MONETARY AND
CAPITAL MARKETS

Public Communication During a Financial Crisis

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This note covers basic principles for public policy communications in systemic financial crises. In situations when the authorities perceive a high risk of widespread creditor runs on financial institutions, or uncertainty about the solvency or liquidity of critical parts of the financial system, communications that help restore confidence are of prime importance. Prior preparation, including in normal times through a crisis management committee, is a key to success. While the note focuses on communication in the event of financial crisis, many of its prescriptions hold for crisis situations more broadly.

I. KEY PRINCIPLES

While each crisis has different origins and unfolds differently, key principles apply in communicating with the public. These are summarized below and elaborated in the subsequent sections:

- **Clarity of objectives:** the main objective of communication with the public when there is a high risk of a systemic financial crisis is to transmit confidence with the aim of preventing or ending creditor runs on financial institutions and markets. A communication strategy must be part of a comprehensive policy package to address the underlying problems, not just a delaying tactic.
- **What to communicate:**

- *Who is affected and what is being done*: key messages must describe what the issue is, who it affects, and what is being done about it. Policy responses should be linked back to the basic concerns of market participants: is my money safe? Can I conduct normal banking business? Will I have access to funds? Do not leave key questions unanswered.

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- *Deliver bad news in clear, definitive, but not alarming terms*: if depositors or other creditors must bear losses, this should be communicated clearly using plain language, explaining why it is necessary, and not be subject to revision (barring major new developments).

- *Communicating problems without solutions will increase uncertainty*: to the extent that identified problems remain unaddressed, incentives for creditors to run will increase.

- *Do not over-promise*: it is important to address the problems that are clearly identified, without saying or implying that there will be no more bad news, if this is still uncertain. For example, saying that no more banks will fail while conditions remain turbulent may lead to a loss of credibility if even a small, non-systemic failure were then to occur.

- **"Speak with one voice":** financial sector authorities have to communicate clearly and consistently, without contradictions or inconsistent messages between different public agencies.

- **Be ready for "media wars":** affected stakeholders may challenge the authorities' representation of events, their policies, or even policymakers as individuals. A strong and unified response must be ready to respond to such attacks.

- **Coordinate:** a comprehensive package of policies and consistent communication through one or few spokespersons requires effective coordination across government and financial agencies as well as flexibility and capacity to respond quickly to emerging developments.

- **Prepare well:** While decisions will have to be made "in the moment" in any crisis, many decisions, materials and processes can be prepared in advance.

II. OBJECTIVES

It is not possible to stabilize economic conditions and restore growth if there is a financial panic, so the first objective of crisis communications prior to or during a panic is to transmit confidence. This objective is achieved through presenting the public policy response to the crisis. That response may have to cover macroeconomic as well as financial sector policies—for example if the ultimate cause of financial sector stress is a balance of payments or sovereign debt crisis. In a financial panic, the same communications can apply to all audiences in the first instance, as all parties are seeking similar reassurance that the authorities have an appropriate policy response to the crisis. As matters settle, crisis-related communications may be more targeted to specific investor groups—for example wholesale lenders or foreign investors—in specific forums or with policy detail affecting their interest. Holding background meetings, such as round tables or presentations on major policy topics, with key journalists and media groups can improve knowledge and the quality of coverage.

Communications should address root causes as well as symptoms. For example, in addition to immediate measures to stem depositor runs or reassure other creditors, the intention to adopt an emergency macroeconomic program or request an IMF program could be cited. Similarly, excessive risk taking by banks and weaknesses in financial supervision often play an important role in increasing vulnerabilities leading to the crisis, and the authorities will have to reassure the public that the financial sector will be strengthened so as to reduce this vulnerability in future. Public statements made with the aim of calming markets and "buying time" but that do not address the underlying causes of the creditor runs will not work and can significantly undermine the authorities' credibility.

III. WHAT TO COMMUNICATE

Communications by the authorities should address the main concerns of the public, and not leave key questions unanswered. The public, depositors, and markets should be reassured that the authorities have the situation under control, so potential questions must be anticipated and answered. The principles guiding the authorities should be stated, for example, that the policies in place (or to be adopted) aim to minimize economic and financial costs of financial failures, avoid contagion, protect depositors and not bail out shareholders. Emphasis should be place on the existence of mechanisms that aim to provide protection to bank clients, such as deposit insurance. While the details of policy responses—for example the mechanisms by which banks may be recapitalized—may be critical to crafting a credible message, these should not be given in isolation. Policies should be linked back to the central concerns of market participants: What is the issue? Who does it affect? What measures are being taken to solve the problem? Is my deposit safe? Can I conduct normal banking operations and transfer funds abroad? Did I lose money? Are the measures taken permanent?

