

BDO RISK ADVISORY SERVICES

FINANCIAL SERVICES

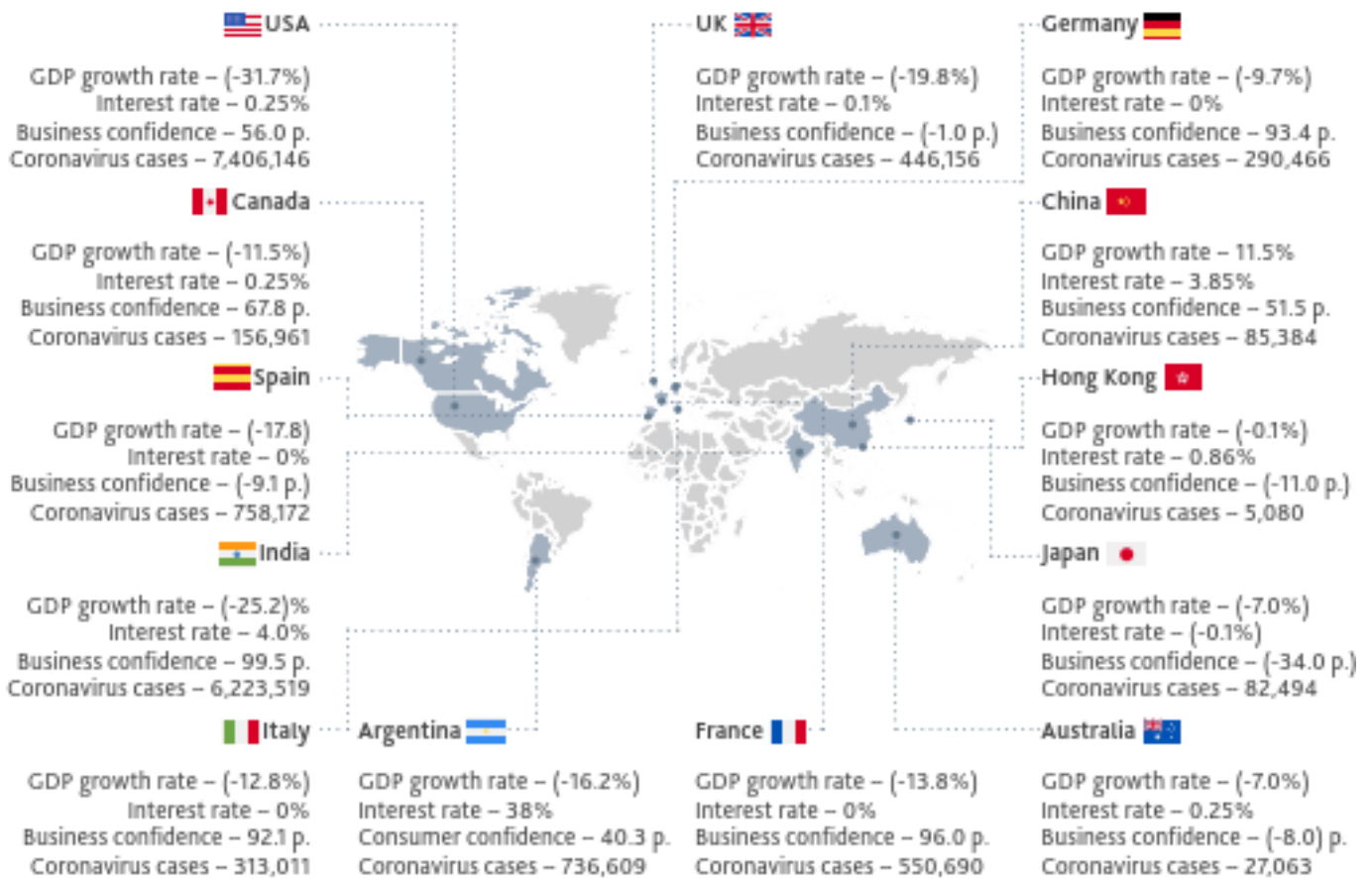
Risk-inevitable, but not unmanageable

ECONOMIC OUTLOOK

IMPACT OF COVID-19 ON ECONOMIES AROUND THE WORLD

The novel coronavirus pandemic, COVID-19, may shape the global economy greatly. In Q2 2020, top-10 BDO economies would face a significant drop in real Gross Domestic Product (GDP) alongside growth in unemployment rate.

