The Twin Shocks (COVID-19 Pandemic & Oil Price Crisis) and Implications for Nigerian Family Businesses

May 2020

KPMG in Nigeria
Foreword

COVID-19 is in the first place, a pandemic with potential serious implications for people’s health. It is an unprecedented challenge for our modern societies and health systems. The consequences of the pandemic for our global economy and financial sector are unpredictable.

Economists are convinced that we are heading for a significant economic downturn; however, responses from Governments and regulators have been prompt and different measures have already been taken to sustain the economy.

In addition, the situation for Nigeria has been exacerbated by an oil price war and the resultant low oil price regime, which is likely to impact the country’s budgeted revenues by an estimated 90 per cent. Hence, the Twin Shocks of COVID-19 and oil price crisis.

As the scope of these Twin Shocks continue to unfold, the anxiety for businesses, remains high. Enterprises and family businesses are being forced to take drastic steps in order to remain in business. Many family businesses, like other organizations, have taken strong immediate steps to protect their employees, customers and communities.

At KPMG, we have analysed the current situation across all the sectors of the Nigerian economy where family businesses have presence and this publication highlights specific recommendations on measures to cope with this ‘new normal’.

We are here to help as you navigate the uncertainties of these challenging times.

Tayo Ogungbenro
Partner & Head
Family Business
The Twin Shocks
Nigeria is currently faced with Twin Shocks with multifaceted impact

- There is a difference between oil supply shocks and oil demand shocks
- The Covid-19 related oil demand shocks will be addressed once the pandemic bottoms out
- The oil price slump will impact Federal Government’s ability to fund the budget with public debts expected to continue to increase sharply.
Impact of the Twin Shocks on Nigerian Family Businesses
The Twin Shocks will have high-velocity impacts on businesses

**Strategy, Business & Operating Model**
- Supply chain disruptions due to local and cross-country restrictions
- Increased reliance on digital channels with pressure on technology infrastructure and resources
- Concerns around continuity of processes which have direct touchpoints with the customer
- Potential changes to Board procedures and effectiveness
- Significant pressure on financial performance due to reduced demand

**Risks**
- Increased credit risk defaults and lower recoveries due to inactive markets for collaterals
- Reduced cash inflows and liquidity challenges due to significant downward pressure on demand
- Increased fraud, cyber threats, etc. due to relaxed internal controls
- Fair value losses due to increased credit spreads
- Reduced profit levels and capital depletion

**Audit, Financial Reporting and Tax**
- Threat to going-concern assumptions
- Significant impairment of some financial instruments based on fair value assessments
- Need to ascertain whether there are events that provide evidence of conditions that existed at the end of the reporting period
- Post-audit adjustments may have tax implications
- Need to address the issue of realized losses and gains as a result of adjustment/devaluation of foreign exchange
Customers will expect flexibility which might be in form of discounts, free access to services, repayment deferrals etc. to reflect their loss of income during this period. Additionally, brands need to communicate empathy and support for their customers.

MARKETS SEGMENTS
Customer segments are faced with severe pressures. Household income will be negatively impacted as economic activities slow down, while activities of SMEs will likely slowdown. However for businesses operating in the health and pharmaceuticals sectors it could present an opportunity to increase productive capacity.

CHANNELS & DIGITAL
Customer interaction with digital platforms will increase during this period given that it is the only option for commerce. Consequently, with an expected surge in e-commerce, organisations need to maximise e-commerce potential and logistics.

PROPOSITIONS AND BRANDS
Customers will expect flexibility which might be in form of discounts, free access to services, repayment deferrals etc. to reflect their loss of income during this period. Additionally, brands need to communicate empathy and support for their customers.

FINANCIAL AMBITION & TRANSACTIONS
Significant pressure on financial performance as costs and provisions are expected to rise and revenues lag. Inorganic growth plan in early stages are shelved and more advanced transactions grapple with structuring complexities amidst uncertainties of the Twin Shocks.

BUSINESS PROCESSES
Concerns around continuity of processes which have direct touchpoints with the customer but are still manually operated. Straight through processing will become an imperative given the remote working conditions.

WORKFORCE
Disruption in the activity of key job functions which require technology and systems that are only available on-premises. Therefore, employee productivity is expected to decline significantly.

