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# Banking on the Future

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How will the banking industry be viewed after the Covid-19 crisis, as business saviour or pariah?

Many of us will have seen recent news articles on the inability of large numbers of individuals and businesses to secure loans or other financial assistance from banks at this uncertain time. With whole populations on lockdown in attempts to slow down, and perhaps even halt, the spread of Covid-19, the future for businesses of all sizes, ages, locations and industries is under real and imminent threat of failure. This is particularly true of the hospitality, leisure and restaurant sectors, where the service provision is immediate, and success is almost entirely dependent upon 'foot-fall' into business premises.

Of course, many businesses are trying their best to adapt and overcome the problems associated with lockdown movement restriction and the natural fears of the masses regarding proximity. As just brief examples, gyms and leisure centres are holding online classes and large numbers of restaurants are transitioning staff and operations to servicing and delivering take-out orders.

Businesses across most industries have scaled back operations and production; redirected resources and assets to alternative or continuing demand goods; laid-off, suspended or furloughed staff; and have implemented a number of other drastic survival measures, many of which will prove (and in some cases have already proven) to be the equivalent of an ineffectual band-aid on a 'fatal bleed' of short-term liquid assets and the 'airway constricting' loss of life-sustaining cash income. The fact is that this haphazard and desperate business first-aid is immediate but unlikely to ensure survival. The proper triage and long-term care and attention that is necessary to give the best possible chances for eventual healthy recovery calls for adequate financial measures and focus – loan 'blood' transfusions to counter the financial bleeds, cash 'ventilators' to keep open the income airways and credit injections to enable businesses to adapt and transition to the new world conditions.

Easy, right? So, where does the financial assistance come from? Well, from where you might expect, the government and the banks.

Some 25 years ago I visited a company in the UK along with my then boss, who had that day been appointed as an Administrative Receiver to the company by one of the major high-street banks, pursuant to the powers under its debenture agreement. My boss informed the company director privately that the bank had exercised its rights and that, for the large part, the staff needed to be dismissed. The date was 17 December. The director quickly gathered all the staff in the main factory production area and began to explain to them that they were all out of work, with Christmas Eve but one week away, and that 'the

Receivers were now in charge'. Having been in insolvency for several years already, this sad scene had played out before me on many previous occasions. However, what the director then said to his (now) former employees had a resounding impact on me. After explaining that the bank had 'pulled the plug' on the company and had appointed administrative receivers, followed by a plea to any employee with an account with the named bank to close same, the director said the following:

A bank is a business that, when the financial world is bathed in sunshine, stalks and courts you to then sell you the insurance of a financial umbrella, by way of loans and overdraft facilities, but, upon the first drop of rain, snatches back the umbrella and bars you from the store.

I have heard variations of this Mark Twain derived quote on several occasions, but this was the first and most passionate rendering I had encountered and immediately I wondered if there may be some truth to it. While it may be metaphorical, and wholly disparaging, might there be a core of justification within it? Most of us do not have to tax our minds too hard to find confirmations, which at the time are never really questioned because we recognised (or at least believed) that the decisions were commercially logical from the banks' point of view. Of course I was rejected for an overdraft when I was a student; it's obvious why I was turned down for a car loan when I was unemployed; sure, I fully expected to receive a mortgage for my third property with the collateral I had built up in my other two.

When considering it as the more assets you have for the bank to secure against, the higher and more stable your income stream, and the better your credit history, it is a 'no-brainer' that you will be better received and treated by the banks. It is the same with companies and corporate banking. So, why is it such a shock to businesses when financial assistance is removed during bad times and the metaphorical umbrella is unapologetically snatched back? Really, the answer is in the analogy. If you had a 'friend' who loaned you an umbrella each day for a month (and for a price), which you carried with you everywhere when the sun was beating down, and then, on the day it started to rain, he hastily took it back, how would you feel? Used, betrayed, foolish even? Well, that is how company directors and small business owners feel when the financial equivalent happens to them and the previously perceived friendship, trust and long-term relationship they thought they had with the bank evaporates at the very time when the banks' services are most needed.