The impact of COVID-19 as of June - September 2020



Source: Trading Economics website

Notes: (1) COVID-19 cases data as of 29 September 2020

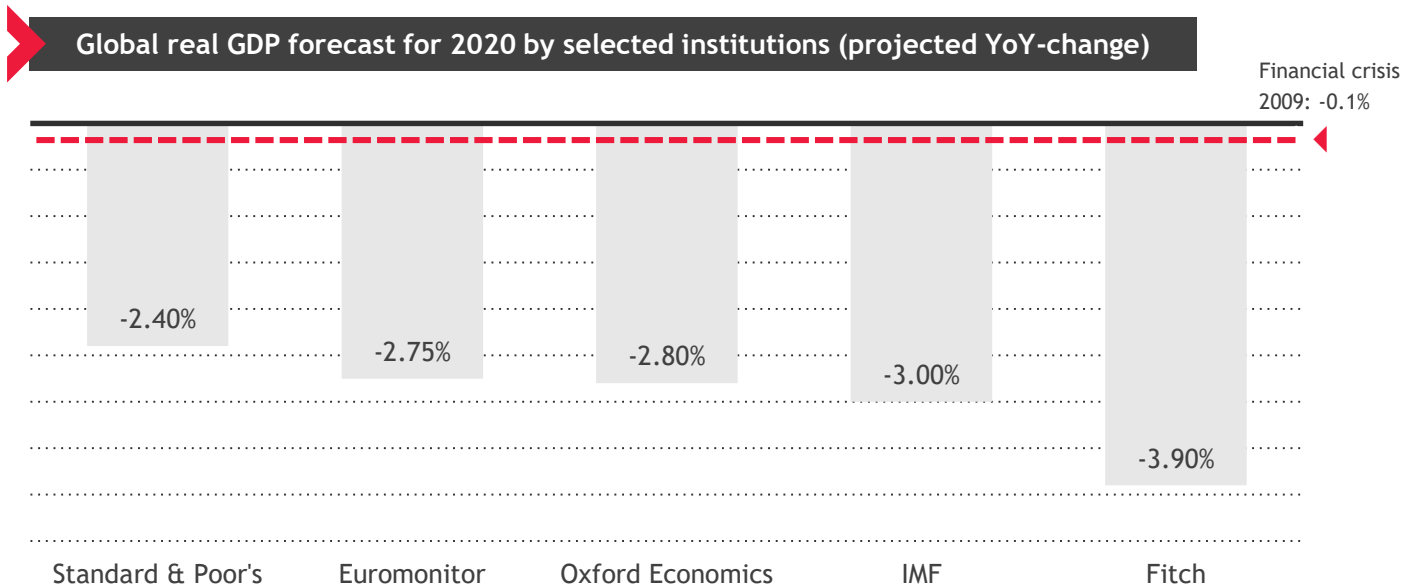
Source: International Monetary Fund — Impact of COVID-19 on Insurers — [18 May 2020]



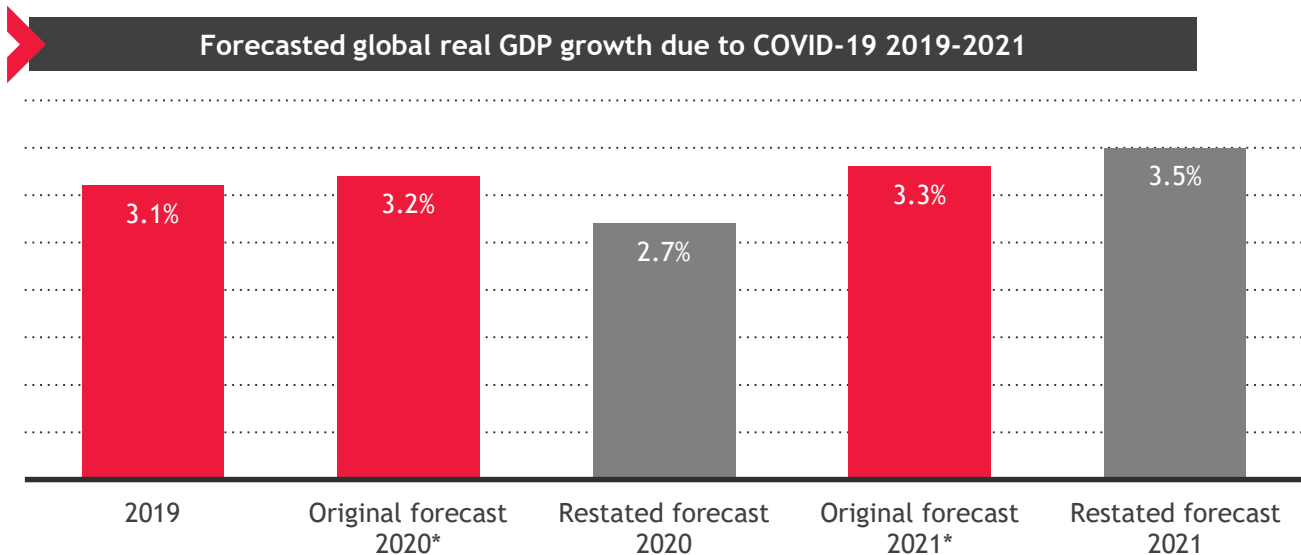
ECONOMIC OUTLOOK (CONT'D)

