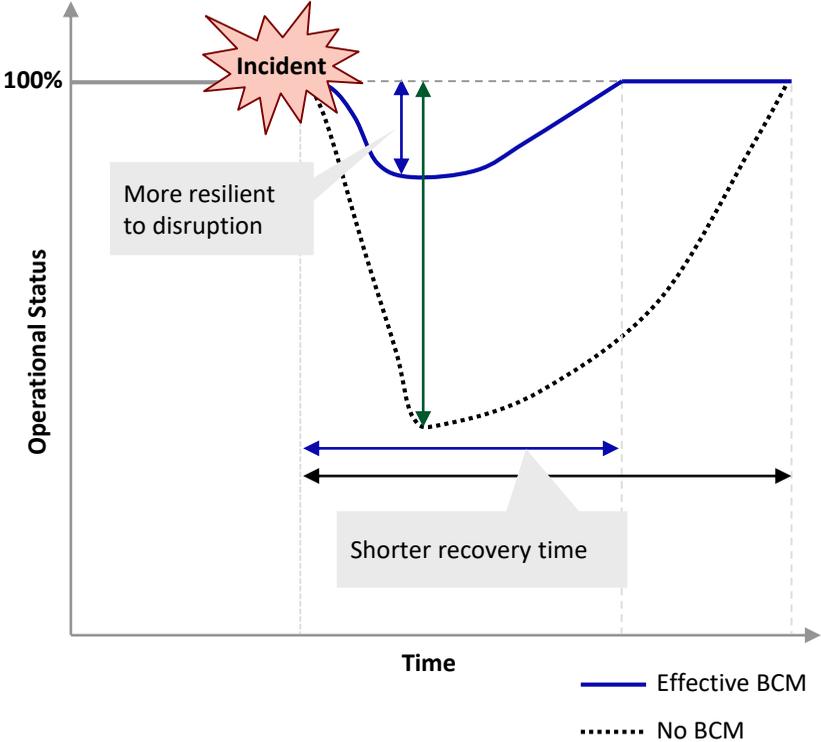
## ISO's definition of BCM

*Holistic management process that identifies potential threats to an organisation and the impacts to business operations those threats, if realised, might cause, and which provides a framework for building organisational resilience with the capability of an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities*

## Objective of BCM

- To develop Business Continuity Plans (BCPs) to ensure continuation of critical functions in the event of a crisis
- To implement and practice these plans so they can be executed effectively, if and when a crisis actually occurs
- To improve efficiency and effectiveness of these plans over time, continually adapting to changing risks

