Alert: banks, trading houses and asset managers could struggle to bear the load of trading volumes

Market volatility has triggered unprecedented trading activity. Systems and digital infrastructure will become increasingly stressed.

As the financial institutions (FI) sector continues to shift towards digitalization, digitally-capable challengers are entering the market and there's an industry-wide race to innovate. Investments made in trading and retail capabilities bring both opportunity and risk. Contemplating (1) heightened volatility and trading loads as market participants continue to digest rapidly evolving information daily while (2) regulated banking entities concurrently look to implement business continuity plans for trading activity due to coronavirus, we can expect unprecedented stress on trading platforms for the near to mid-term. As the risk of system failures increases during this time period, financial institutions must remain mindful of the financial and reputational costs.

The existential threat: loss of client confidence

In the last two years, a mobile banking application at a UK bank failed for a period of two weeks leaving customers unable to transact in their accounts, and a US online trading house failed over the course of two days, causing immediate financial losses and erosion of client confidence. More recently, the interplay between retail and institutional investors has caused significant market volatility leading multiple trading platforms to experience disruptions.

The long-term impacts of these unprecedented events are still unfolding, but these failures are a reminder that for financial institutions maintaining trust and confidence with their clients, especially during periods of heightened market volatility, is absolutely paramount.

Moving forward: managing system failure risk

A regulatory focus in the banking space on capital planning and stress testing exercises has further amplified the importance of managing this type of risk.

Engaging with specialist support is critical.

Banks, trading houses and asset managers should use data-driven analytics to identify any vulnerabilities and with these insights, firms will be better positioned to build cyber resiliency through enhanced controls, risk transfer and response strategies.

A spotlight on risk transfer:

Platform failures such as these are insurable. Given that coverage has now broadened to include system failures and claims processes have been simplified by fixed deductibles, cyber insurance has become a meaningful hedge against this top operational risk.

Lessons learned for financial institutions: system failures

Click here to access further information on system failures, including other recent events and specialist insights.

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How is your firm managing system failure risk? Access holistic cyber expertise across a methodology of assessment, quantification, insurance and incident response readiness by contacting your local advisor.

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