Certainly, it is naïve to believe or suggest that banks should not act foremost in their own and their shareholders' best interests, and that they should become open-door charitable organisations to all struggling businesses during a wide and deep financial storm such as we are experiencing now. However, what does need to be challenged is the pre-conceived notion and acceptance that some level of deep support from banks at these times IS NOT in their commercial interests or those of their shareholders.

The current financial crisis does not mirror those that have gone before. Although the stock market was riding high before Covid-19 became a feared household name, the present recession or depression (your personal viewpoint being coloured by whether you yourself are staring unemployment or a depleted pension fund in the face) has not been caused by underlying economic pressures, e.g., toxic loans, inflated stock prices, currency devaluation, or high unemployment levels. Instead, this time has been a purposeful

and necessary application of the economic brake pedal, which has disengaged and severely slowed the high-speed financial cruise control that we had been enjoying for some time.

Without getting into the 'lives vs economics' ethical considerations, other than to say that it is somewhat faith-restoring and spirit-lifting to see a world largely unite against a common threat and seemingly placing value on lives above short-term commerce, the financial pain being suffered by many individuals and businesses through the imposition and impact of restrictions is real, and adds to the centre-stage tragedy of the medical emergency families affected by the virus are facing.

Recent history shows that the banks themselves are not averse to bailouts. In response to the 2008 financial crisis, a UK bank rescue package totalling some £500 billion (approximately US \$850 billion) was announced by the British Government in October 2008. Similar measures were taken in Europe and in the US.

In October 2008, President George W. Bush signed the \$700 billion bank bailout bill; officially named the Emergency Economic Stabilization Act of 2008. U.S. Treasury Secretary, Henry Paulson, had asked Congress to approve a \$700 billion bailout to buy mortgage-backed securities that were in danger of defaulting. The goal was to renew confidence in the global banking system and end the financial crisis. The cause and fault of the crisis could be laid clearly at the feet of the banks and other financial institutions, traders and brokers, but the taxpayer-funded bailouts still came. The greater economic costs of NOT providing the bailouts was just too high.

Now we are in a reverse but equally devastating situation, the major difference being that this financial crisis is not in any way the fault of the individuals and businesses that are suffering and are now looking for financial assistance. So, this is the time that the banks need to step up and provide as much of the necessary assistance as possible. Any business that was stable and profitable before the Covid-19 attack would likely be so again in the future, but only if they survive this period. Certainly, within the hospitality, leisure and restaurants sectors, demand is still there but presently in a prohibition slumber akin to a medically induced coma, hoping to better aid chances of our overall victory against the virus.

Epidemics and pandemics eventually recede, and the viruses associated with them sometimes disappear entirely. While Covid-19 has not yet run its course, and the end cannot yet be determined, it will abate eventually and the masses will return to the streets and normal activity will resume, even if the definition of "normal" is somewhat revised.

Those banks that provide the umbrella assistance now, while the rain is heavy and the weather forecasting more to come, will probably reap the rainbow benefit of strong and lasting appreciation from those recipient individuals and profitable businesses, similar to the levels of brand loyalty historically associated with cigarettes, beer and washing powders. This forward-thinking action is clearly in the commercial interests of the banks and shareholders, as well as the individual and business customers they purport to serve and so avidly court under better economic conditions.

By way of further analogy, very much relevant to the Covid-19 virus, without these financial umbrellas to shield them against the rain, many individuals and businesses will catch a flu virus, and many will not recover financially. Creditably, various governments have moved expeditiously to implement umbrella measures, including assuring salary payments (albeit capped) and even paying proportions of lost profits to businesses.

So how do the banks want to be perceived once the crisis is over; as a major part of the problem or as a major part of the solution?

This is the time that banks should be handing out more umbrellas to customers, not snatching them back or closing the store.

BDO invites enquires regarding resources and other ways our firm can provide assistance with such matters to Russell Smith ([RSmith@bdo.ky](mailto:RSmith@bdo.ky)) or Declan Magennis ([DMagennis@bdo.ky](mailto:DMagennis@bdo.ky)).