## Illustration of effective BCM in action

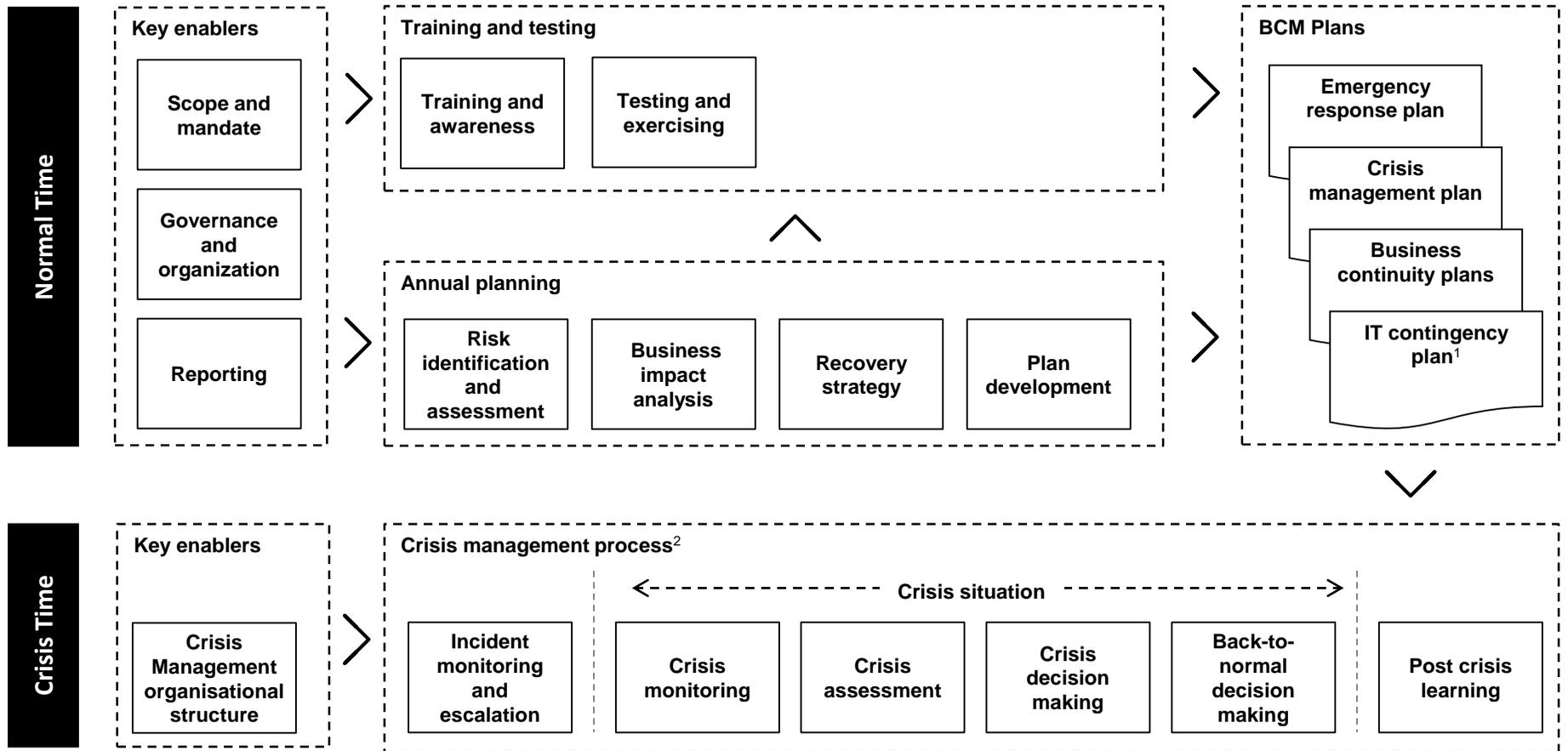


Source: ISO 22301, Oliver Wyman analysis

# 6 BUSINESS CONTINUITY MANAGEMENT

OW has developed a comprehensive and clear target state framework, as well as a vision for BCM function to guide the transformation

## Oliver Wyman's Business Continuity Management (BCM) framework



1. Designed and annually reviewed by IT department

2. Process guidelines will be documented in Crisis Management Plan (CMP)

# 7 RECESSION READINESS

Recovery and Resolution Planning (RRP) is designed to address financial institution failures, especially bank failures, and is key to systemic resilience in the potential recession scenario