INSTITUTIONS EXPECT A RECESSION THAT IS MORE SEVERE THAN THE FINANCIAL CRISIS OF 2009

Financial service organizations worldwide are experiencing increasing market volatility and have to provide new communication channels to retain the trust of clients and business partners during the COVID-19. The impacts of the pandemic will be felt globally with the real GDP of G20 countries predicted to decrease by 0.4 percent in 2020, dropping from 3.1 percent growth in 2019 to 2.7 percent growth.



Source(s): S&P (April 16, 2020), Euromonitor (average of high and low estimate, April 5, 2020), Oxford Economics (April 9, 2020), IMF (April 14, 2020), Fitch (April 22, 2020)



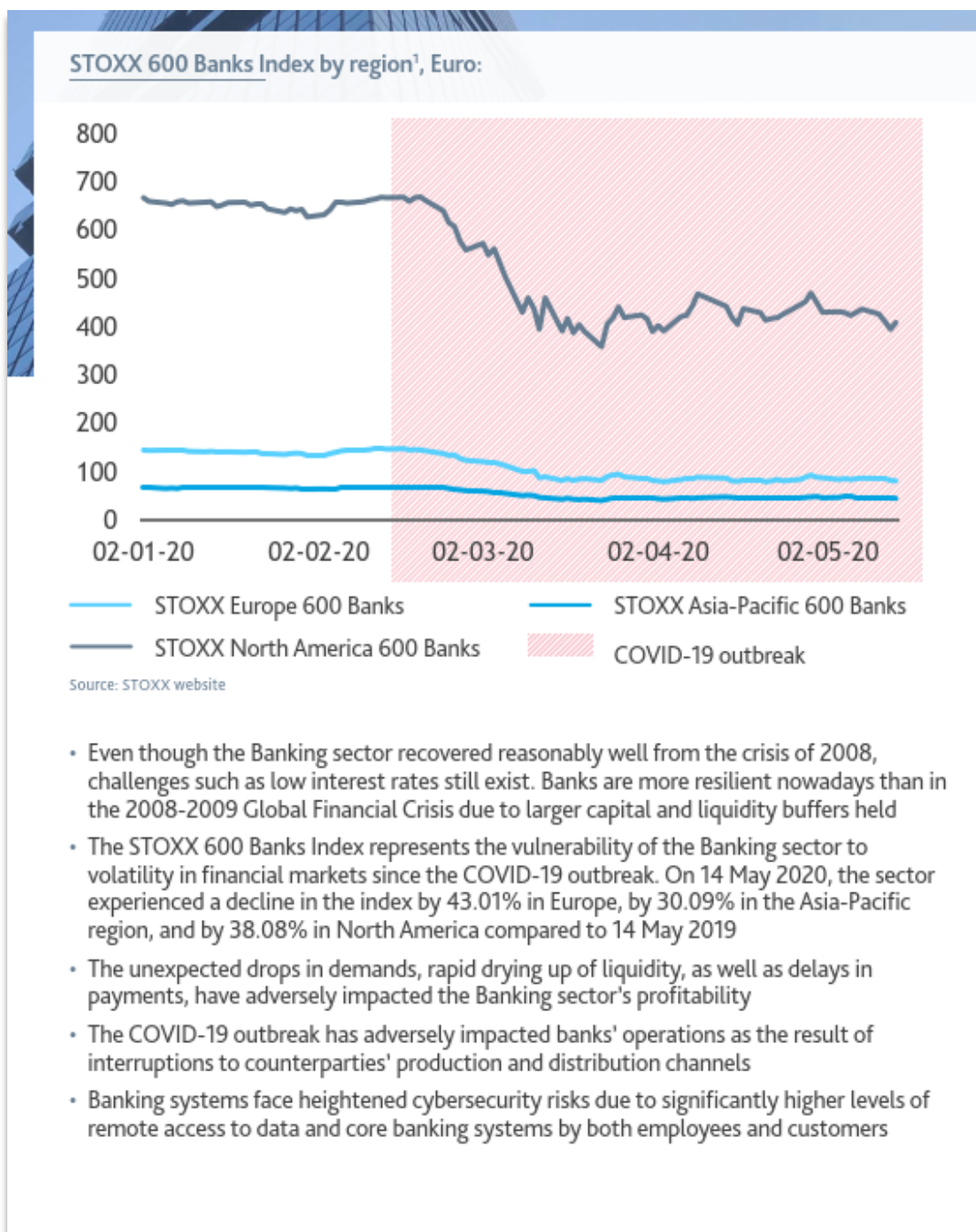
Details: Worldwide; as of March 2020
 Source(s): Statista 2020

