MDIS Tashkent

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| **Student Number:** | **B1804165** | | |
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| **Module Leader:** | **Mr Lim Khai Seng** | | |
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| **Weaknesses:** | |
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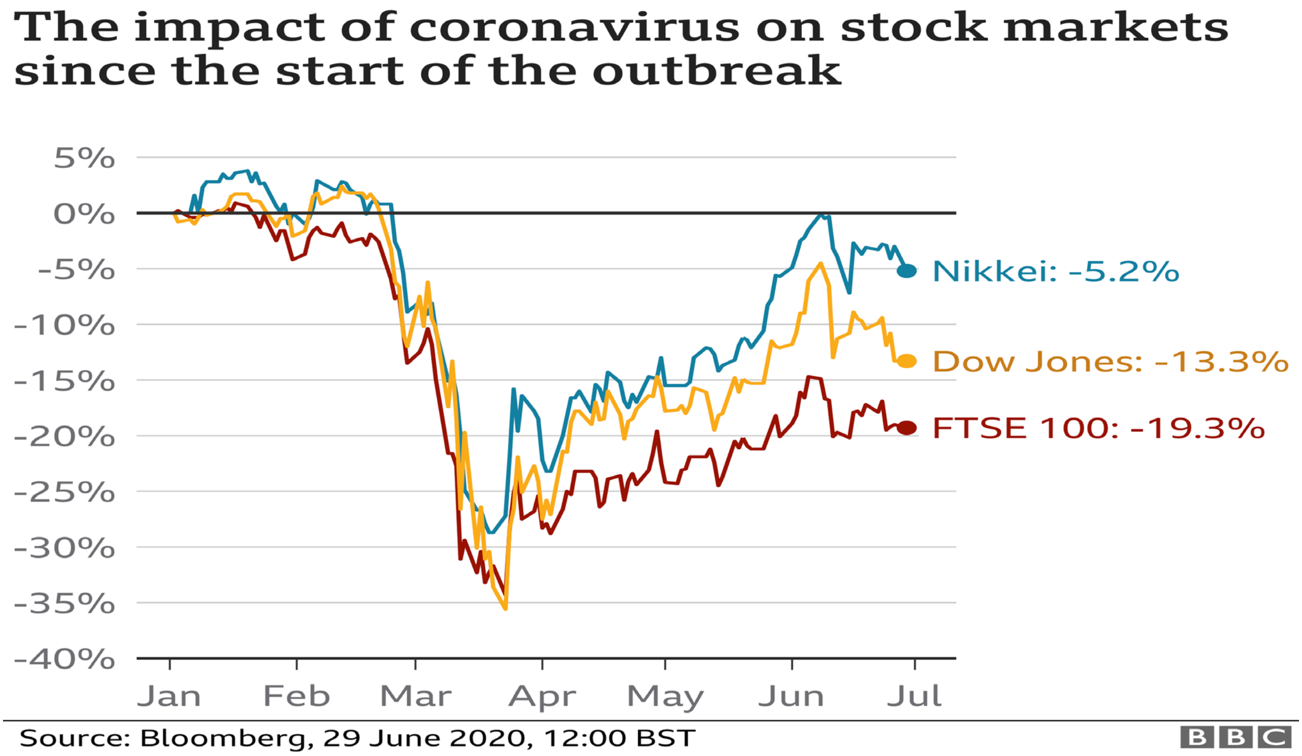
## Introduction

The high-level growth of the coronavirus and the high rate of contamination, with almost 100 000 infections in about 80 countries by 4 March have spread fear across the globe and noticeably disrupted global economic activity. The coronavirus epidemic has also influenced financial institutions and there appears to be trouble brewing for financial institutions with emerging liquidity issues and lockdown situations. Investor have naturally been worried and global stock markets lost about trillions of US dollars in a single week (ending February 28) that was the second worst week in the history of stock markets since the financial crisis of 2008.Investors began to pull their money out, the world stock markets started to go down. To keep the economy going banks made off-cycle rate cuts and infused liquidity.

## The impact of Coronavirus on global financial institutions

Big shifts in stock markets has happened where shares in companies are bought and sold, can affect the value of pensions or personal individual savings accounts. As the number of Covid-19, cases grew the FTSE, Dow Jones Industrial Average and the Nikkei all experienced a huge falls.