GOVERNANCE AND RISK CONTROL
Potential changes to Board procedures and effectiveness due to travel bans and restrictions. Potential increase in fraud attempts as companies adopt alternative business/working procedures.

TECHNOLOGY INFRASTRUCTURE
The pandemic has increased the adoption of digital which has put tremendous pressure on technology infrastructure and resources. It has constituted a true test of capacity planning and resilience.

High impact Medium impact Low Impact

Impact of the Twin Shocks: Strategy, Business & Operating Model

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### Impact of the Twin Shocks on key sectors

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<th>Demand Side Impact Points</th>
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<td>Price variations of key raw materials</td>
<td>Cash flow constraints</td>
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<td>Oil &amp; Gas</td>
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<td>Financial Services</td>
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- **POSITIVE**
- **MODERATE**
- **NEGATIVE**

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Ineffective frameworks, processes or practices by which organizations are controlled and directed.

Effects that fiscal and monetary policies may have on strategic planning and the management of core operations. This is particularly important given the strategic actions the government might take to safeguard the economy during and after the coronavirus pandemic.

Regulatory uncertainty as a result of increased regulatory scrutiny and sanctions within the country and uncertainty about the actions to be taken by regulators to cushion the impact of the pandemic on the economy.

The loss of key customers and patronage resulting from perceived or actual inability to meet customers’ expectations as well as threatened going concern of customers.

Foreign exchange volatility and its impact on profitability. Following a decline in crude oil price, the ravaging impact of the coronavirus pandemic on the global economy and the recent currency adjustment of the Nigerian Naira; uncertainty about a further devaluation continues to weigh on corporates.

Inadequate information technology infrastructure and ERP systems to effectively and efficiently support the current and future needs of businesses particularly during this pandemic.

Ineffective frameworks, processes or practices by which organizations are controlled and directed.

The level and quality of skills, knowledge and experience required to achieve business objectives and/or sustain growth that might be lost as a result of the COVID-19 pandemic.

Threats of potentially disruptive and unexpected adverse developments in the operating environment of businesses. Beyond mere survival, companies also need to be prepared to manage disputes and other complexities that arise in the aftermath of a crisis.

Impact of the Twin Shocks: Risk
Considering that the COVID-19 actually started towards the end of 2019, there is the requirement to ascertain whether there are events that provide evidence of conditions that existed at the end of the reporting period for the companies’ activities or their assets/liabilities.

**CURRENCY ADJUSTMENT**
Recently initiated price adjustment of the Naira currency vis-à-vis the US Dollars may have some foreign exchange related consequences such as realized gains and losses on some transactions which would have tax implications.

**ADMINISTRATIVE CONCESSIONS**
The Federal Inland Revenue Service has also granted various administrative concessions to tax payers in response to COVID-19 crisis.

**EMPLOYEE BENEFITS**
Many companies will set up different palliatives that may be considered as staff benefits during the preparation of the year-end financial statements including employees’ absence from the office. Depending on how these palliatives are classified, some may be considered as additional benefits to the employees and therefore taxable.

**FAIR VALUE MEASUREMENT**
The objective of fair value measurement is to convey the current value of the asset or liability that reflects conditions as of the measurement date and not a future date.

**GOING CONCERN**
The daily escalating impacts of the Twin Shocks may threaten the use of going concern assumption in preparing the financial statements.

**INSURANCE RECOVERIES**
Companies would experience varying degrees of losses from the COVID outbreak. If such losses have been previously insured under insurance contracts, serious consideration is necessary to determine the recognition of recoveries for such losses.

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Potential Countermeasures & Response Actions
## Recommendations for businesses/operations