ECONOMIC OUTLOOK (CONT'D)

FINANCIAL SERVICES: BANKING AND INSURANCE (B&I)



The COVID-19 crisis raises operational, credit, and capital risks for the Banking sector, while also adversely impacting its profitability and financial stability. COVID-19 affects banks in different ways depending on the type of bank, its size, and its geographical location.

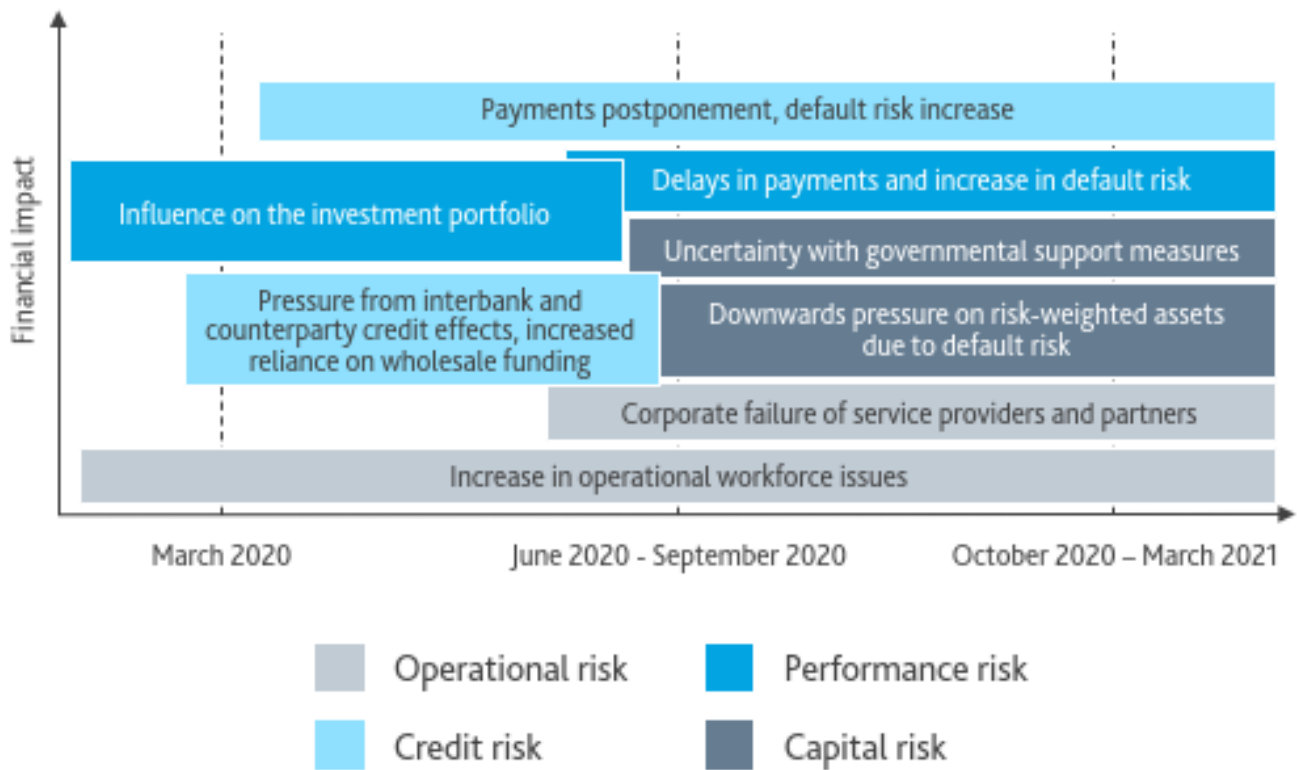


ECONOMIC OUTLOOK (CONT'D)

FINANCIAL SERVICES: BANKING AND INSURANCE (B&I)

The COVID-19 crisis raises operational, credit and capital risks for the banking sector, while also adversely impacting its profitability and financial stability. COVID-19 affects banks in different ways depending on the type of bank, its size, and its geographical location.

