

Corona Covid-19 | Challenges and Fixes

An SME Perspective

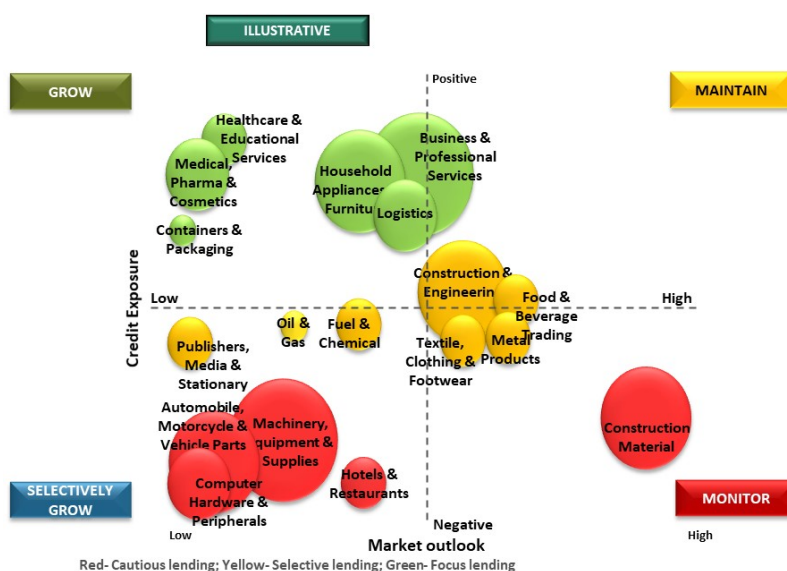
Background

The impact created by the Corona pandemic has been unprecedented, both from the breadth of its global impact and also from the depth of economic and business disruption that it has caused. The implications have been far-reaching for global corporations, and quite obviously to Banks. There have obviously been initiatives that are driven by respective Governments and regulators that are to minimize the impact, but they pale in the context of the size of the implications that are to be braced.

SME - Key Challenges & Implications

From a banking standpoint, there are a number of immediate implications that emerge, particularly from a Corporate Banking standpoint:

1. Industry impact: Clearly, there are sectors including travel, tourism, retail, general trading, real estate services, restaurants, etc. that are weathering a larger impact amongst its peer group and the cascading effect on the value chain is inevitable. Banks with exposure to these SME sectors would obviously have to bear the non-performance and related provisions, which is likely to dent the overall business profitability



2. Liquidity & Interest rates: The reduced interest rate regime, propounded by almost all central banks would naturally impact the Net Interest Margins, and hence the profitability of banks. When Governments also dip into the reserves with banks, they do have an impact on the liquidity, necessitating banks to resort to fund with higher cost borrowings, resulting in a double whammy impact on NIM



- 3. Transactions & Fee Income:** A natural consequence of the lockdown across economies is the reduced transaction volume, and a corresponding dip in the fee income. Barring e-commerce and digital transaction volumes, the overall reduction in transaction volumes have an immediate implication from a fee income standpoint
- 4. Sectoral impact on SME:** With over 90% of business and 60% workforce employed by SME, the restrictions and lockdowns would have a direct impact on the SMEs who would be sandwiched between delayed payments from customers and reduction in demand. This is likely to have implications directly on banks with exposure to this segment, with consequential impact on NIMs and profitability.
- 5. Provisions:** The IFRS9 norms notwithstanding, the collective implication of the overall slowdown in the economy, the direct and indirect on industries as well the cascading impact on the downstream sectors would necessitate a higher degree of provisions, and that is not good news for any bank.

Corporate Banking – Key Fixes

Following are the 5 key areas where Cedar can potentially assist in making an immediate and strategic improvement from an SME perspective:

1. Coverage model realignment:

Identify SME clients that are already in troubled risk sectors and those likely to be affected, based on the sector matrix. Review coverage model, identify accounts that need to be co-managed with the work out team and refocus corporate RM team allocation and coverage model for account monitoring.

Cedar Assistance: Diagnostic review of bank's SME exposure by industry sectors that are likely to be of high risk. Review the exposure levels and coverage across the portfolio. Develop strategy to refocus the RM team to ensure proper monitoring of identified SME accounts

2. SME portfolio alignment

Review the SME sectoral exposure using Cedar's proprietary 12x58 framework, including the supply chain within the segment and downstream implications. Develop a sector-wise approach from a short to medium term standpoint, and develop strategy for reallocation and co-management of risky Commercial/SME segments by high-quality workout teams

Cedar Assistance: Strategic realignment of the banks SME portfolio using Cedars 12 x 58 matrix. Develop strategy to refocus business direction of the RM team to ensure proper monitoring and management of identified high risk accounts and to put in place high-quality collections & workout teams

3. Credit & Collections Transformation

Conduct a quick diagnostic existing SME credit policy and underwriting framework, in the context of industry and sector reprioritization. Identify opportunities to transform SME credit across areas of scorecard design, portfolio monitoring processes and credit organization structure

Cedar Assistance: Diagnostic review of the SME credit policy and processes in light of the identified high-risk sectors. Develop roadmap to transform processes, scorecards and policy to ensure relevance in post-Covid19 market conditions.

4. Digital Transaction Banking Strategy

Fast-track strategy for design of a transaction banking operating model, and identification of quick-win areas for improving fee-income. Develop framework for rapid on-boarding of customers and remote model for sales, service and implementation team.



Cedar Assistance: Fast-track strategy for design of a digital/ transaction banking model and identification of quick-win areas for improving fee-income. Develop framework for rapid on-boarding of customers and remote model for sales, service and implementation team.

5. Quick Cost Optimization

Considering the current situation, reduced revenue opportunities and pressure on the asset portfolio, banks need to ways to trim costs quickly. Analyze key cost drivers, identify quick cost optimization opportunities across 3 levers of people, process and technology.

Cedar Assistance: Quick diagnostic review of the headcount and key cost drivers. Identify quick cost optimization opportunities across headcount, projects/ initiatives and automation. Recommend cost reduction initiatives that have high impact, low effort for fast-track execution.

Cedar Consulting | Fast Track Programs

In quick programs of 4-6 weeks, Cedar will conduct a deep-dive analysis of any of the identified areas that are critical to the bank. With a 20+ year proven track record of working closely with banks, each program can be of tremendous benefit to banks in these difficult times in order to manage and sustain their cash flows and revenues effectively.

BUSINESS REALIGNMENT | 3 PILLARS



In today's dynamic market and economic environment, the bank that acts prudently and quickly will be able to protect its revenue, manage its portfolio and costs efficiently and stay competitive.

Cedar can also assist in the implementation of the various cost saving opportunities that get identified during the program.