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| **Transport** | ▪ Define specific guidelines on intra/interstate travels to minimize threat of delays crossing through borders.  
▪ Implement security measures for goods-in-transit (GIT) to safeguard against delays, theft etc.  
▪ Introduce and enforce GIT insurance including technology enabled tracking devices for goods.  
▪ Ensure fair pricing of services  
▪ Define policy for social distancing and hygienic interactions e.g., use of facial masks and hand-gloves.   | ▪ Adopt digital base to reduce physical interactions and promote seamless operations.  
▪ Extend credit facilities to support customers with cashflow challenges.  
▪ Sensitize customers on possible price fluctuations and disruption in services  
▪ Implement policies for social distancing and hygienic interactions e.g., use of facial masks and hand-gloves. |
| **Oil & Gas** | ▪ Consider hedging against price fluctuations of output  
▪ Deploy effective hedging mechanisms for foreign currencies to avoid disruption in products procurement  
▪ Introduce cost optimization measures to cushion the effect of oil-price reduction on cashflow.  
▪ Engage with trade unions to proactively manage employees expectations.  
▪ Defer non-critical CAPEX investments to ensure effective management of cashflow/liquidity.  
▪ Define and roll-out policy for social distancing and hygienic interactions e.g., use of safety and protective equipment. | ▪ Sensitize customers on possible price fluctuations driven by market forces.  
▪ Optimize delivery channels to enhance patronage.  
▪ Extend credit facilities to support customers with cashflow challenges.  
▪ Implement policies for social distancing and hygienic interactions e.g., use of safety and protective equipment. |
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| Power  | • Prioritize power supply to areas housing critical facilities e.g., Hospitals, isolation-centers as well as to sectors with growth potentials such as ICT, Foods, Health, etc.  
• Postponement of non-essential maintenance.  
• Implement measures to manage demand volatility and large scale power outages.  
• Campaigns for revenue collection through digital means (where collection is possible).  
• Define pre-paid meter installation protocol to include minimal interaction with households during installation. Sensitize the public on the advantages of being metered, to significantly increase meter installation and thereby minimize collection losses.  
• Define policy for social distancing and hygienic interactions e.g., use of safety and protective equipment.  
• Source for funding/ grants from multilateral agencies at concessionary rates to fund critical projects aimed at improving power supply. | • Adopt digital base to reduce physical interactions and promote seamless operations.  
• Sensitize customers on effective usage of power  
• Provisions of rapid response team for maintenance of facilities to minimize service disruption  
• Create more awareness on planned service disruption to avoid unnecessary panic.  
• Implement policies for social distancing and hygienic interactions e.g., use of safety and protective equipment. |
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<tr>
<td>Construction &amp; Real Estate</td>
<td>▪ Source construction and building materials locally.</td>
<td>▪ Renegotiate contract timelines and customers’ payment terms.</td>
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<td>▪ Loan/funding agreement restructuring.</td>
<td>▪ Develop a flexi payment plan for customers with cashflow constraints.</td>
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<td>▪ Utilization of Government’s funding to the sector to aid completion of ongoing projects.</td>
<td>▪ Offer temporary rental rebates and discounts to encourage early payments</td>
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<td>▪ Deploy enterprise services to improve operations, processes and asset optimization e.g. video recordings of the properties and its environment to replace actual property visitation</td>
<td>▪ Review contract provisions to identify areas relating to unforeseen events, delays and force majeure that deserve special attention.</td>
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<td>▪ Review and restructure service supply contract with internet, bandwidth and mobile devices providers to meet demand</td>
<td>▪ Review of current insurance policies to ascertain if appropriate coverage for losses are available.</td>
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<tr>
<td>Telecommunications &amp; Media</td>
<td>▪ Investment in technology will help balance the need for the labour force such as automated call centres/self help desks</td>
<td>▪ Competitive pricing will also help sway/retain customers</td>
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<td>▪ Use analytics to identify customers most likely to be affected and develop proactive communication plans to keep them informed of policy changes and service disruptions.</td>
<td>▪ Assess fee schedules in light of service disruptions resulting from increased customer demand.</td>
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<td>▪ Consider provision of remote working arrangement as opposed to the cost of running a full office</td>
<td>▪ Develop remote processes for providing services to client.</td>
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<td>▪ Running shift systems for employees while working with the government on measures to ensure employee safety</td>
<td>▪ Develop a value proposition and flexi service plan for customers with suspended service and intending customers.</td>
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<td>▪ Re-assess supply chain to uncover weak links, especially in affected areas</td>
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## Recommendations for businesses/operations

