



**BANK OF ENGLAND**

## **OVERVIEW OF FINANCIAL SECTOR PANDEMIC FLU PLANNING**

### **Introduction**

A human influenza pandemic is one of the most significant risks the UK – and the rest of the world – faces. The Tripartite Authorities (HM Treasury, the Financial Services Authority (FSA) and the Bank of England) have therefore been working with firms, financial infrastructure providers, the Government, overseas financial regulators and other international organisations to ensure that the financial sector is prepared to deal with the consequences of a pandemic.

We are publishing this overview to inform businesses and the public of the work that has been done and is under way, and to provide information on how the financial sector expects to be able to deal with the consequences of a pandemic. For the purposes of this report<sup>1</sup>, we have focused on providing information on those sectors that are important to carrying out 'normal' daily activities, such as making withdrawals from ATMs.

The overview is divided into three sections. The first section looks briefly at the importance of the financial sector to the UK economy; the second focuses on the sector-coordinated planning that is under way; and the third outlines how the financial sector is planning to manage the consequences of a pandemic.

The report has been written with the assistance of the Retail Banks Business Continuity Group (RBBCG), the Securities Industry Business Continuity Management Group (SIBCMG), the British Bankers' Association (BBA), the London Investment Banking Association (LIBA), the Association of Foreign Banks (AFB), the UK Payments Association (APACS) and the Association of British Insurers (ABI). We would like to take this opportunity to thank them for the contribution they have made.

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<sup>1</sup> For information on the arrangements of the UK's essential services including telecommunications, energy and transport, please refer to the draft national framework for responding to an influenza pandemic, which was published by the Department of Health and Cabinet Office in March 2007. This is available from the Department of Health website: [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_073168](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_073168)

## 1. Role of the financial sector in the UK economy

The financial sector plays an important role in the functioning of the UK economy and contributes to economic growth and stability. It provides the necessary infrastructure to enable individuals, businesses and institutions to make and receive a range of payments including bills and salaries, to borrow and lend, to raise funds for investment, and to insure against risks. It also provides valuable employment and business opportunities. Financial services are included among other essential services such as food, energy and transport, as part of the UK's Critical National Infrastructure<sup>2</sup>.

A flu pandemic would result in higher long-term staff absences arising from illnesses, fatalities, fear and caring commitments, especially if schools were closed. In the financial sector, this could affect cash distribution, retail bank branches, claims processing and other areas which are dependent on people. In addition to people, the financial sector is also highly dependent on others, such as telecoms, IT, and transport. These are also likely to be affected by staff absences which could affect normal service levels, maintenance work, and response to technical difficulties.

In summary, a flu pandemic could reduce activity in the financial sector and also reduce its resilience against any further disruption. Disruption to the financial sector is likely to impact on the 'normal' daily activities of both households and businesses across the UK.

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<sup>2</sup> The Centre for the Protection of National Infrastructure (CPNI) provides protective security advice to businesses and organisations and in particular, focuses on the UK's critical national infrastructure. For more information, please visit their website: <http://www.cpni.gov.uk/>

## **2. Pandemic influenza planning in the financial sector**

The Tripartite Authorities and the financial sector are working together to improve planning for pandemic flu. Throughout 2006 a number of events such as the Tripartite Business Continuity Conference in July 2006 and seminars by trade associations helped increase awareness and culminated in a six-week Market-wide Exercise which focussed on pandemic flu.

### *Communicating with the financial sector*

The main channels through which the Authorities have communicated with the financial sector on planning for pandemic flu are the Financial Sector Continuity (FSC) website (<http://www.fsc.gov.uk/>) and the Financial Sector Discussion Group on Pandemics.

The FSC website provides links to a variety of information sources on planning for pandemic flu, including the potential economic and financial impacts of a pandemic. There are also notes that the Tripartite Authorities have produced in partnership with other government departments on planning issues, such as vaccines and antivirals and SIA (Security Industry Authority) licensing.

The Financial Sector Discussion Group on Pandemics which was established by the FSA in December 2005 is a useful forum to share good practice and identify areas where the Tripartite Authorities could help the sector better prepare. The Group comprises members from across the financial sector, including retail and investment banks, insurers, markets and exchanges, trade associations and the Association for Payment Clearing Services (APACS). The Group has considered a range of topics, including regulatory forbearance and cash distribution. It has also developed a list of business continuity issues that firms have considered as part of their planning for a pandemic, and this is available on the FSC website to assist other businesses with their planning.

