WHITE PAPER

Is Your Bank Ready for a Digital Speed Bank Run?

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We recently outlined several important calls to action for banks in response to the recent crisis.

One aspect of this crisis that deserves further discussion is the unprecedented speed at which the events unfolded. The bank failures of SVB and Signature Bank in this crisis lasted two to three days, from the beginning of their runs to being placed into receivership. By contrast, the bank runs of the Great Recession that led to large bank acquisitions lasted 10 to 16 days. In the case of Washington Mutual during the financial crisis of 2008, customers withdrew $16.7 billion within two weeks. Banks should now be prepared for potential run scenarios that move at the speed of cyber crises.

Responding to a rapidly evolving liquidity crisis is not unlike responding to a cyber-attack, where speed, coordination, and control are of the essence. To prepare for a real-time run fuelled by social media, the liquidity crisis playbook needs to be fundamentally rewritten, leveraging learnings from these recent events as well as key cyber and reputational crises.

Prepare Sooner and Better

There are several ways in which banks must be preparing to manage a potential liquidity crisis.

Increase visibility into your deposit base. Some depositors matter more than others due to their influence and impact. Network analysis, like that used for financial crimes, should be used to determine the linkages in the deposit book and identify nodes which are connected or have influence over others. Old fashioned analysis of concentration risk does not capture or visualise these critical points across the deposit network.

In the case of the recent bank run, influence was concentrated in a few VCs that accelerated the runoff by advising their portfolio companies to move their money. Having this critical information mapped out in advance will allow banks to enhance monitoring of those influencers and their networks. This enables them to identify early warning signs of attrition and to proactively manage their engagement in a crisis.

Improve your monitoring. Early detection of the onset of a crisis can prevent or slow down a crisis event unfolding. Banks should ensure their media monitoring is comprehensive, covering social and traditional media, as well as influencers and networks in their deposit base. This monitoring capability should be tuned to identify messages and sentiment related to a liquidity crisis, in addition to general reputation and brand issues.

Banks should also ensure that they have robust early warning indicators in place to monitor market, deposit, and liquidity dynamics. Current KRIs and fraud transaction monitoring systems can be leveraged for this monitoring, but unlike KRIs, the media monitoring and early warning indicators need to be updated throughout the day, if not real-time.

Having a timely view of market and media sentiment during a crisis timeline, measured in hours rather than days, can give you a multi-hour head start. This could potentially provide a massive advantage.

Speed up your crisis playbook. Most banks have an existing liquidity crisis response plan, but these will need to be dusted off and rewritten urgently. Getting the pace of response right relies on better preparation now:

- Review governance and decision rights and decide how they need to change in a crisis. Most cyber playbooks empower the CISO or a small group with extraordinary decision-making authority to protect the bank. During a real-time run, the Treasurer or CFO will need to operate in a similar manner. Decide now what extraordinary authority will be granted and how senior management, the Board, and regulators will be consulted and informed.

- Prepare for key business decisions in advance, such as expanding the current sources of liquidity with a detailed playbook for execution. This must span from the treasury to the business, to front office elements like the repo desk.

- Prepare to stand up your customer-facing staff on demand, and at any time. Managing the message in a crisis is vital and delivering that message directly through relationship managers and customer service agents is a highly effective means of countering negative sentiment, and ultimately stemming the damage.

- Have communication materials pre-approved and ready, including key facts and data. This will allow them to be deployed quickly online, in social media, and through the workforce. To support this approach, design a streamlined approval process for additional materials so they can be approved in minutes rather than days.

- Know how long you must continue the business. Just like recovery time objectives in business continuity, understand the window where you continue to have option value and track it closely.

Pressure-test your crisis response plan. Like a Cyber crisis, a liquidity crisis could feel like an attack on the bank. The response will require rapid coordination across many teams, who will be dealing with non-stop demands and external actors creating a negative narrative. Writing a good crisis response plan isn't enough. The plan should be tested and rehearsed, using tabletops or war games to ensure its feasibility, and to give employees and the Board the chance to experience what the response might look and feel like.

A common challenge in a crisis is not having enough time to make sense of chaotic inflow of information and having to answer questions relating to it. This is then exacerbated by a backdrop of public domain conversation. Because of this, the importance of effective teamwork cannot be overstated, and it should be a well-practiced skill.

Move Faster

Invoke your crisis response plan quickly. Make sure your thresholds and triggers for a crisis are clear and followed precisely, otherwise you risk losing precious time. Many traditional playbooks include a reputational damage section that describes outdated concepts. Leveraging real-time monitoring and fact-based triggers to drive escalation is paramount, as is having the communication channels and protocol set up to convene decision makers at any time, from any place. Teams should be activated at the first sign of trouble, rather than waiting for issues to self-resolve. The penalty for a false alarm is far less than failing to respond adequately to an existential threat.

Connect with your customers immediately. Lessons learned from this, and other crises, tell us how important it is to get to the customer first, especially the customers with influence. Use general online messages along with targeted communication to ensure your message gets heard and to maintain an open dialogue.

Counter the social media chaos. There are multiple platforms to cover and too many messages to respond to. Start with consistent messaging and then move to countering the themes and influencers that are receiving the most weight.

Be ready to pivot. As with the covid crisis, the playbook will not be able to anticipate exactly how things unfold. Situational awareness and gathering information to adjust your approach will be critical. Ensure that your team remains connected and coordinated to receive and share new information that could be used to steer your response.

What Should Banks Do Next

Simple steps can inject a new sense of pace into your crisis management playbook, equipping you to better respond in the age of digital and social media influence.

- Increase visibility across your deposit network
- Develop your proactive monitoring capability
- Update the playbook to support real-time decisions and communications
- Create a crisis communications framework, media, and social media strategy
- Use crisis exercises to pressure test plans and prepare teams

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