



# First Horizon National

September 2009

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## About FHNC

- Financial Services Company
  - Retail
  - Commercial
  - Business Banking
  - Mortgage
  - Wealth Management
- FTN Financial
  - Bond Market
- FH Insurance
- Employees
  - 6,093 in the USA, 10 in Asia
  - 32 States
  - 83% in TN and 46% in Shelby County

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# Pandemic Simulation Exercise

- Given a Scenario
- Test our Business Continuity Plan
  - Answer 38 questions
    - Does your plan address succession roles and transfer of duties and responsibilities for processes performed by absent employees?
    - Does your plan demonstrate a detailed understanding of its potential vulnerabilities with regards to telecommunications service interruptions and/or failures, and has it developed plans for mitigating these vulnerabilities?
    - For what percentage of your staff performing critical functions has your organization prepared and tested computer systems to enable working from home?
  - Make decisions
    - Does the Business Continuity Plan work against the scenario?
    - Do we need to make changes?
    - Make suggestion
- Get feedback from Business Continuity Committee
- Lessons learned
  - Plan did not need to change
  - Preparation and familiarity is very important

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# Scenario Part 1

- **World Health Organization Pandemic Phases / U.S. Pandemic Stages**
  - WHO - Phase 6 (Pandemic phase: Increased and sustained transmission in general population) U.S. – Stage 6 (Recovery and preparation for subsequent waves)
- **U.S. Absenteeism Rates**
  - 35% across all sectors in the United States by the end of the Update 3 timeline (December 3rd)
- **Status of Pandemic around the World and the United States**
  - The United States is starting to enter a recovery period as the pandemic wave appears to be declining. Other areas around the world are also reporting decreasing numbers of new cases.
  - The World Health Organization remains at Phase 6. The U.S. Government declares Response Stage 6.
- **Global Absenteeism Rates**
  - Overseas, some regions are firmly in recovery. The pandemic is passing in Africa, Western Europe, and the Middle East, with absentee rates at 20% and falling.
  - In other regions, the pandemic is in full force. The Americas (excluding the United States and Canada), Eastern Europe, and South and Southeast Asia are hitting peak levels of absenteeism, with an average rate of 45% reported. Northeast Asia, the Pacific, and the Australian continent are trending upward, reporting an average absenteeism rate of 40%.
- **U.S. Healthcare System Update**
  - The U.S. Department of Health and Human Services (HHS) and the Centers for Disease Control and Prevention (CDC) have announced the possibility of a second wave of the pandemic that would hit regions already affected. Individuals and organizations are urged to make every effort to prepare for this second wave, even though resources are scarce.
  - HHS and CDC reiterate the request that people with little or no flu-like symptoms not go to their local hospitals to avoid overcrowding and long waiting periods.
  - The Associated Press reports that the U.S. healthcare system is still overwhelmed, however, the rate of hospital admissions has slowed dramatically and the number of personnel needed in intensive care units is decreasing rapidly.
  - Hospital officials representing a number of large U.S. hospitals in major U.S. financial centers are reporting that the number of deceased persons has far exceeded the hospital morgues' refrigerator capacities.
  - Mental health providers are experiencing extremely high demand for their services, particularly grief counseling.
- **Consumer Spending**
  - Consumers' financial situations are fragile, given that many firms have stopped paying their employees who have exhausted annual or sick leave. As a result, some segments of the public are hesitant and/or unable to return to normal shopping habits.
  - Supplies of retail merchandise remain tight.
  - The durable goods sector is beginning to recover, but sales growth is sluggish and manufacturers appear hesitant to expand production.
  - Supplies of agricultural goods are low due to the poor harvest caused by the reduction in harvesting capabilities during previous periods.

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## Scenario Part 2

- **Financial Markets**
  - As the first wave of the pandemic begins to subside, so do the negative macroeconomic shocks on the U.S. economy. Real GDP is at 1½ percentage points below the pre-pandemic level.
  - Businesses are beginning to inquire about business interruption insurance and are experiencing challenges in confirming coverage. Businesses are struggling to cope with significant backlogs in orders and transactions.
  - The media is reporting that many companies are not paying employees who have exhausted sick and annual leave. Concerns arise over the macroeconomic impacts.
  - There are rumors of an increase in new fraudulent accounts and identify theft reports.
  - Foreign exchange rates for the U.S. Dollar begin to return to pre-pandemic levels.
  - Crude oil prices begin to recover to pre-pandemic levels.
  - S&P 500 rises 5% from market low.
  - Trading volumes recover strongly in both U.S. and European markets as traders anticipate an economic recovery.
  - Market liquidity is increasing in some stocks, however in others it remains sparse. Bid/ask spreads remain wider than normal.
  - Concerns over the possibility of follow-on pandemic waves remain.
- **Financial Services Sector Operations**
  - Continuing liquidity constraints in some areas still affect pricing in some U.S. securities.
  - Out trades begin to decrease, but remain above normal.
  - Some futures markets continue to operate via fully electronic trading. For clients and traders not connected via dedicated lines, access to real-time market data is disrupted as internet traffic increases and data download times increase. Market data is delayed by an average of 15 minutes via the internet.
  - Price quotes appear to be stale as a result of internet problems.
  - Payments on various consumer loans and credit card arrears increase by more than one-third.
  - Late payments on consumer loans are 20% above normal.
  - Revolving credit delinquencies are 30% above normal.
  - Public sentiment, as reported through major financial news outlets, favors lenders showing leniency to those in dire financial straits.
  - 70% of ATMs are now operational.
  - Many individuals are not paying mortgages.
  - Some small life/health insurance companies are experiencing liquidity problems as the volumes of death and disability claims are taxing reserves and capital levels. Insurance sector update:
  - Health insurance claims have increased 50% above normal.
  - Life insurers see the volume of claims continue to increase in the face of a growing rise in the mortality rate as authorities report an increase of 7 deaths per thousand population (0.7%).
  - Backlogs in the filing or processing of Worker's Compensation claims lead to a further 10% increase toward the end of the first pandemic wave.

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## Scenario Part 3

- **Schools (e.g., day care, K-12, University)**
  - As the absenteeism rate starts to decline, K-12 schools, universities and colleges, and daycare facilities consider reopening, but most anticipate that it will be another two or three weeks before they do so
- **Electric and Gas Utilities and Service**
  - Due to the backlog created by the high absenteeism of the previous weeks, electricity and gas providers continue to be slow to respond to customer service requests. The peak-time electricity supply is stable.
- **Postal, Overnight, Courier, and Armored Vehicle Services**
  - U.S. Postal Service mail delivery is delayed three to five days longer than normal as the postal service works through the backlog created during the previous weeks. Private delivery services are considering the resumption of 48 hour delivery guarantees but want to see a further decline in absenteeism before doing so. Armored vehicle services continue to struggle to keep up with demand. The health sector is seeking support for the transportation of medicine, medical supplies, and personal protective equipment (PPE). The financial services sector is seeking continued support for the transportation of cash.
- **Travel and Transportation**
  - Air travel schedules are increasing, but passengers are slow to return due to continued fear of infection.
  - Some individuals are considering returning to carpooling and mass transit.
- **Fuel**
  - Refinery production levels increase slightly, but are still not at normal levels.
  - Heating oil distribution remains strained.
- **Social, Public, and Sporting Events and Activities**
  - There is ongoing discussion regarding the restarting of league programs and other sporting events, but these have not yet resumed.
  - Public and social events are still cancelled.
  - Some cities that instituted curfews during the peak of the pandemic are now lifting them, but the majority of curfews remain in place.

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