The COVID-19 outbreak has given rise to the development of four main risks in the global banking sector



ECONOMIC OUTLOOK (CONT'D)

FINANCIAL SERVICES: BANKING AND INSURANCE (B&I)



General Insurers

It is expected that COVID-19 will have a limited impact on General Insurers as business interruption may be excluded from a claim, depending on the policy. Notwithstanding the prior, General Insurers could be impacted in the following areas: travel insurance, event cancellation, trade credit insurance, covering businesses against debts that cannot be paid by their customers or suppliers, and workers' compensation claims.

Health Insurers

The impact on health insurance is hard to determine at a global level because the impacts will be very different country-by-country. This is both because the number of actual cases and deaths could vary greatly between countries/regions, and because of the varied make-up of health coverage itself.

Life and Retirement Insurers

Of all insurance segments, it is life insurers who are facing the most difficult challenges. The industry is closely monitoring the potential impacts on mortality rates; however, we expect that life insurers may also feel significant impacts due to what is happening in the financial markets.

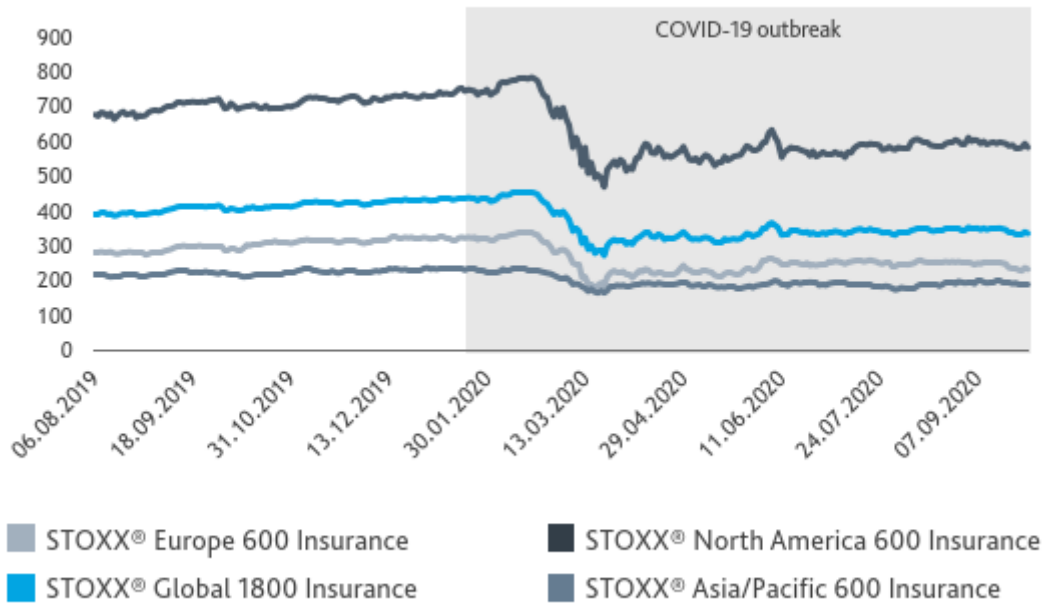


The COVID-19 outbreak affects insurers both directly, through underwriting shocks including increases in mortality and morbidity, and indirectly, via market issues including lower equity prices, higher credit spreads, widespread downgrades, and low interest rates. Insurers are responding to the COVID-19 crisis on multiple fronts — from employee and business continuity issues to client service considerations to the overall economic outlook.

ECONOMIC OUTLOOK (CONT'D)

FINANCIAL SERVICES: BANKING AND INSURANCE (B&I)

Current STOXX Insurance Index by region, Euro price:



Source: STOXX website

1

Global insurance premium volumes are expected to recover to pre-COVID-19 crisis levels in 2021.

2

Insurance demand might slow sharply in 2020 due to the pandemic, global life premiums would contract by 6% and non-life by 0.1%.

3

In life insurance, saving products might be hardest hit, while in non-life insurance — travel and trade would be affected the most.

4

Led by China, emerging markets might underpin global market strength with total premiums up 1% in 2020 and 7% in 2021.

5

In addition to pandemic-related losses, investment returns will remain subdued as interest rates stay low for longer.

SERVICES & SOLUTIONS



THE RIGHT SERVICES, THE RIGHT SOLUTIONS, THE RIGHT TIME.

Organizations within the financial services sector face a changing landscape marked by various factors including COVID-19, regulatory reform, disruptive technology, and new service delivery channels. B&Is also face new governance concerns, intense internal and external scrutiny, and a mounting focus on corporate responsibility.

BDO has global reach to support our clients' risk advisory needs and objectives. The Global RAS team spans more than 160 countries and is committed to sharing the knowledge and best practices gained from years of experience working with financial services companies.