### *Market-wide Exercise*

The resilience of the financial sector to a pandemic was tested in a six-week Market-wide Exercise in October/November 2006. Around seventy organisations and key market groups participated, some extending the exercise to overseas offices, and in all some 3000 individuals are believed to have taken part. The exercise simulated nearly six months of the first phase of a pandemic and the scenario progressed through increasing levels of absenteeism.

The purpose of the exercise was to provide each participant with an opportunity to test the effectiveness of their plans for responding to a flu

pandemic and to assess whether there were any sector-wide issues which might need to be addressed collectively.

Important lessons have been identified and are being progressed by individual institutions and sector groups. Participants individually are revising and strengthening their plans and the Tripartite Authorities are taking forward work to address cross-sector issues. The Market-wide Exercise report provides a summary of the key findings and proposed initiatives and is available on the FSC website (<http://www.fsc.gov.uk/section.asp?catid=468>). A follow up seminar in April 2007, hosted by the Tripartite Authorities, provided an opportunity to update participants on progress on the key issues and provided participants with an opportunity to discuss the changes they have made to their pandemic plans as a result of the exercise.

### *Engagement with Government*

The Government is also engaging directly with the financial sector on planning for pandemic flu. The Association of British Insurers (ABI) and the British Bankers' Association (BBA), for example, are members of the Cabinet Office's Business Forum on Pandemic Flu. The Forum was established in December 2005 to widen Government's engagement with the business community on pandemic flu planning and has helped Cabinet Office to develop guidance for businesses, such as the Pandemic Flu Checklist for Businesses (<http://www.ukresilience.info/publications/060516flubcpchecklist.pdf>).

### *International liaison*

The global nature of the threat means that international cooperation is crucial. The Joint Forum Working Group, of which the Tripartite Authorities are members, alongside representatives from the International Monetary Fund (IMF) and Financial Stability Forum (FSF), has been sharing information on pandemic issues. The Tripartite have contributed to a series of IMF-sponsored regional seminars in 2006 promoting awareness amongst central banks and regulatory agencies. Overseas regulators who contributed to the design and response to the Market-wide Exercise 2006 will be involved in follow up work and have also expressed an interest in running similar exercises.

### **3. How the financial sector is planning to manage the consequences of a pandemic**

#### *Cash*

A flu pandemic might lead to a short-term disruption to the cash distribution network which has a heavy reliance on labour and transport. Staff shortages could mean that, while there would be an adequate supply of cash in circulation to meet public demand, the normal arrangements for distribution and recirculation may be hindered. Some ATMs and bank branches may be closed for a period, but cash is of course available from a wide range of sources in addition to high street branches, such as remote ATMs and retailer cashback.

Cash is a resilient payment mechanism because it naturally recirculates between the public and retailers (both directly and via the banking system). It is also resilient because of its geographic dispersion – both in terms of the number of organisations that recirculate cash and the means of dispensing cash to the public (ATMs, branch counters, cashback). A flu pandemic would not impact the value or usefulness of cash because cash transactions are inherently very simple and are very difficult to disrupt.

There is no plausible scenario in which an overall shortfall in the supply of cash could arise. In the normal course of events, there are around £38 billion of Bank of England notes, £4 billion of Scottish and Northern Ireland notes and £3½ billion of coins in circulation in the United Kingdom. It is uncertain whether the public's demand for cash would change in a flu pandemic. It should be noted that substantial contingency stocks of notes are held by the Bank of England to be able to meet any increase in demand for its notes. It is also possible that demand for cash may fall if normal levels of retail spending are curtailed (e.g. in shops, pubs etc). Alternative means of payment (such as cards) will be available.

There are also a number of approaches that the Bank of England and the banks would seek to encourage in a flu pandemic to ensure that ready access to cash is maintained:

- (a) the substitution of other payment types instead of cash (e.g. greater use of cards), where possible;
- (b) the use of cashback from some retailers; and
- (c) the use of alternatives to ATMs e.g. over-the-counter from bank branches and Post Offices (although some may be closed by staff shortages).

The organisations involved in cash distribution are continuing to work with the Tripartite Authorities in 2007 to further improve the resilience of the cash distribution system; their assessment is that they are well-placed to keep an

adequate level of cash available throughout a pandemic and that cash withdrawals will be able to be made from satisfactorily convenient locations.

