

Risk Practice

# COVID-19 and the great reset: Briefing note #17, August 6, 2020

Banks are using new techniques to find out who's 'swimming naked.'  
And new MGI research looks at the cost of disruption in global  
supply chains.



Millions of employees have lost their jobs and cannot pay their credit cards. Restaurants and shops are only slowly reopening; many cannot pay their rent. Industrial companies can't make payments on their equipment leases. Landlords have less income and cannot keep up with their mortgages. Suddenly, the world is awash in credit risk. Our new research shows how banks are tending to a radical surge in demand for one of their most ancient practices: measuring and monitoring credit risk. Leading banks are deploying a new configuration of sector analysis, borrower resilience, and high-frequency analytics. They are moving past sectoral analysis to take subsector views of the probability of default (exhibit). Some are going even deeper, to understand what's happening in the financial life of their borrowers.

Like credit risk, supply chains have experienced intense disruption. This week, the McKinsey Global Institute looked at the effects not only of COVID-19 but of all manner of disruptions, including natural disasters, geopolitical uncertainty, climate risk, cyberattacks, and more. A key finding: over the course of a decade, companies can expect disruptions to erase half a year's worth of profits.

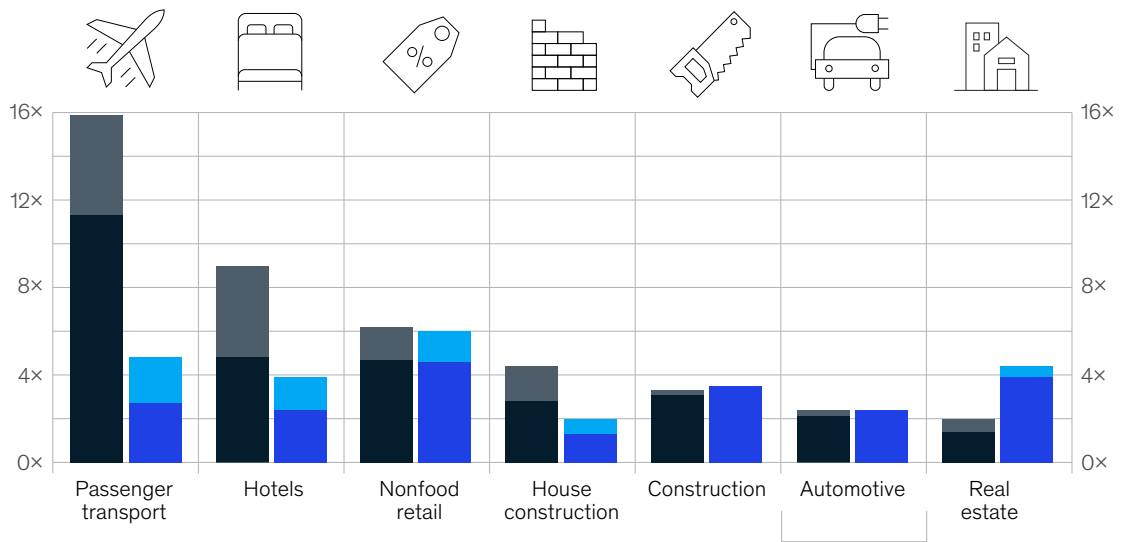
This week, McKinsey also had the privilege of speaking with three CEOs about what is shaping up to be the defining moment in their careers. Alain Bejjani, CEO of Majid Al Futtaim, told us about the resilience needed to keep this Dubai-based operator of shopping malls and other consumer real-estate businesses vital and relevant during the crisis. Lance Fritz, CEO of Union Pacific Railroad,

Exhibit

### Sector analysis shows that probability-of-default shocks differ among subsectors.

Impact on probability of default, multiplier range

■ Corporates ■ Small and medium-size enterprises



Automotive subsector focus, qualitative scale

Maintenance and repair of motor vehicles	⊖ Manufacture of tires and tubes; retreading, rebuilding tires	Manufacture of motor vehicles
Manufacture of parts and accessories for motor vehicles	⊖ Wholesale trade of motor-vehicle parts and accessories	Manufacture of motorcycles
Sale, maintenance, and repair of motorcycles and related parts and accessories	⊖ Manufacture of bodies for motor vehicles	Sale of cars and light motor vehicles
	⊖ Manufacture of trailers and semitrailers	Sale of other motor vehicles

# Some leading banks want to understand what's happening in the financial life of their borrowers.

talked with us about tactics to stay present in video calls and keep the board informed. Kristin Peck, the brand-new CEO of animal-health company Zoetis, reflected on the core beliefs that have kept her company on track through the crisis.

Also this week: a new report documents the disproportionate effect of the pandemic on Asian-American communities. And McKinsey's industry research examined the potential for greater collaboration with government in global tourism, outlined the moves that European restaurants are taking to thrive in the next normal, considered how life insurers can use artificial intelligence to better underwrite risk, and reviewed the nascent Tech for Good movement in the United Kingdom.

*McKinsey continues to track economic and epidemiological developments around the world. For an overview, read our latest briefing materials (July 6, 2020). In 54 pages, we document the current situation, the economic outlook, the forces shaping the next normal, and the new organizational structures that can help companies keep pace sustainably. You can also see the full collection of our coronavirus-related content, visual insights from our "chart of the day," a curated collection of our first 100 coronavirus articles, our suite of tools to help leaders respond to the pandemic, and a look at how our editors choose images that help readers visualize the impact of an invisible threat.*