SERVICES & SOLUTIONS (CONT'D)

ENTERPRISE RISK MANAGEMENT

WHY RISK MANAGEMENT IS MORE IMPORTANT NOW THAN EVER

B&Is use risk management to “predict the unpredictable; to navigate its risks and opportunities.” In the context of the pandemic, it is critical to first update your risk profile as the pandemic may have brought to light risks you had not yet considered or may have shifted your risk register in terms of priority and sense of urgency. Your risk ecosystem needs to be looked at both internally and externally. You will need to be agile to ensure alignment with the new realities of the operating environment. For banks specifically, given the increase in non-performing loans (NPLs) due to COVID-19, you will need to recalibrate your risk appetite and you may opt for lower-risk assets.

Nevertheless, for both B&Is, while there was a pre-COVID-19 push towards digitization, COVID-19 is going to materially accelerate its adoption. Further, an increase in acceptance and usage of advanced analytics are expected across the entire value chain. These changes, coupled with the focus on increasing efficiencies and cost reduction, are expected to bring structural changes in the operating model of B&Is pushing you to become leaner and more agile.

From a Chief Risk Officer’s perspective, the role of risk management is expected to increasingly become that of a business advisor focusing on the preservation of business value, rather than merely a control function. Some of the key focus areas are:



CREDIT RISK

Recalibration of credit scoring models and real-time monitoring of portfolios given the disruptions in heavily affected industries, and the implementation of appropriate corrective action.



MARKET RISK

Re-allocation of risk-based limits and revise stress testing scenarios as well as ensuring fair value adjustments to take into account liquidity risks credit valuation adjustments, funding spreads and greater volatility.



LIQUIDITY RISK

Update to liquidity management framework due to uncertainty and the need for more frequent assessments of liquidity.



CAPITAL MANAGEMENT

A robust stress testing framework should be put in place and the impact on key profitability measures, earnings and capital adequacy should be assessed on an ongoing basis.



OPERATIONAL RISKS

Including a complete overhaul of cyber-risk management capabilities, technology risks, human capital risks, organizational reputation risks, and business continuity.

SERVICES & SOLUTIONS (CONT'D)

INTERNAL AUDIT

In the current global environment, Internal Audit (IA) processes are being used, not only to assess quality, but to also to help organizations adapt to be able to drive value throughout the entire organization.

BDO has in-depth experience in providing value-added Internal Audit services to the B&I around the globe.



- ▶ Reviewing and updating risk-based audit plans (RBAP);
- ▶ Auditing COVID-response programs to help organizations prepare for the future;
- ▶ Execution of credit risk reviews;
- ▶ Evaluating risks of changing operating models and business practices resulting from COVID-19, and providing recommendations for redirecting management's attention to areas of priority;
- ▶ Evaluating crisis management and response including a review of cybersecurity threats, greater network connectivity needs, and increased VPN or mobile device usage with work-from-home arrangements; and
- ▶ Evaluating workforce disruption and impacts on productivity, collaboration and adherence to company policies as employees work.

SERVICES & SOLUTIONS (CONT'D)

CORPORATE GOVERNANCE AND COMPLIANCE



BDO's RAS professionals examine the ways a B&I board functions with other key committees and management to assess its effectiveness. We review how strategic decisions are made; how business performance is overseen and evaluated; and ultimately, how expectations are met.

Our recommendations enhance the governance of your B&I organization, while remaining aligned with the vision, mission, culture, and expectations of stakeholders.

CONTROLS AND THIRD PARTY ASSURANCE



Some of the best known assurance standards are SSAE18, ISAE3402 CSAE3416, and AAF 01/06.

It is increasingly common for B&Is to be asked for an assurance report under one of these as part of their customers' procurement process. BDO's RAS specialists offer global controls assurance services to B&I organizations as a key source of independent assurance and advice over the design and operation of internal control frameworks. We have been undertaking control assurance assessments for many years for a wide range of service providers throughout the world.

SERVICES & SOLUTIONS (CONT'D)

ANTI-MONEY LAUNDERING

The BDO RAS team possesses deep experience helping organization's around the globe comply with various jurisdiction Anti-Money Laundering (AML) requirements. Specifically, BDO has helped B&I entities with processes covering:

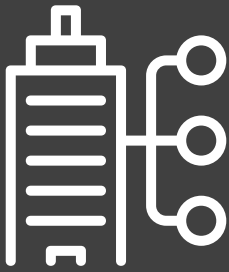
- ▶ The identification of customers (identification methods, beneficial owners, corresponding banking relationships);
- ▶ The implementation of a risk-based approach;
- ▶ Documentation of compliance policies and procedures;
- ▶ The identification of politically vulnerable persons;
- ▶ Reporting suspicious transactions and attempted suspicious transactions;
- ▶ Development of a training program;
- ▶ Independent review of the effectiveness of compliance policies and procedures
- ▶ Your "Know Your Customer" (KYC) process (development, deployment and monitoring); and
- ▶ Your selection and integration method for risk analysis and technological solutions for monitoring operations and transactions.