### *Payments systems*

Each of the UK's main payment systems – CHAPS, BACS, Cheque and Credit Clearing, Visa, MasterCard/Maestro, LINK – have robust arrangements to deal with an extensive range of contingencies, and this includes dealing with pandemic flu. In September 2006, most of these systems reported to a group of senior bankers on their preparedness to handle a flu pandemic.

Typically these systems rely on telecoms and IT services, which are expected to maintain near-normal service levels during a pandemic. Payment systems could also handle increased levels of business, if that was required. Where a payment system also relies on human resources, additional difficulties may arise. For example, a serious pandemic might result in cheques being processed more slowly than usual, although the number of cheques written may fall significantly.

### *Retail Banking*<sup>3</sup>

The large retail banks are all well advanced in their pandemic preparedness as demonstrated in the October/November 2006 Market-wide Exercise. In addition to their independent planning, the banks are collaborating through the Retail Banks Business Continuity Group (RBBCG) to ensure, where practicable, consistency in the approach and the way in which the industry will respond. The RBBCG is a working group consisting of Barclays Bank, Halifax Bank of Scotland, HSBC, Royal Bank of Scotland and Lloyds TSB. In respect of pandemic considerations, the group has invited the British Bankers' Association (BBA) and APACS to participate in the discussion.

In the interest of the wider UK retail banking community, the RBBCG advises progress on pandemic planning and co-ordination to the BBA Chief Executive's Committee from time to time, seeking recognition of plans produced, guidance on issues it is unable to resolve, and receiving endorsement of the work it undertakes.

Work is progressing on a variety of pandemic related issues at industry level to ensure customer disruption is kept to a minimum. The outcomes of this work will be shared with the Tripartite Authorities and trade associations periodically. In particular the RBBCG is working with the member banks suppliers, such as cash distribution and cheque processing, to understand the level of service that will be provided.

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<sup>3</sup> This contribution represents the views of RBBCG members and not the retail banking sector as a whole.

The retail banks recognise that normal levels of service may not be possible during a pandemic and will endeavour to provide their customers with sound and helpful advice throughout. National communication on banking issues will be coordinated through the British Bankers' Association and the Payments Council (as successor to APACS); other communications will be provided through national and local media channels which may include websites, newspapers, TV and radio.

### *Insurance*

The Association of British Insurers (ABI) works with its members to ensure that they are fully prepared for a pandemic. The insurers that took part in the October/November 2006 Market-wide Exercise demonstrated a high level of preparedness.

It is very difficult to predict in advance the impact of a pandemic on insurance claims. However, Swiss Re has published the results of some modelling<sup>4</sup> that estimates that a pandemic with a level of severity expected only once every 200 years would give rise to excess mortality of between 1 and 1.5 deaths per 1000 lives within an insurance portfolio.

On the commercial insurance side, disruption caused by pandemic flu is unlikely to be covered under most business interruption policies, which are intended to cover interruption caused by damage resulting from events like fire, flood and storm. Insurers advise businesses to prepare to cope with any eventuality that may have an impact on them, whether it be as a result of flooding, storm damage, terrorism or a flu pandemic.

The insurance industry recognises the importance of resilience planning generally and is working with Government and FSA to promote resilience planning within the financial sector as a whole.

Insurers are committed to high levels of customer service and will make every effort to continue to provide a good service during any pandemic including, for example, diverting staff from less critical activities to handle claims.

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<sup>4</sup> For more information on the model, please refer to 'Influenza pandemics: Time for a reality check?' which was a report published by Swiss Re in April 2007. This is available from the Swiss Re website: <http://www.swissre.com/INTERNET/pwswpspr.nsf/fmBookMarkFrameSet?ReadForm&BM=../vwAllbyIDKeyLu/idur-726c4g?OpenDocument>

## *Investment Banking*<sup>5</sup>

UK-regulated investment banks have for some time been preparing themselves against the threat of a global influenza pandemic.

Their common objectives are to safeguard the welfare of their staff, ensure the continued functioning of business activities required to protect client & shareholder interests and sustain stable financial markets.

Firms are closely monitoring the situation and are working with key counterparts, subject matter experts and regulators regarding appropriate planning measures.

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<sup>5</sup> This contribution represents the views of SIBCMG members and not the investment banking sector as a whole.