Bad news should be communicated clearly and concisely. Communications should use plain language, considering differences in financial literacy across banks' clients. If depositors or other creditors must lose money or bear losses in some form, the communication should say so clearly and explain concisely the reasons why such losses are necessary. It is counter-productive to be ambiguous or obscure unpleasant facts, as those facts are likely to become known and be exaggerated as speculation fills the vacuum in official information. Revisions to statements about depositor or creditor losses should be avoided to the extent possible (particularly to say that losses will be greater than originally communicated). Multiple rounds of bad news are damaging for credibility and stability, and policy design should be conservative to minimize this risk. If unanticipated developments force such a revision, every effort should be made to make the reasons for the changes clear and understandable.

Communicating problems without solutions will increase uncertainty. If a clear policy response to a specific issue such as bank insolvencies or deposit withdrawals is still being sought or negotiated, it is better not to communicate than to indicate (explicitly or implicitly) that the policy response has not yet been finalized. Of course, it remains essential to arrive at credible policies within a brief time, or panic may escalate anyway. This reinforces the value of early planning, which will reduce the risks of having to remain silent at critical moments while policy responses are formulated.

IV. "SPEAK WITH ONE VOICE"

Contradictions or inconsistent messages from different parts of the public sector will sow confusion and further undermine confidence. Avoiding contradictions typically requires delegating a single, high-level, member of the authorities such as the Minister of Finance to speak on all issues connected with a financial sector crisis. At a minimum, there should be clarity on who will speak on which aspects of crisis management (e.g., central bank on emergency liquidity assistance, ministry of finance on the use of public funds). Defensive lines should be prepared and agreed for all other officials likely to face press questions, with the general intent of redirecting media to the designated spokesperson and existing publicly available materials.

V. MEDIA "WARS"

Stakeholders affected by policy actions may challenge the official narrative or try and discredit the authorities through the media. Affected parties—typically bank owners and managers—may use traditional and social media to attack individual policy makers on personal grounds, pass the blame for the crisis to regulators or the government, or create false rumors about the financial condition of other financial institutions. Unchallenged, such a strategy may enable culpable parties to escape responsibility or even garner public sympathy, and may undermine the authorities' substantive policy response. A strong and unified public response must be ready as an explicit part of the communication strategy, drawing on compelling facts, and expressed through official spokespersons and ideally also well-known independent experts.

VI. COORDINATION

To agree on policies, press lines and spokespersons, coordination is key. This can be achieved through a small group of high-level officials gathered in a crisis management committee. The committee should include all agencies with a role to play in the financial crisis (i.e., ministry of finance, central bank, supervisory agencies, resolution authority, deposit insurance scheme), and should have primary responsibility for agreeing the communication strategy, and in the thick of the crisis, specific communication lines. The committee can also ensure that consistent messages are delivered through time, including in the post-crisis recovery phase, to ensure the authorities' actions and the reasons for them have been well understood and to facilitate accountability. To the extent that cross-border institutions are involved, and events in other countries are of material concern (or actions taken domestically may be relevant in other countries), cooperation with foreign counterpart agencies may also be necessary.

VII. PREPARATION

Preparing well for managing crisis is a key to success. A crisis management committee (or subcommittee of a financial stability committee) meeting periodically in normal times can undertake preparatory work. With respect to communications specifically, a team can be appointed including senior technical staff that will be involved in the key policy actions. Key preparatory tasks include:

- Establish protocols for informing other parts of government of critical developments;
- Familiarize key officials with their counterparts in other public agencies and the media, and their responsibilities in a crisis;
- Iron out procedural constraints and improve decision-making through simulations;
- Prepare standard form communications (such as templates for press releases) ahead of time, for use across all media platforms, where details can be quickly filled in or modified in case of need;
- Anticipate follow-up questions from possible policy actions and prepare "frequently asked questions" type materials.
- Develop procedures for monitoring and possibly engaging on social media.

Media statements prepared in advance should:

- Be delivered immediately after the key event or policy action, describing the action taken and providing information in a positive light to reassure the public;
- Stress that the authorities have taken forceful action to strengthen the financial sector, acting in the best interests of depositors and financial stability;
- Be brief and factually accurate and written or spoken in simple terms to avoid confusion or uncertainty.

Due consideration should be given to specific media needs and approaches. Prior to a crisis, lists and contacts with key media groups and personnel should be developed. Engagement with reporters during normal times can help build trust that can facilitate communications in a crisis. Providing a forum for “background” interactions on specific policy topics such as bank recapitalization plans, depositor protection, or bank resolution can help ensure better informed, higher quality media coverage and avoid dissemination of erroneous information. Thought should be given to how media interactions will be managed: should question and answer sessions be held after press statements? Should responses be provided to comments and questions from social media postings? Who will do this and how will content be cleared? Should the authorities seek engagement with well-known opinion formers? When? Specific answers to these questions will depend on country circumstances and cultural factors.

Communications should disclose as much as possible on process, without closing down policy options. Sharing as much information as possible with the media on how and when processes will unfold can help build understanding and goodwill. However, the principle of not presenting problems without solutions should be observed. On substantive policy choices, simple and clear, “high level”, statements are better: providing a lot of detail can close down options that may be needed as events unfold or lead to reversals or contradictions in messages. There is a trade-off between the level of communication on policy points and ensuring a consistent message is maintained.