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| Trade  | ▪ Regularly realign supply with demand, and prioritize products in demand.  
▪ Review existing incentives from suppliers and negotiate more attractive prices, in line with prevailing economic realities.  
▪ Search for viable local substitutes for imported goods.  
▪ Review credit sales strategy and ensure effective management of liquidity risk.  
▪ Protect front-line workers from exposure to COVID-19 and ensure safe handling of inputs.  
▪ Renegotiate contracts with key vendors  
▪ Access government support schemes for small and medium scale enterprises through low/zero interest loans, tax incentives as well as emergency funds to boost cash flow  
▪ Adopt a bulk purchase approach to reduce the pricing of materials | ▪ Develop good pricing system that reflects the prevailing market dynamics.  
▪ Review sales and marketing strategy to ensure that it aligns with current realities, leverages technology and social media, reaches target audience, and improves customer engagement and loyalty.  
▪ Use e-commerce channels to meet demand and consider strategic alliance with credible transporters/logistic companies. |
| Agriculture | ▪ Apply for available government funding and support (e.g. by way of agricultural inputs such as fertilizers and seedlings).  
▪ Search for viable local substitutes for imported inputs.  
▪ Cultivate crops (projected to be) in high demand.  
▪ Consider value-adding synergies with credible and like-minded players to expand cultivation and achieve economies of scale.  
▪ Review credit strategy and ensure effective management of liquidity risk.  
▪ Consider re-negotiating logistics arrangements with respect to fertilizer, fuel and other inputs to ensure timely delivery.  
▪ Protect front-line workers from exposure to COVID-19 and ensure safe handling of inputs. | ▪ Develop good pricing system that reflects the prevailing market dynamics.  
▪ Review sales and marketing strategy to ensure that it aligns with current realities, leverages technology and social media, reaches target audience, and improves customer engagement and loyalty.  
▪ Use e-commerce channels to meet demand and consider strategic alliance with credible transporters/logistic companies and food processing companies/eateries.  
▪ Liaise with relevant government agencies to advocate for the deployment of central collection centres in various states/local government. |
# Recommendations for businesses/operations

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| **Manufacturing** | ▪ Explore alternative financing options/ restructuring plans with investors/ financiers  
▪ Complement the distributor network with direct-to-consumer strategies in order to ensure constant supply of products and enhance profitability  
▪ Source raw materials locally to cushion scarcity of required materials to reduce the cost  
▪ Identify alternative suppliers in non-impacted regions of the world  
▪ Consider backward integration, where possible  
▪ Increase use of local workforce (where possible) to meet demands and timelines  
▪ Ensure continuous assessment and response to competitive intelligence  
▪ Hedge against foreign currency liabilities and other exposures. | ▪ Provide incentives such as price discounts to spur discretionary spend  
▪ Take the pulse of your customers, thinking through longer-term considerations around shifts in core markets or business models as a result of the pandemic  
▪ Establish plan for sales events to offload excess stock  
▪ Maintain discounting discipline by considering flexible terms and conditions, generous return policies, or including additional services to increase your total value proposition.  
▪ Deployment of technology and digital solutions i.e. drone sales reducing human contact as well as electronic ordering systems |
| **Hospitality** | ▪ Postpone expansion or renovation plans as this may not be essential for business survival.  
▪ Use flexi vendors and flexi contract terms with value proposition.  
▪ Minimize all discretionary operational and capital expenditure. Reconsider or postpone maintenance and other capital expenditure where possible to conserve cash.  
▪ Renegotiate credit terms and pricing with key vendors and lenders | ▪ Develop a flexible pricing system in light of the reduced cash flow that would characterize the post COVID-19 era.  
▪ Relook value proposition by providing more complimentary services  
▪ Diversify marketing activities to attract new customers.  
▪ Offer guests different options for cancellation to retain customers in the long-term.  
▪ Consider meal delivery service from restaurants to manage costs and boost revenue  
▪ Attract millennial travelers as they are more adventurous and are taking advantage of currently low prices. |
### Recommendations for businesses/operations

