

CRISIS SENTIMENT INDEX

Pandemic Edition – March 2020

Executive Summary

With this report, we re-launch the DCRO Crisis Sentiment Index (CSI) to track the regional and global economic and financial impact of the 2020 Covid-19/SARS-CoV-2 pandemic.

While the questions and responses analyzed herein are primarily about the economic and financial impact of the pandemic, we must acknowledge the massive human costs of this outbreak. A focus here on business and economic impacts is in no way intended to diminish the importance of the human story with which many of us are too closely familiar.

The CSI – Pandemic index is calculated on a scale of 0 to 100 as a weighted average of responses to questions regarding:

- the length of time for which companies are planning to manage for substantial disruptions
- the present severity of the pandemic
- expectations for global or regional depression or recession
- expectations for knock-on, yet unrealized, financial market disruptions, and
- expectations for how quickly the pandemic will be under control

While inexact, this method will hopefully provide a benchmark for evaluation of changing trends that can guide your responses and planning.

We simply make a guess as to what a “normal” level of this index should be. Therefore, we urge caution is extrapolating any information from our distance from normal. At the same time, it is clear from our respective personal experiences and reported

data, that this is indeed already a crisis of significant impact.

For April 2020, the CSI-Pandemic is at a reading of 68, indicating substantial stresses.

- 64% of respondents indicate at least a 50% chance of global depression, where world GDP falls by at least 15%
- 64% of organizations report planning for significant disruptions to normal activities for six months or more
- 93% of respondents indicate at least a 50% chance that a material, as yet unrealized, financial or market stress of global impact will be seen
- Just 10% believe the pandemic is more likely than not to be under control within three months

More details follow. Should you have any questions, please don't hesitate to contact me. We will update this report at least once each month while the pandemic remains a concern.



David R. Koenig

The survey was conducted between Thursday March 26th and Sunday March 29th. Survey participants, 213 in total, typically hold the titles of Chief Risk Officer / Heads of Risk Management (36%), Board Director (27%) or other C-Level or senior executive title (37%). Respondents are reporting from the Americas (49%), EMEA (40%), and the Asia-Pacific (11%) regions.

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Pandemic Edition

The **Crisis Sentiment Index for March 2020 is 68**. As the inaugural measure for this version of the CSI, some caution is warranted when reacting to this specific reading. Nevertheless, as is discussed below, there is justification for a high level of concern.

Sixty-four percent of respondents believe that a depression – a decline of more than 15% in world GDP – **is more likely than not**. Ten percent of respondents say it is almost a certainty. Said one senior executive in Western Europe, “30% of GDP is now not being produced - simple math is enough.”

When asked to describe how long their businesses are preparing for a significant disruption to the normal course of business, **64% are preparing for six months or more of disruption**. In fact, more than one in four is planning for that disruption to last more than one year.

Not surprisingly, respondents say that the conditions caused by the pandemic are severe, with **73% saying pandemic severity in their region of the world is either high or extremely high**.

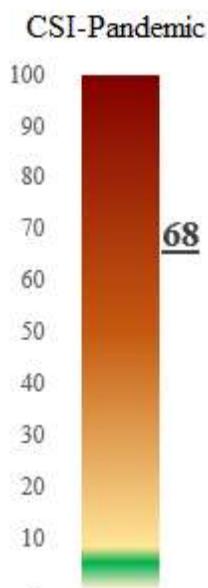
Talk by some leaders of surprisingly quick control of the contagion is not swaying our respondents. **Fewer than 1% of respondents believe the pandemic will be under control within**

three months, and just 10% state a belief that such control within that time frame is very likely. On the contrary, almost four times as many believe it is not at all likely the pandemic will be under control before the end of June.

Said a board member from the Asia-Pacific region, “In Hong Kong, Macau, Taiwan, Singapore and much of China the pandemic was nearly completely controlled by a combination of social controls and social action a top-quality medical care available to all. The danger is from re-contagion from the west where there is little social discipline and regressive health care systems.”

A Chief Risk Officer in the Asia-Pacific region talking about economic recovery said, “Most of Asia ex India and Indonesia now feels more measured and controlled. The economies of these countries will recover first in the global context.” Meanwhile, a North American c-level executive said, “for my industry, the estimate is for a 40% decline in global revenue for 2020.”

Clearly, most have been taken aback by the speed with which financial markets have re-adjusted public company valuations. But knock-on affects from defaults, reduced incomes, government borrowing, and more leave our respondents highly certain that a significant, as yet unrealized, shock is coming to the markets. **Almost 80% of**

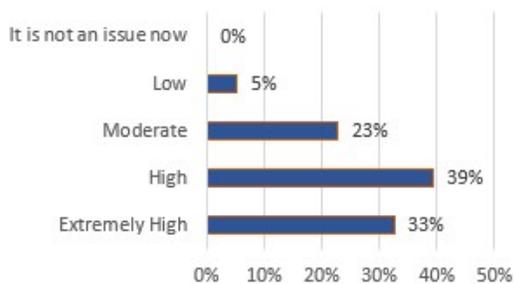


respondents say that a material financial or market stress beyond what has happened already is very likely or almost certain. Fully 1/3 say it is almost certain to happen. One board member from North America said, “We are better prepared to address many aspects of the pandemic as a financial services organization. Stress tests and other tabletop exercises have prepared us for extreme challenges. We are also trying to engage with our people and teams to assess emotional resiliency -- which has not been considered in prior planning.” Anecdotal evidence suggests that many

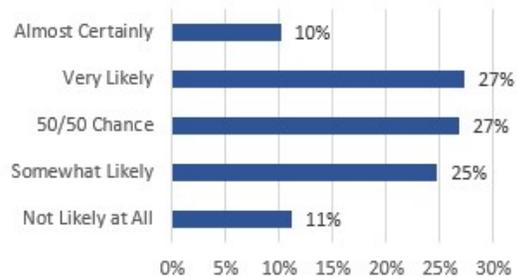
have discovered aspects of their recovery plans that were not sufficiently anticipatory and will need to be revised.

The tone of comments left by most respondents, as you might expect, was very negative. Many expect a second wave of new infections in Asia. That expectation is then applied to other regions should they be successful in efforts to control the current spread. In future reports, we will explore more regional comparisons as well as changes from the data in this survey.

Local Pandemic Severity



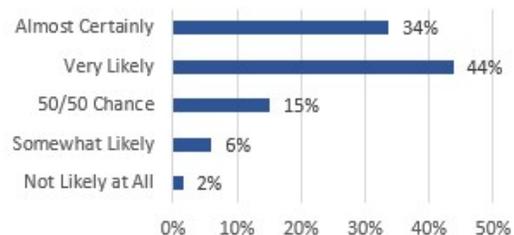
Chance of Global Depression



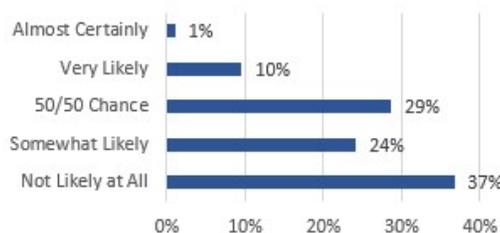
Expected Length of Business Disruption



Material New Financial or Market Disruption



Pandemic Under Control Within Three Months



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