

# COVID-19: What next?

Board Leadership Center (India)



At the time of writing<sup>1</sup>, COVID-19 is present in over 100 countries, with more than 600,000 confirmed cases and staggering number of deaths globally. What is important to remember, but at times difficult, is that the impact of COVID-19, whether benign or severe, will depend on your geographical footprint and your sector.

First, the rate and scope of the spread will depend not only on the public healthcare system and the epidemiology of the virus, but also the political reaction, institutional resilience, demographics, and even (to a small extent) the weather system<sup>2</sup> of each market – not to mention sheer luck. Second, the resultant business and economic impact cannot be directly anticipated from the rate and scope of the spread – for example, the adoption of disproportionate measures<sup>3</sup> by the public and private sector, or

unanticipated second and third order impacts to countries and companies otherwise unaffected by COVID-19 so far.

Prime Minister Narendra Modi in his address to the citizens of the country has urged them to maintain calm<sup>4</sup>. He announced that the government would set up a COVID-19 Economic Response Task Force, which will be led by the Finance Minister. The Indian government also issued a directive to ban all international flights from arriving in India for one week, starting 22 March 2020<sup>4</sup>.

So how do you 'maintain calm', when operating under this level of uncertainty?

Once you have the basics in place, I would start by answering three questions.

- 1. How bad could it get?** This is not about creating a 'sky is falling in' scenario, but rather thinking through a plausible but severe, worst case scenario, considering both the likely political and economic direction of travel. With the situation evolving rapidly, you will also need to review regularly and revise when necessary.

To get you started, KPMG alliance Eurasia Group's latest global scenarios (summarised here, at the time of writing) point to the potential for protracted economic dislocation:

<b>BENIGN</b>	<p>China contains the outbreak, there is limited global transmission, and a significant decline in rate of change of new cases by end April.</p> <p>The political pressure on major central banks and finance ministries to ease policy intensifies, leading to a moderate loosening of financial conditions that stabilises financial markets ahead of the turn in the virus.</p> <p>As the virus is contained, oil rebounds to USD 60 per barrel or above.</p> <p>There is some limited supply chain disruption and additional decoupling, primarily in sectors dependent on demand from or supply chains with hard-hit areas.</p>
<b>SERIOUS</b>	<p>The number of cases and fatalities continues to rise until the end of July, but not explosively. There is not a significant decline in the rate of change in new cases until July, after which the virus recedes (this does not rule out pockets of virus returning after July, but none severe).</p> <p>Central banks cut rates to zero or negative territory, and in some cases reconstitute quantitative easing programmes. Fiscal policy is eased further, in many cases beyond levels that have political support or are allowed by fiscal rules.</p> <p>Travel restrictions and other aggressive containment measures spread worldwide. Significant supply chain disruption causes insolvencies for companies / sectors severely affected, requiring tough decisions on bailouts.</p>

<b>SEVERE</b>	<p>A continued rise of new cases through the end of 2020 results in broad-based dislocations. Risk aversion heightens the chance of a classic emerging markets crisis. The lack of will to coordinate large-scale rescue programs in a G-Zero world exacerbates downside risks.</p> <p>Major central banks cut interest rates to zero or below, reintroduce quantitative easing, and provide credit facilities to hard-hit institutions. Widespread insolvency leads many countries to institute special support facilities while fiscal policy pressures force countries to reassess long-established fiscal rules and norms.</p> <p>Shorter supply chains as firms rationalize supply relationships. Supply concerns lead to protectionist policies on critical technologies and goods.</p> <p>Oil prices fall below USD 35 per barrel for a period, until supply falls in response (as higher cost shale and oil sands become unprofitable)</p>
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## 2. What does this mean for me?

The most important part of crafting the above scenario is ensuring it is tailored to your business – overkill can be as crippling as missing the warning signs. Three nuances to keep in mind:

- **Demand and supply-side shocks:** you've likely already felt the supply-side shock (like a reduction in supply chain capacity through lost productivity or access to key inputs), but don't forget this can quickly turn into a demand-side shock (i.e. changing consumer patterns, cash flows drying up).
- **Second and third-order impacts:** a country may not be physically exposed to COVID-19, but it doesn't mean that it won't be affected in other ways – from a slowdown in tourism and other exports, to foreign exchange volatility and falls in the oil price. But not all impacts will be negative – for example, lower oil prices may actually drive down inflation in some emerging markets.
- **4D risk:** the risks posed to your financial, business and operating models exist in a network. Understanding not only the impact and likelihood, but also the velocity and contagion effects (interconnectivity) can help ensure that you know which issues to deal with together, to effectively identify and prioritise your response measures accordingly.

## 3. Where will we go wrong?

Last but definitely not least, there's a little trick amongst behavioural scientists called the 'pre-mortem'<sup>15</sup> – harnessing the power of prospective hindsight by taking a plan, imagining that plan has failed, and then working together to identify all of the reasons why that plan failed. You would be surprised at how much better people are at poking holes in a plan once they are told an outcome is certain.

KPMG professionals will continue to share information on ways client communities can respond as the situation develops.

1. Situation Report -69, World Health Organisation, 29 March 2020

2. Seasonality of SARS-CoV-2: Will COVID-19 go away on its own in warmer weather?, Harvard T.H. Chan School of Public Health

3. George Friedman's Thoughts: Compromising on Corona, Geopolitical Futures, 11 March 2020

4. Coronavirus Latest Updates, Financial Express, 20 March 2020

5. Performing a project Premortem, Harvard Business Review

## KPMG in India contact

**Ritesh Tiwari**

**Partner**

Risk Consulting &

Leader, Board Leadership Center

T: +91 124 336 9473

E: riteshtiwari@kpmg.com

[home.kpmg/in](https://home.kpmg/in)

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