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| Health | ▪ Focus on increasing operational efficiency and productivity to reduce expenditure and increase liquidity by delivering health services virtually through mobile and digital platforms. This should include training and retooling of staff for digital work.  
▪ Put in place strategies and procedures to ensure safety of health workers and patients e.g. fully insulated testing and patient contact centers for COVID 19 and other diseases. This will limit the possibility of disease transmission via physical contact with patients, etc.  
▪ Build redundancies into supply lines for hospital consumables to minimize service quality degradation due to the failure of a supplier to deliver. For example establish alternative local sources for imported consumables such as PPEs, chemicals, drugs.  
▪ Develop data management and analytics capabilities to guide the processing of healthcare and patient data so that hospitals can provide evidence based, smart, responsive and proactive medical interventions.  
▪ Ensure the availability of insurance cover for high risk public health workers and events.  
▪ Government should encourage innovative platforms for healthcare providers, industry players and educational institutions to engage in information sharing and collaboration.  
▪ Modify existing business models to allow delivery of drugs and medical supplies to patients at home using drones and other delivery vehicles to reduce human-to-human contact and increase speed of delivery. | ▪ Sensitize customers to the availability of healthcare services such as telemedicine and other digital channels. Incentivise customers to use these services by offering discounts and promotions.  
▪ Digitize patients records in a shared database so health care providers can have a complete view of a patient’s medical history and records to aid critical decision making and promote the safety of health workers.  
▪ Explore innovative health payment plans/interventions for patients who cannot pay market rates for health services or do not have insurance coverage but require healthcare in the interest of public health. |
### Recommendations for businesses/operations

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| Education |  ▪ Invest in technology tools especially laptops in bulk to forestall price increases that may result from foreign exchange fluctuations.  
▪ Seek alternate sources of power such as Solar and Inverters to minimise cost of power in this current season  
▪ Seek loans to meet obligations for staff salary and other fixed operating costs, or restructure loans in anticipation of improved cash flows when schools and tertiary institutions resumes  
▪ Educational institutions may also consider mergers and acquisitions in the long-term. Schools will benefit from improved economies of scale (buildings, shared services, staff skills etc.) |  ▪ Schools should look to shifting some modules/subjects to purely online post the COVID-19 pandemic.  
▪ Schools may also explore partnerships and alliances with global schools, universities and business schools in a bid to provide value adding services to existing students. It will serve as a marketing tool to engage new/prospective students. |
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| Financial Services | ▪ Players in the sector will be required to find alternative investments for idle cash.  
▪ Engage consultants to perform a diagnostic review of relevant industries in order to identify sectors that would be on an upward trajectory post-COVID and deploy excess liquidity to such sectors.  
▪ Optimise available business channels and invest more in technology in order to maximise profits post-COVID.  
▪ Review end-to-end value chain to implement stringent cost management strategies to ensure survival  
▪ Engage consultants to implement sustainable cost optimization strategies  
▪ Plan for mergers and acquisitions post-COVID, where necessary  
▪ Invest in innovative contactless payment solutions and customer interaction channels which should align with new customer expectations  
▪ Improved apps / website features  
▪ Develop innovative products and solutions for SMEs such as integrated payment and book-keeping platforms  
▪ On-going cyber and fraud monitoring  
▪ Provide adequate support for remote working for staff | ▪ Early detection of impairment on portfolios and engage in remediations  
▪ Improve on bouquet of digital offerings and deploy dedicated help lines to key clients  
▪ Engage customers through various communication channels to reinforce messaging that their banking service provider has the capacity to weather the shock.  
▪ Improved apps / website features  
▪ Support customer-facing teams to deliver consistent customer experience by equipping them with adequate remote working facilities / infrastructure.  
▪ Automate as many transaction channels as possible e.g. account opening, due diligence procedures (Know-Your-Customer), share purchase, etc.  
▪ Sensitise customers on the use of digital and technological channels  |
Illustrative checklist to navigate the Twin Shocks (1/2)

Customers
- Have you identified and classified your clients? Do you know the more risky clients?
- Do you know the immediate needs of your clients? How much are the exposures and provisions?
- Is it possible to offer them new products or do they need to be restructured?

Suppliers
- Do you know where your key suppliers are located? Do they have contingency plans in place to ensure the continuation of supply?
- Do you have key outsourced services? Are they sufficient? Do they have contingency plans?

Physical Logistics
- Do you have clear instructions for your employees in teleworking, clear rotation schedules for employees in the central services? Have you established extra hours policies?
- Have you created clear instructions for your outlets? Do you have defined safety instructions?

