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3 Ways the Financial Services Sector is Impacted by COVID-19

As the pandemic continues to spread across the nation and the world, the financial services sector is witness to the unimaginable dilemma of balancing a global medical emergency with the economic health of the market. It's a precarious scenario, and as a result we're seeing three main ways the financial services sector is impacted by COVID-19.

First, there's the effort to get more liquidity into the system. This unique situation is an opportunity to hit the pause

button for consumers in regards to mortgage payments, overdraft fees, repayment extensions, and more. The idea here is two-fold: without question, financial institutions want to protect their customers. This is a humanitarian crisis, and ensuring people can worry less about their finances and more about their health and safety is the first priority.

The underlying motive here, though, is a protective measure for the markets. Fortunately, many banks are better positioned today than they were in the 2008 recession. Many regulations have been put in place since then in terms of capital requirements and cash reserves. This, combined with the recently approved stimulus package, plus the lightening of the financial burden on consumers themselves, helps to keep more money in the system, getting us through the next few months with a less substantial hit.

That said, the second key point is that there is inarguable pressure on the infrastructure right now. Banks and other financial institutions were forced very quickly into testing the digital capabilities of their systems. Though many banks are still open by appointment only, the vast majority of financial services talent is working remotely, and there are inevitable challenges with this. One thing is certain – financial leaders will be closely analyzing their technology platforms, paying special attention to their disaster recovery and contingency plans in the months to come.

The third impact remains to be seen, but is a likely outcome that will mirror that of the 2009 recession – an uptick in merger and acquisition activity and potential bank failures. Despite more regulation in place, it’s probable that community banks will be significantly impacted by this downturn and be pushed to make the difficult decision to sell. Consolidation has been happening at roughly 5% per year over the past five years and will most likely pick up pace once things return to some form of normalcy.

Although the level of uncertainty and volatility is hard to miss in the current environment, we’re hopeful that banks and other financial services institutions are well positioned to protect consumers and small businesses while preparing for the road ahead. The volatility of the weeks ahead will continue to shape the recovery, and, like all major events, there will be learning lessons, shifts in strategies, and leaders who emerge.