We also provide independent review services for AML programs. This review may take the form of either an operational effectiveness review or an agreed-upon process mandate covering: policies and procedures, training programs, AML risk assessment, risk mitigation measures, and ongoing monitoring. After completing our review, we publish a detailed report on the procedures that have been applied and the results of our tests.

SERVICES & SOLUTIONS (CONT'D)

REGULATOR-RELATED SERVICES



- ▶ Performing ongoing screening of regulatory developments for our clients.
- ▶ Proactively identifying challenges facing banks in complying with existing and/or new regulatory requirements and providing leading practice recommendations, as well as implementation assistance, for optimizing/implementing processes to comply.
- ▶ Providing assistance to Regulators in performing regulatory assignments and/or asset quality reviews covering, among other topics, information technology, appraisals of real estate portfolios and risk reviews.

TRADE COMPLIANCE SERVICES

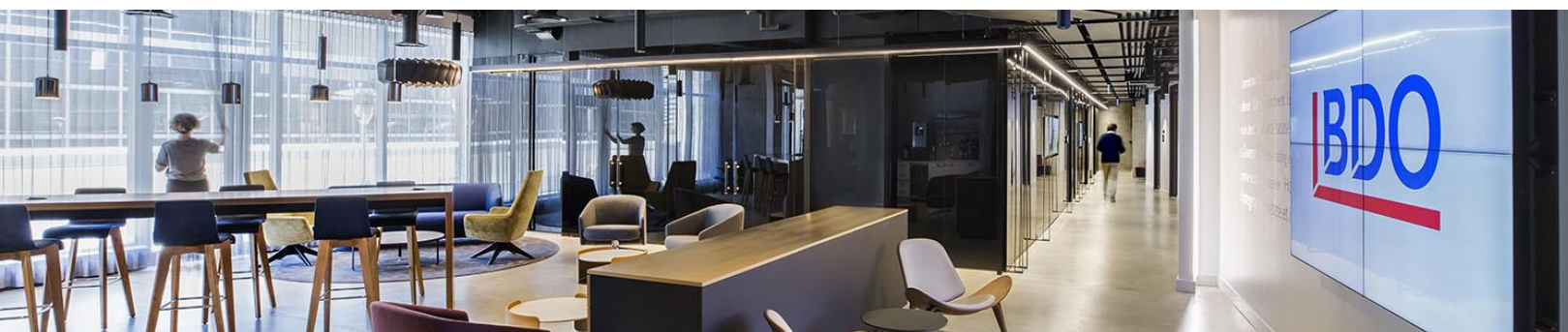


- ▶ Performing audits in accordance with Securities Trading Regulation such as MiFid II in Europe with regard to banks or asset managers.
- ▶ Reviewing internal control structures, and governance and/or risk management processes of trading departments.
- ▶ Providing support for internal audit reviews of trade compliance.
- ▶ Providing support in performing special engagements such as benchmarking reviews.
- ▶ Providing support in developing risk management processes and control structures.

CONTACTS

BDO RISK ADVISORY FS WORLDWIDE CONTACTS

EUROPE			
Country	Contact	Phone	E-mail
Belgium	Steven Cauwenberghs	32-497-05-12-23	steven.cauwenberghs@bdo.be
Cyprus	Christos Andreou	357-25-847-415	candreou@bdo.com.cy
Czech Republic	Ondrej Snejdar	420-777-312-365	ondrej.snejdar@bdo.cz
Denmark	Mikkel Jon Larssen	45-30-70-43-34	Rui.Helena@bdo.pt
Germany	Gebhard Zemke	49-40-30293-525	gebhard.zemke@bdo.de
Germany	Wolfgang Otte	49-69-95941-445	wolfgang.otte@bdo.de
Germany	Markus Brinkmann	49-40-30293-355	markus.brinkmann@bdo.de
Netherlands	Geertje Strampel	31-6-28771581	geertje.strampel@bdo.nl
Portugal	Ana Luísa Aires	351-217-990-420	luisa.aires@bdo.pt
Portugal	Rui Lourenço Helena	351-217-990-420	Rui.Helena@bdo.pt
Slovakia	Alena Sermekova	421-2-5710-6699	gunda@bdoslovakia.com
Slovenia	Maruša Hauptman	386-31-241 -71	marusa.hauptman@bdo.si
Spain	Enric Doménech	34-629450150	enric.domenech@bdo.es



