

COVID - 19: A FINANCIAL PANDEMIC

POTENTIAL IMPACTS

- HEALTH
- FINANCIAL
- PSYCHOLOGICAL

INTRODUCTION

The COVID-19 (Corona Virus) has been declared as pandemic by the World Health Organization (WHO) and has officially effected 360,000+ individuals across 170+ countries as of 23-March-2020.

While it has created a health scare; its impacts on global economy and politics could be far fetched. The hospitality, airlines, travel & tourism, transport, marine and poultry are few industries that have already started experiencing its impacts; the others may feel the jitters in weeks to come.

Marriott's CEO Arne Sorenson came out of his illness to announce the impact of the crisis on their business and have granted furlough to tens of thousands of its employees globally. He also mentioned about the overall impact on hotel industry where many small hotels have either already shut down their operations or are preparing to do so. Marriott itself has seen its *business down by 90% in Greater China; upto 75% in rest of the world.*

Airlines industry is no different; the International Air Transport Association (IATA) has already appealed to governments in Europe, as part of a worldwide campaign, for emergency government intervention as they fight for survival due to the collapse in air travel as a result of the COVID-19 crisis.

As per *Alexandre de Juniac*, IATA's Director General and CEO, "Airlines globally are fighting for survival. European air traffic has suffered an unprecedented decline, with some markets down 90% compared to last year. Millions of jobs are at stake. Airlines need urgent government action if they are to emerge from this in a fit state to help the world recover, once COVID-19 is beaten,"

On a global basis, IATA estimates that emergency aid of up to \$200 billion is required.

STATISTICS - TRAVEL AND TOURISM SECTOR

In its annual analysis quantifying global economic and employment impact of Travel & Tourism in 185 countries and 25 regions, the World Travel & Tourism Council's (WTTC) research reveals that the sector directly and indirectly accounted for:

- **10.4%** of global GDP
- **319 mn** jobs, or 10% of total employment in 2018
- **20%** of all new jobs created over last 5 years
- **3.9%** growth in 2018 as compared to 3.2% global GDP growth in same year
- Asia-Pacific grew by **6.4%**

Global sports and recreation industry which recently significance is also one of the worst impacted. On one side, Indian Premier League (IPL) has been postponed and there are no confirmed dates for 20-20 Cricket World Cup either, the other side talks for postponement of Olympics is gathering pace.

Similar is the case with entertainment industry; movies releases and events have either been cancelled or postponed indefinitely. The movies, shows in making have also been stalled.

Automobile, the back bone of Indian manufacturing has already been reeling under pressure for more than a year now have been hit by both at demand and supply ends. Maruti Suzuki, Honda, Hero Motors and other OEMs have already shut their plants in India; having a ripple impact on their suppliers forcing them to follow the footsteps and close their plants.

Rest of the sectors are not unaffected either; FMCG, Manufacturing, Garments, Textile, Retail, Real Estate, Ride-hailing, E-Commerce, Electronics, IT / ITES, Education have all started feeling early jitters.

THE WORST CRISIS OF OUR LIFETIME

By the impact seen so far, it is the worst hit crisis our current generation has seen in its lifetime. It's important to understand how this could be different from any other we have seen so far in our lifetime.

In all previous crises, the economies were hit at the top wherein global giants like Lehman Brothers went bankrupt and others like Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Bradford & Bingley, Fortis, Hypo and Alliance & Leicester came within a whisker of doing so and had to be rescued.

The direct impact of earlier crises on the lower strata of society or bottom of the pyramid was little and a roadside vendor was still able to sell as many burgers; cab driver was getting enough passengers daily; farmer, daily wager or those employed with unorganised sector (*majority of workforce in India & other developing economies*) weren't much impacted.

Whereas in current crisis, these segments are the worst hit. With cities including the financial capitals globally under lockdown, there is no movement on the roads and obviously no one is spending a dime in eating out, traveling, shopping, entertainment, etc. The reduced buying power of this segment will break the consumption cycle.

With current lockdown bound to continue for weeks, the reduced consumption will make recovery even harder. Even post recovery, people will be extremely sceptical to spend, travel, we will be staring at a big erosion in our GDP & employment growth numbers.

POTENTIAL IMPACT & READINESS

Never before has the government ordered closure of business activities, imposed lockdown and curfews at such mass levels. The situation is no less than World War-II, but with more connected economies. Hence, impact will be more global and none can isolate itself from the after shocks.

Impact on Business:

- Increased fluctuations in Forex rates
- Potential curbs by imports / exports due to geo-political interventions
- Cancellation of existing business contracts
- Reduced Cash flows and ability to raise loans
- Slowdown in investments and an over-cautious Investor community
- Higher Risks of defaults
- Liquidation / default of suppliers or vendors
- Increasing levels of inventories
- Economic Instability, Civil Unrest and potential political aggression
- Plummeting Employee productivity

Business Readiness:

- *Readiness Assessment:* Look out for expert guidance to evaluate business continuity program against best industry practice.
- *Risk Management:* Complete risk assessment on core business processes; identify, prioritize any new risks / gaps in existing controls for scenarios like pandemics, recession, and geopolitical conditions risks
- Revise working capital and liquidity requirements
- Review / renegotiate lending arrangements; rate cuts, higher loans expected on existing collaterals
- Works toward optimisation of working capital and alternate funding solutions
- Increase open communication with front line managers, they see early shots and challenges
- Relook at *Business Continuity* strategies. Start experimenting with technology, remote working, moving away from having large concentration to smaller offices in multiple cities.

Impact on Individuals:

It's anyone's guess that the crisis will have adverse impact on job creation, increment, employee welfare spend, rewards and recognitions; one of the biggest impact in my opinion could be **PSYCHOLOGICAL**.

We all are getting exposed to depressing news everyday, being scared of anyone walking near us, hearing dooms day's conspiracies, getting worried about well-being of self & dear ones.

Individual Readiness:

- Invest time gained by working from home on your own-self; exercise, meditate, eat healthy
- Plan your finances well; increase your insurance cover; focus on **Needs**, defer **Wants**
- Stick to existing jobs; remember all organisations follow *LIFO* rule in case of retrenchments
- Learn new skills; businesses will be on look out to cut cost by automation or prioritisation

While economists are debating if it will be a sharp, short recession or a prolonged downturn; it's bound to have a geo-political impact and will force nations to reprioritise on their investments and global allies.

Opportunities for M&As will open up. Smart & agile businesses will ride the wave; open opportunities for self and their economy for next level of growth.

Let's be aware & start preparation for the inevitable.



JYANT KOHLI

Chief Operating Officer, Lawrbit Global Compliance Network; one of the pioneers in RegTech & LexTech industry in India.

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DELHI / NCR

CORPORATE OFFICE: 865-A, Tower - B1, Spaze
I-Tech Park | Sector 49, Gurgaon - 122002



JAIPUR

KNOWLEDGE CENTRE: 32, Gopal Tower,
Dadu Marg, GopalBari, Jaipur - 302001



MUMBAI

WeWork Chromium, JVLR, Opp. L&T Business
Park, Andheri, Mumbai - 400076



AHMEDABAD

A2/512, Palladium Complex, Corporate Road,
Prahlanagar, Ahmedabad, Gujarat - 380015

GET IN TOUCH WITH US

+91-9560-83-4141 | info@lawrbit.com | www.lawrbit.com

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