Contracts
- Have you reviewed your contracts with key customers and suppliers to understand your potential liability in the crisis events, and how best to manage your legal risks?
- How will you respond if suppliers invoke force majeure clauses?

Customer Loyalty & Demand
- How will you set expectations with customers? How can you recover the experience in the future?
- How well do you know your customers? Are you likely to lose customers to competitors/alternatives?
- How will a decline in consumer demand impact your long-term growth plans?

Commercial Plans
- How will your strategy/transformation plans and programs be impacted? Will project deadlines and investments need to be delayed? What impact does this have on your business model?
- Does the COVID-19 and its economic crisis present an opportunity to family businesses to sell assets or acquire assets at cheap prices?

Technology and Infrastructure
- How would you rate the sufficiency of your channels infrastructure planning in the face of this situation?
- To what extent have you been able to leverage collaboration tools to facilitate remote work?
- Do you have the required security infrastructure to secure remote working operations?
- How useful have your disaster recovery and business continuity plans been? What can be improved?
- Have your 3rd party IT suppliers been impacted? Will this impact your SLAs and system support?

Governance
- What policies are in place to protect and support employees and is it timely communicated?
- What scenario planning is the company doing around a global pandemic?
- Are the board and management aligned on the scope of the crisis and what should be done? Is the board periodically appraised of response to the crisis?
- Have you established crisis reporting processes?
- Have you assessed the effectiveness of your internal and financial controls?
- How is the family supporting those working directly on the front line of the crisis (if any) and high risk groups such as the elderly within the family?

Workforce Availability
- How will you deal with the impact on your workforce? How can you ensure the safety of your employees while trying to maintain business as usual activities?
- Have you assessed the cyber security and health and safety risks associated with employees working from home?
Illustrative checklist to navigate the Twin Shocks (2/2)

**Awareness & Communications**
- Do you have a communications plan?
- Have you communicated with the relevant customers, employees and suppliers?

**Digital**
- How much of your products and services are accessible on digital channels and enabled digitally end-to-end?
- Are customers frustrated when using your channels?
- How nimble have you been in responding to customer needs during this pandemic through the strategic reuse of existing technology assets?
- How have you been able to harness the plethora of insights that come with the increased use of digital channels to obtain a competitive advantage?
- Have you considered your cloud strategy?
- How much of your operations do you think can be automated through the deployment of bots?

**Liquidity**
- Have you reviewed and revised cash flow, working capital management and demand predictions?
- Have you performed simulations of the liquidity indicators?
- Have you reviewed your contingency plans and have you updated it with the new market restrictions?
- Does the family business have the capital necessary to provide liquidity to owners or do they need to preserve cash and limit distributions to protect the business?

**Financial Stability**
- How will your financial stability be impacted from further stock market declines and restricted funding?
- Will the completion of your financial statements be delayed? Is this likely to cause a delay to your audit opinions and therefore market communications?
- Have you analysed stimulus packages introduced by the Central bank and other development financial institutions?

**Government & Public Health requirements**
- Do you have dedicated resource(s) reviewing public health requirements and other related Government announcements and ensuring that you stay informed?
- Have you assessed your obligations as an employer, for the health and safety of employees?

**Economy Disruption**
- How will you maintain trust with your customers and assure them?
- Are you prepared for potential massive withdraws?
- How will a drop in cash inflows affect your cost base and profitability?
- Are you able to support your clients with new products/deliveries?
- Are you able to access the government stimulus? How much?
- What is the impact of COVID-19 on family members in the family business (economically, socially and emotionally)?

**Borrowings & Tradelines**
- Have you evaluated all existing trade lines to identify those that might be threatened?
- Have you reassessed all borrowings and tradelines covenants and key financial ratios for the company’s ability to comply?
- Have you determined the need to proactively engage lenders to renegotiate terms or seek forbearance in the short term?

**Cyber**
- Have you assessed the cyber posture of new and existing systems being exposed for remote access?
- Can the current security incident monitoring mechanism support the company in case of increased attack on critical platforms?
- Have you identified single points of failures (SPOF) in the security architecture and how do you plan to manage any resulting incident?
- Are you confident that your current cyber security awareness programme sufficiently and effectively covers your employees, third-party and customers?
- Have you assessed the resilience of your technology infrastructure?
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