Managing Through Crises—Lessons and Best Practices

What to Anticipate and 5 Actions to Take

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We have been studying responses to crises over time and the actions of those who have successfully navigated these situations.

The COVID-19 virus is incredibly sad and frightening on a personal level, yet there are important business lessons to keep in mind when managing what will likely be difficult times ahead for companies and their financial service providers.

Banks will be under attack from all angles: historic low interest rates, softening loan demand, lower share of wallet as companies diversify bank groups, and increased capital to support company downgrades in risk ratings.

Managing through crises is where great companies—and their advisors—can separate themselves with compelling insights and advice to tackle the most pressing issues.

What to Anticipate Next in Banking

1. **Companies will focus on de-risking—often resulting in more banking providers**
    - Supply chain risk (e.g. away from sole sourcing in China)
    - Financial risk
    - Access to capital risk
2. **Business executives will delay capex decisions, fortify access to capital and dam up cash**
    - Lower loan growth from delays in capex decisions may be partially offset by short-term tapping of lines of credit to ensure access to capital
3. **Company risk ratings will decline**
    - Despite fiscal and monetary relief efforts by governments, global economic slowdowns will cause downgrades of companies, especially in certain sectors impacting bank capital requirements
4. **Interest rates will remain lower for longer than expected**
5. **Meaningful market share gains are available for banks… if they are well capitalized, externally focused on the right opportunities—and bold**
    - Financial service providers with the balance sheet and stomach to support great companies with capital and advice have opportunities to pick up disproportionate market share
    - This requires smart prospect targeting and client-need-based selling

During crises, it is easy to get it wrong, with severe consequences. At the same time, business executives are looking for partners they can trust to help them navigate difficult situations and provide the capital as well as other solutions to help them through.

5 Actions for Bank Leadership Teams to Keep in Mind

1. **Communicate commitment to partnership and willingness to lend**
    - While companies truly want and need the support of long-term partners during crises, they are much more open to new financial providers that are willing to lend
    - During the financial crisis, banks that lost share were the ones perceived as less competitive on willingness to lend
    - Avoid institutional arrogance and demonstrate empathy
    - While we understand the legal challenges in declaring support for a company, banks need a clear, concise message that is reiterated from leadership through RMs that the bank is:
        - In excellent financial health
        - Well positioned to help clients weather the storm
        - Available to provide advice on reducing risks and eager to speak with companies looking for more supportive banking partners
        - Committed to long-term relationships
    - Based on our experience, banks that did this during the financial crisis continued to enjoy significantly higher market share growth for the next 3-5 years
2. **Advise clients and prospects on how to best address key risks**
    - Supply chain risk—minimize concentration risk from certain suppliers, countries and inputs. Banks with strong international capabilities have an opportunity to add substantial value with their strategic supply chain financing solutions
    - Financial risk—minimize for:
        - FX risk by helping to hedge currency
        - Interest-rate risk by locking in lower rates for longer duration to help free up cash flow
        - Trade finance risk by reducing uncertainty around supplier/buyer risk
    - Access to capital risk—companies diversify their sources of capital groups during crises
        - Traditional bank debt—bank groups will likely increase as they have done in past crises, with companies adding credit providers "just in case."
        - Capital Markets—DCM to lock in lower rates and fortify balance sheets. ECM for select companies is an option as well
        - PE—those with greater need for capital facing higher risk may turn towards PE

    - M&A—companies worried about ability to survive may look for strategic options
3. **Focus on retention of share of wallet**
    - As companies diversify risk and add banking providers, share of wallet will likely get diluted unless offset by strong relationship management, signals of willingness to lend and new-to-bank wallet share
    - Are bankers talking to clients enough and delivering the right messages to assuage fear? Are they discussing the full product array to mitigate risk and bringing in the right product specialists?
4. **Step up insight and advice to drive new business development**
    - Mobilize the sales teams to focus on clients and prospects. During crises, sales teams often get paralyzed by the news and become inwardly focused at exactly the time they need to be engaging and advising
5. **Get compensated for taking risk**
    - Willingness to lend and access to credit in difficult times is critical to forging long term partnerships. Business executives understand – despite not being happy about it – that banks need to get paid for the extra risks, especially during a time of historic low interest rates.
    - Also, there will be strong pressure to demonstrate empathy and reduce certain fees, including for cash management. We suggest using the fee reductions / waivers as an opportunity to discuss allocating the bank a greater share of wallet, lock in longer duration contracts, and where possible ensure medium term compensation makes up for short term reductions.

The old adage "May you live in interesting times" does not begin to capture the personal nature COVID-19 will have on families and economies all over the world. However, it is during times of fear and crisis that great leaders often emerge to create meaningful and memorable long-lasting success.

Bank leadership teams need data, analytics and insights to not only survive, but thrive. Please do not hesitate to reach out—we are committed and uniquely positioned to support you during these uncertain times.

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