

## Covid-19: Business Impacts and Solutions

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## I- Introduction

After two major financial crises in 1929 and 2008, the world is currently in the midst of a new economic crash in the face of the COVID-19 outbreak. Indeed, this pandemic will have several implications on the global economy including an increase of the unemployment rate, a decrease of the GDP, bankruptcy, as well as several business disruptions.

While speculations regarding the economic curve are not yet certain - some experts predict that it will take a V-shape while others expect a U- or an L-shape - the priority for all businesses should be to limit the impact of the recession while conserving their current efficiency and protecting their financial situation.

## II- Impacts

The COVID-19 outbreak has created a difficult business environment. New challenges are now facing several industries, more specifically those related to **aviation, travel, and tourism**. These sectors will most probably face an economic slowdown as demand for international travel has taken a downward turn amid the outbreak, causing airlines and travel agencies to miss out on peak travel periods (such as Easter and Summer break).

The **energy sector** is also suffering from the consequences of the Coronavirus. Due to the mobilization of schools, universities, and all kinds of industries, the demand for oil has decreased considerably, leading to low oil prices. According to Rystad Energy<sup>1</sup>, global oil demand is expected to fall by 4.9m b/d in 2020 to reach 95m b/d (down from 99.9m b/d in 2019), a direct result of the global slowdown in economic activity following the outbreak of the coronavirus pandemic. Gasoline and road diesel demand shrinks by 15 million bpd in April

The COVID-19 outbreak may also have a direct impact **on consumer companies** and their related entities such as suppliers and distributors. As such companies face temporary closures, consumption and demand automatically decreases as well. On top of these issues, supply chains are also suffering from disruptions which contribute to a general slow-down of the business.

While it is clear that the consequences of the COVID-19 outbreak will be felt in almost all sectors, the most affected one remains the **insurance industry** as insurers are submerged by

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<sup>1</sup> COVID-19 REPORT 5TH EDITION GLOBAL OUTBREAK OVERVIEW AND ITS IMPACT ON THE ENERGY SECTOR - Rystad Energy

a significant increase of claims across multiple different lines, whether that be for health, life or non-life cover.

The **non-life sector** could be affected by business interruption, travel and event cancellation. The latter could be the biggest source of losses to the insurance industry depending on the size of the event.

In addition, the pandemic could affect the non-life sector through its impact on several businesses. Indeed, not only are those businesses suffering from a considerable decrease in demand and consumption, but they are also facing a significant disruption of the supply chains. This phenomenon leads to the execution of a big number of trade credit covers for businesses that are no longer able to cover their debts.

As for the **life insurance** domain, it is affected by the actual financial market. In fact, recent developments and changes such as the decline of interest rates <sup>2</sup>create tremendous asset liability management risks for life insurers.

Finally, the long-term consequences will be defined by the actual and local control of the pandemic: The more the spread is controlled and limited, the more the recession will be short and the economic recovery will be quick. On the contrary, in the event of a failure of public health interventions, the economic recovery will most likely be slow and delayed. Fortunately, the Lebanese government seems to be effectively controlling the situation as the number of coronavirus contaminations is currently stabilizing in the country.

However, in order to maintain and conserve businesses as much as possible, and in order to avoid any risk of bankruptcy and irremediable situations, companies must develop and execute effective and adapted action plans.

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<sup>2</sup> The interest rate in Lebanon is 6.75 % - Beirut reference rate on USD – Brite Indicators and trends

### III- Solutions

#### A- Restructuring the Workforce

First, the reorganization of the workforce could be implemented among different businesses in order to reduce the unemployment rate. Sectors that benefit from intense demands, such as grocery stores and delivery services, could temporarily hire former employees such as salesmen and waiters currently out of work.

On another hand, companies could restructure the distribution of tasks and functions between employees in order to spread the pressure and work intensity of some departments. This solution could help companies both maintain their efficiency and avoid any dismissal and decrease of the unemployment rate.

#### B- Maintaining Customer Contact

The relationship with the client must be maintained and, most importantly, earned. At the end of the lockdown, clients must know and remember why they are dealing with your business.

A contribution in the fight against the pandemic could considerably help in gaining the esteem of current and potential customers, in turn encouraging them to continue or to start dealing with your company. This can be done through participation in the creation of masks or other important instruments, or through reasonable donations to fight the outbreak.

Furthermore, companies could benefit from investing in online distribution channels in order to conserve their current clients before the end of the lockdown.

#### C- Reinforcing Cash Reserve

In the face of the current developments, businesses need to be able to adapt and manage their reserves accordingly. This would require deeper financial analysis in order to adapt expenses and investments according to the most pressing needs. Shoring up cash reserves could be made via mergers and acquisitions projects, expenses reduction, and divestments.

Regarding **the insurance industry**, insurers would benefit from restructuring the risk distribution between themselves and their reinsurer. This would make insurers more capable of facing upcoming large loss events deriving from the COVID-19 Outbreak.

Similarly, since the pandemic also affected market structure and effective sources of long-term profits, insurers must adapt their investment portfolios in light of these recent developments.

## Reorganizing the Supply chain

To minimize the impact of the COVID-19 outbreak, companies are focusing on managing the supply chain by taking a series of actions to prevent supply shortage while increasing demand. To reassure its customers, the company should relocate the available inventory to a secure region unaffected by the virus in order to not only meet the sanitary requirements but also facilitate shipping to try and deliver on time. In addition, it is the company's responsibility to notify its customers of the delays and adjustments made to the delivery schedule. By securing the transportation means in advance, the company may be able to meet the demand effectively as soon as the crisis ends. Furthermore, to ensure near-term revenue, the company could offer discounts on available inventory and try to renegotiate contracts to increase profit.

As for **the insurance industry**, a good way to remain effective would be to implement digital sales and online distribution channels in order to readily answer their customers' needs as the number of claims increases. This system would require the establishment of self-service channels and advanced algorithms designed for the risk calculation.

In any case, it is important to keep in mind that entrepreneurship is about detecting and seizing opportunities in places and at times others did not. History has proved that recessions do not prevent the establishment of successful businesses. In fact, a series of new startups emerged from the 2008 recession. The creation of WhatsApp and Uber in 2009, and Instagram and Pinterest in 2010 are the perfect concretization of this phenomenon.