Using A Proven Risk Management Approach to Navigate COVID-19 Relief in Germany

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Yven Heine
Managing Director
StoneTurn
yheine@stoneturn.com
+49 (0)162 78 66 862

by Yven Heine

As part of a €750 billion ($814 billion) aid package to protect the economy from the worst effects of the coronavirus outbreak, the German government (Federal Ministry of Finance) approved a supplementary budget totaling roughly €156 billion, which will be financed with new borrowing. This move into the red is a clear departure from Germany's historically balanced budget and underscores a deep commitment to use "all we have" to reduce the impact of coronavirus.

The relief—which includes billions in loan guarantees to secure corporate debt at risk of defaulting, as well as aid for small businesses and the self-employed threatened with bankruptcy—does not come without strings attached. As seen in the U.S., where Shake Shack voluntarily returned a $10 million loan intended for small businesses, the public is on high alert when it comes to coronavirus-related funding. Even if the German government temporarily lowers the compliance bar in order to quickly get aid to those who need it most, business leaders must utilize robust risk management practices in order to avoid reputational damage or future penalties. The upside is that robust risk management protocols are good for business, even when conditions normalize.

Leveraging Proven Risk Management Techniques

The current COVID-19 environment has upended risk profiles for most, if not all, organizations. Whether it be business continuity measures; adapting to a remote workforce; tracking potential fraud; waste and abuse exposure; or supply chain protections—risk management activities within an organization have arguably never been more critical. Yet many consider risk assessments a nuisance and cover risk only as part of finance/budget discussions.

Given that business conditions continue to evolve as the result of the pandemic, risks should be evaluated more frequently than ever before. Further, the typical what-if questions/scenarios need to be an integral part of daily business operations. Proper risk assessments can help organizations respond to and be better prepared for extreme situations like these. This includes work to identify risks across a range of categories, including:

1. **Financial**
2. **Legal/Compliance**
3. **Operational**
4. **Reputational**

Once risks are identified, each risk should be evaluated and assigned a rating based on likelihood and significance. Next, proper mitigating actions such as controls and counter measures need to be put in place. Those need to be tested for effectiveness regularly. The emphasis here is on regular. Ineffective controls and countermeasures must be fixed, action plans put in place and the cycle needs to start all over again. Proper documentation and reporting to senior leadership is also important, in order to maintain alignment on high priority risk areas. This diligence—which may seem impractical now as many businesses focus on survival—will yield invaluable dividends later on, particularly if there is enhanced scrutiny of organizations receiving government funds.

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After all, it is of no use that cheap government loans or private ones are available. A proper risk calculation needs to be performed as "free" money in the form of a loan could look very lucrative but not be operationally effective and/or carry a steep, hidden compliance price tag.

Risk management as part of a proper compliance and monitoring framework is of utmost importance as businesses recover after COVID-19. In past years, standalone risk management efforts—separate from the compliance program—have become increasingly common as regulators worldwide have zeroed in on risk-based resource allocation. We have seen large corporations under big monitorships drive this movement and they have been very successful. Risk Management departments have gained the respect of senior leadership and they have demonstrated that enhanced focus on risk management can not only give a company more security and protect them from harm, but also foster business innovation and competitive advantage.

About the Author

Yven Heine, a Managing Director with StoneTurn, has more than 20 years of experience in compliance and monitoring and risks and controls. He previously held risk- and compliance-focused assignments at a British multinational investment bank, and a Canadian multinational manufacturer of business jets and rail. A native German speaker, Yven in based is Frankfurt and is a Certified Public Accountant, licensed in Massachusetts.