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EIGHT ACTIONS FOR CORPORATE TREASURERS IN THE PANDEMIC

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The global outbreak of COVID-19 is a fast-evolving situation, with widespread ramifications across industries, including financial services. As the economic consequences of the outbreak unfold, the priority for corporate treasurers is to establish ongoing and clear communication with bank providers. Treasurers should remain in close contact with bank providers across a range of topics including payments, credit-line availability, and cash management, while monitoring market indicators of the financial strength of key relationship banks.

THE BANKS HAVE PREPARED FOR THIS

Post-financial-crisis regulations and investments in stress testing have provided a powerful starting point for the financial industry. The banking sector now holds much more liquidity and capital than it did before the financial crisis. Regulators have run stress tests on liquidity and capital bases against various macroeconomic scenarios and shocks, including deep recessions, market disruptions, and idiosyncratic and systemic bank shocks. These stress tests have generally confirmed the strength of the liquidity and capital bases of globally active banks.

All financial services firms also have detailed business continuity planning (BCP) game plans, with clear playbooks for what to do in a given scenario. While managing the situation live is challenging, placing enormous stress on the teams tasked with delivering on the BCP, the plans have allowed for a rapid, well-organized response.

Like many firms, banks have been pleasantly surprised at how effective the new technologies have been in supporting work remotely, in a way that would not have been possible even five years ago. There have been some noticeable watch points, such as employees without laptops, spikes in VPN connectivity, and bandwidth challenges, but for the most part (as we write this) these plans seem to have worked.

CLIENT SERVICE WAS NOT DRAMATICALLY AFFECTED

The new coronavirus 2019 (COVID-19) pandemic is fast moving, and predicting just how it will develop in any jurisdiction is nearly impossible. That said, the actions taken by governments and the response of financial services firms in each geography have followed a similar path. We asked our teams in Asia and Italy how client service was impacted during the most stringent containment scenarios.

While the volume of business has fallen significantly, the ability to serve clients has not been dramatically affected. This is due to a falloff in both the demand and supply sides, which are operating with less capacity.[1] A notable exception to this has been banks' markets business where client service has been impacted due to the operational challenges associated with remote trading floors and traders working from home.

HOW THE FINANCIAL SERVICES SECTOR SUPPORTS ITS CLIENTS

To date, the financial services sector has focused on urgent responses to business continuity, in the face of the pandemic, to continue serving clients. These measures have centered on employee protection (such as cancellation of non-essential travel and remote working) and bank business continuity (such as closing branches and splitting critical teams). We have also seen banks starting to focus on addressing the financial impact of COVID-19 on their business and clients. Institutions are responding through targeted actions. Examples include:

- **United Kingdom:** A number of banks have introduced options for retail clients to apply for loan "repayment holidays" of up to two months, while support for business banking clients includes working capital solutions, increased or new overdraft facilities, and capital repayment holidays on qualifying loans.
- **Germany:** The Ministry of Finance has committed to introducing options for deferring tax payments, simplified processes for adapting prepayments, and waived enforcement measures until the end of 2020. To support small businesses, existing liquidity assistance programs will be expanded to increase access to cheap loans, and special programs by German state-owned

1 For further details on this, see www.oliverwyman.com/our-expertise/insights/2020/mar/covid-19-lessons-from-asia-and-italy.html

development bank KfW will be made available for companies in serious difficulty (pending European Commission approval).

- **Italy:** Banks are offering a three-month suspension of existing loan installments (in some cases, extendable up to six months depending on the duration of the public emergency), and are maintaining simple and secure remote channels to deliver client communications and provide support.
- **United States:** The Federal Reserve has taken various actions to assist with the availability of liquidity and capital resources into the real economy. Measures include reducing bank reserve requirements to zero percent, which will free up liquidity for lending to households and businesses. Also, banks are being urged to utilize the almost $3 trillion of liquidity they hold for adverse stress situations. Separately, the US Small Business Administration is offering low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury as a result of the new coronavirus (COVID-19).
- **Global Currency Coordination:** The Bank of Canada, Bank of England, Bank of Japan, European Central Bank, US Federal Reserve, and Swiss National Bank announced coordinated action to enhance the existing swap lines for the provision of currency liquidity. The Federal Reserve has also announced new arrangements with the Reserve Bank of Australia, the Banco Central do Brasil, the Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Norges Bank (Norway), the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden). This should eliminate corporate treasurers' concerns about securing liquidity in a very broad range of currencies at reasonable rates.

WHAT YOU SHOULD DO NOW WITH YOUR BANK

Communicate and overcommunicate. In a period of broadbased stress, such as we are now witnessing, where pressures on a global financial institution can materialize from any geography, corporate treasurers should remain in close touch with bank providers to ensure continuity of services. In particular, corporate treasurers should consider these eight actions:

1. **Payments:** Monitor payment activities to ensure banks' attempts to manage intraday liquidity through throttling of payments do not impact time-sensitive obligations (nor other payments for that matter).
2. **Cash-management services:** Review and confirm that any cash sweeps/investments are being made to sufficiently conservative investment instruments.
3. **Trade financing capacity:** Make certain banks have provided a critical role in facilitating global trade through the provisions of trade financing services, such as documentary letters of credit and import/export bills.

4. **Deposit availability:** Treasurers have traditionally utilized banks as points at which to aggregate surplus cash on both a short term as well as longer-term basis. As COVID-19 impacts revenue and cash generation across sectors, the availability of those deposits needs to be continuously confirmed.
5. **Currency services:** Some corporates rely on their "relationship banks" as a source of currency payments — the unimpeded availability of currency needs to be assured at reasonable rates. This may also raise the question of reviewing currency-hedging strategies.
6. **Credit line availability:** Committed credit and liquidity facilities are a key mainstay of banks' service offerings. As mentioned above, banks' liquidity positions have been materially enhanced through post-financial-crisis regulations, and that, coupled with central bank aggressive support, should make drawing on facilities simply to "hoard cash" an expensive proposition that is not worth it.
7. **Guarantees and Letters of Credit:** The availability of these should continue uninterrupted. Monitoring for any indications of capacity reductions or increased pricing should be in place.
8. **Conduits/Securitizations:** Banks facilitate the asset financing needs of corporates through a number of key roles, such as sponsor of single or multi-seller conduits, participation in conduit-liquidity facilities, or underwriting securitization transactions. Corporate treasurers need to stay informed on the conditions of financing markets for maturing conduit-issued commercial paper. Any disruption in financing markets may result in corporate treasurers having to seek alternative financing sources for their assets. Similarly, should a bank sponsor suffer a ratings downgrade, that could impede its ability to continue in its role as a conduit sponsor, resulting in potential loss of financing capacity for corporate assets.

As a prudent measure, corporate treasurers should also monitor market measures, which may provide indications of deteriorating financial strength of key relationship banks. Indicators could include, for example, a widening in credit spreads or in credit-default swaps that is not correlated with those of other comparable financial institutions and rating agency announcements related to financial outlook changes or credit downgrades.

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