	Recovery Plan		Resolution Plan
Question	<i>“How does a FI react in an emergency situation?”</i>		<i>“How can a FI be resolved in a structured way?”</i>
<b>Goals</b>	<ul style="list-style-type: none"> <li>Recovery of the FI from a distressed situation by adopting appropriate measures</li> <li>Ensuring a sufficiently large and well-designed portfolio of recovery measures</li> </ul>	<b>Degree of common elements</b>	<ul style="list-style-type: none"> <li>Proofing resolvability of the FI</li> <li>Ensuring the stability of the entire financial system in case of FI failure</li> <li>Minimizing burden to taxpayers</li> </ul>
<b>Components</b>	<ul style="list-style-type: none"> <li>Structure and business model</li> <li>Core business lines, critical functions</li> <li>Connectedness analysis</li> </ul>	<div style="background-color: #9999ff; padding: 5px; border: 1px solid black;">Strategic Analysis</div> 	<div style="background-color: #99ffff; padding: 5px; border: 1px solid black;">Strategic Analysis</div> <ul style="list-style-type: none"> <li>Capitalization, liquidity situation</li> <li>Critical systems/infrastructure</li> <li>Loss absorption capacity</li> <li>Separability</li> </ul>
	<ul style="list-style-type: none"> <li>Early warning triggers</li> <li>Recovery triggers</li> <li>Thresholds</li> </ul>	<div style="background-color: #9999ff; padding: 5px; border: 1px solid black;">Indicators and Triggers</div>	<div style="background-color: #99ffff; padding: 5px; border: 1px solid black;">Resolution strategy</div> <ul style="list-style-type: none"> <li>Resolution approach (SPE vs MPE)</li> <li>Resolution scenarios</li> <li>Implementation of resolution</li> <li>Recapitalization – Bail-in incl. analysis of liability cascades and loss absorption capacity</li> <li>Structural resolution measures (sales, bridge-institute, asset transfers)</li> </ul>
	<ul style="list-style-type: none"> <li>Definition of stress scenarios (qual. + quant.)</li> <li>Market-wide vs. specific</li> <li>Short- vs. long-term</li> </ul>	<div style="background-color: #9999ff; padding: 5px; border: 1px solid black;">Scenarios</div> 	
	<ul style="list-style-type: none"> <li>General recovery measure framework</li> <li>Specific recovery measures for scenarios</li> </ul>	<div style="background-color: #9999ff; padding: 5px; border: 1px solid black;">Recovery measures</div>	
	<ul style="list-style-type: none"> <li>General governance framework vs. crisis situation</li> </ul>	<div style="background-color: #9999ff; padding: 5px; border: 1px solid black;">Governance and Communications</div> 	<div style="background-color: #99ffff; padding: 5px; border: 1px solid black;">Business operations during resolution</div> <ul style="list-style-type: none"> <li>Ensuring sufficient financial resources and operative actionability in case of resolution               <ul style="list-style-type: none"> <li>Specific governance concept</li> <li>Availability of information</li> <li>Valuation</li> <li>Internal/external communication</li> </ul> </li> </ul>
<b>Legend:</b>	<ul style="list-style-type: none"> <li>Escalation processes</li> <li>Communication processes</li> </ul>		
<b>Common elements</b>			

# 7 RECESSION READINESS

we see 7 key lessons that China financial institutions can learn from international experience here

## Key Lessons learned

**I**

FIs had not adequately planned for their own recovery in the event of severe stress

**II**

Resolution by acquisition needs to be handled with care to avoid contagion to the acquirer

**III**

Clarity around supervisory governance is essential to effective crisis management

**IV**

Planning in advance for FI failure reduces the cost of that failure

**V**

Early and decisive action has a higher immediate cost – but materially lower long-term cost

**VI**

The largest and most complex institutions need a different resolution approach

**VII**

Balance sheet structure and state support weakened market discipline

# AUTHORS

## Hang Qian, Partner

- Partner in the Financial Services practice in Oliver Wyman
- Hang focuses on strategy consulting in consumer finance, retail banking, fintech and digitalization sector; he also specializes in risk management

## Justin Chen, Principal

- Principal in the Financial Services practice in Oliver Wyman
- Justin covers a wide range of topic in financial risk sector, incl. risk capital planning and strategy, risk modelling, recovery planning and compliance risk management and monitoring

## Jason Ekberg, Partner

- Partner and Head of Institutional and Corporate Banking practice in Asia
- Jason focuses on strategy consulting for leading corporate and investment banks across Asia

## Lingyi He, Associate

- Associate in the Financial Services practice in Oliver Wyman
- Lingyi has extensive experience in wealth and asset management, insurance, and risk management

## Jasper Yip, Principal

- Principal in the Financial Services practice in Oliver Wyman
- Jasper has extensive experience with various corporate and institutional banking clients and private equity firms across Greater China and South East Asia

## Linda He, Senior Consultant

- Senior Consultant based in Oliver Wyman's Shanghai Office
- Linda has extensive experience in insurance, fintech and retail banking

Please contact following email if any questions or suggestions:

[ENQUIRY.GC@OliverWyman.COM](mailto:ENQUIRY.GC@OliverWyman.COM)

## **QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS**

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.



**OLIVER WYMAN**