As you can see from the graph stock markets noticeably went down since coronavirus outbreak. Moreover, banking sector of the countries also suffered from Covid-19. The central banks are reducing interest rates and increasing liquidity in their financial systems by integrating acts to lower buffers of capital and reserve demands, establishing temporary lending facilities for banks and firms. In addition, variety of fiscal steps have been taken by national governments to sustain economic development. As Gartner Inc. Survey shows that globally over 87% of organizations have decided or allowed employees to work from home, In spite of whether they are infected or not. Roughly, all companies (97%) have cancelled their business-related travel. Banks also have diminished their working hours and because of social distancing rules, they have supposed to serve only a few customers at all. This creates another trouble for banks that it may take long hours to respond customer queries because of staffing shortages in call centers. In this situation, in order to ensure non-disruptive banking banks needs to provide customers with a comprehensive set of digital tools. As you can see the focus placed on digital banking will be increasing, it is possible to believe. To build an Omni-channel experience for consumers who can browse multiple channels, a website, mobile app, customized connection to bank systems, or a corporate banking branch to transact would help to change volumes from physical to digital channels. After these digital improvements, banks will also need to build its self-service options in which customers can submit documents digitally, open new accounts, control cash balances and so on. Furthermore, many regulators have now given alerts against the possible rise of cyberattacks and fraud for those who is operating from home. In general, firstly home networks usually have less security protection than workplace networks.

## What is stress testing?

Stress testing is a technique used to test the resilience of institutions and investment portfolios against the potential of future financial situations. Such monitoring is usually used by financial industries to help measure investment risk and asset adequacy, as well as to help assess internal procedures and controls. In the last few years, regulators have asked for financial institutions to experience stress tests to control their capital holdings and other assets are adequate. Stress testing for Risk Management – companies that control funds and investments most probably use stress assessments to specify their portfolio risk then they implement strategies to mitigate against possible losses. The most popular stress tests are stylized scenarios, hypotheticals, and historical scenarios. In a historical scenario, a business or asset class, portfolio, or individual investment – is run through simulation focused on last crisis. Examples of historical crisis are the stock market crash of October 1987, the Asian crisis of 1997, and the bubble that burst in 1999-2000. A hypothetical stress test is more precise, usually centered on how a specific company can cope with a particular crisis. For instance, a company in California might stress test against a hypothetical earthquake or an oil company might do so against the outbreak of war Middle East. Stylized scenarios are much more scientific in that only one or more test variables are updated at a time. For example, the stress test might involve the Dow Jones index losing 10% of its value in a week.

## Reasons why the Fed decided to limit bank Payouts.

## What is the Fed?

The Federal Reserve System is the central banking system of the United States of America, also known as the Federal Reserve or just the Fed. This was established on December 23, 1913 under the Federal Reserve Act following the need to centralize the monetary system to ease the financial crises in a series of financial panics, especially panic in 1907. After Great depression and Great recession in 1930 and 2000s, have led to the expansion of the functions and responsibilities of the Federal Reserve System.

## Limitation of Payouts

On June 25, 2020 on Thursday morning, Washington announced that the Federal Reserve temporarily limited the nation's major banks shareholder payouts by prohibiting them from buying up their stocks or increasing dividend payments during the third quarter as regulatory authorities are seeking to keep banks healthy enough to retain loans through the pandemic downturn. Limiting shareholders fees would help to sustain banks health through the crisis. Research of the present pandemic has shown that financial institutions will incur damage similar to the financial crisis of 2008 if economic recovery is postponed. This covers claims on consumer loans as well as business debt, for example in car loans and mortgages. The Fed's decision to restrict payments is an acknowledgment that while major financial firms are much more vulnerable to economic decline in the past than they were in the financial crisis. In cases of viruses in the United States of America, it remains unknown when and how resilient the economy will recover. The Fed's suggest that this financial crisis could be far worse than in the aftermath of 2008.

# Reasons why Fed suspends Share Buybacks?

## What is the Share Buybacks?

Stock Buybacks refer to the repurchase of securities by the company that issued them. An acquisition happens when an issuing entity pays the market value per share to its shareholders and reabsorbs the share of its ownership previously allocated among public and privately held investors. Since businesses are raising equity capital through the selling of common and preferred shares, it can seem counter-intuitive for a company to want to return that money. However there are many reasons why it could be advantageous for a company to repurchase its shares, including the restructuring of ownership, undervaluation and improving its main financial ratios.

## Suspension of Share Buybacks

Fed was supposed to put a stop to share repurchases to the public when coronavirus had a severe and special impact in the economy to prove that big business and banks are behind them in this pandemic period. On March 15, the eight largest banks in the United States jointly declared that their shares would be suspended in response to the virus by the second quarter of this year. The news was very interesting as stock buybacks are excellent way for banks to raise investor returns.

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