CONTACTS

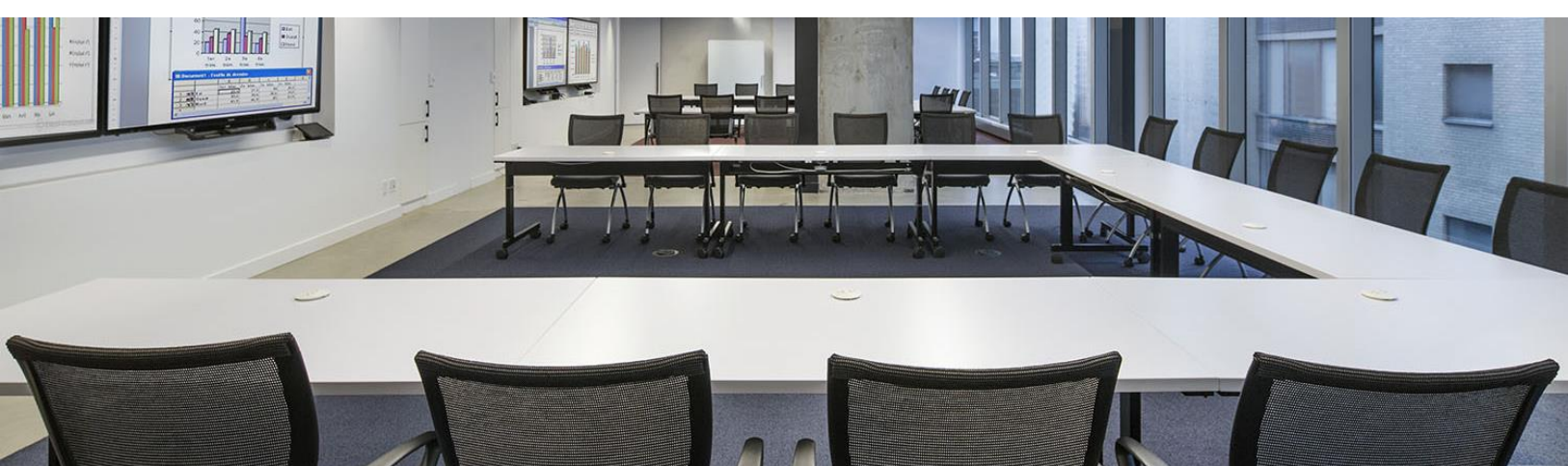
BDO RISK ADVISORY FS WORLDWIDE CONTACTS

UNITED KINGDOM

Country	Contact	Phone	E-mail
UK	Chris Bellairs	44-7966-626-128	Christian.bellairs@bdo.co.uk
UK	Sam Patel	44-7970-807-550	Sam.patel@bdo.co.uk
UK	Leigh Treacy	44-7890-562-098	Leigh.treacy@bdo.co.uk
UK	Richard Weighell	44-7773-392-799	Richard.weighell@bdo.co.uk

NORTH AMERICA, SOUTH AMERICA, CARIBBEAN

Canada	Pierre Taillefer	1-514-934-7806	ptaillefer@bdo.ca
Canada	Ziad Akkaoui	1-416-369-6048	zakkaoui@bdo.ca
Cayman	Richard Carty	1-345-815-4548	rcarty@bdo.ky
USA	Monica Shih	1-646-873-5838	mshih@bdo.com
Paraguay	Oscar Guillen	595-981-410974	oscar.guillen@bdo.com.py



CONTACTS

BDO RISK ADVISORY FS WORLDWIDE CONTACTS

ASIA and OCEANA

Country	Contact	Phone	E-mail
Australia	Mark Griffiths	61 2 9240 9823	mark.griffiths@bdo.com.au
Hong Kong	Peter Pang	852-2218-3813	peterpang@bdo.com.hk
India	Vishal Shah	91-983343303	vishalshah@bdo.in
Korea	Hyunseung Lee	82-(0)2 2183-2408	hyunseung.lee@bdo.kr
Malaysia	Karthigayan Sumpramaniam	60-17-363-3015	karthigayan@bdo.my
Singapore	Willy Leow	65-6828-9118	willyleow@bdo.com.sg
Sri Lanka	Ashane J. W. Jayasekara	94-11-2421878-79-70	ashane@bdo.lk
Turkey	Erdal Aslan	90-533-7329510	erdal.aslan@bdo.com.tr

AFRICA

Mauritius	Yusuf Abdoollah	230-202-9658	yusuf.abdoollah@bdo.mu
-----------	-----------------	--------------	--





ABOUT BDO

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years working within local communities. As part of the international BDO network, we're able to provide seamless and consistent cross-border services to clients with global needs.

Assurance | Accounting | Tax | Advisory

www.bdo.ca

