



Navigating COVID-19 : The board's perspective

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KPMG Indonesia Board Governance Forum



Presenting for you today



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Points to highlight

- ❑ The importance for boards to understand this crisis
- ❑ The economic of social distancing and Indonesia government measures
- ❑ Key five areas for boards' focus in navigating this pandemic



The Importance for Boards to Understand the Crisis



Understanding The Crisis





The Economic of Social Distancing and Indonesia Government Measures

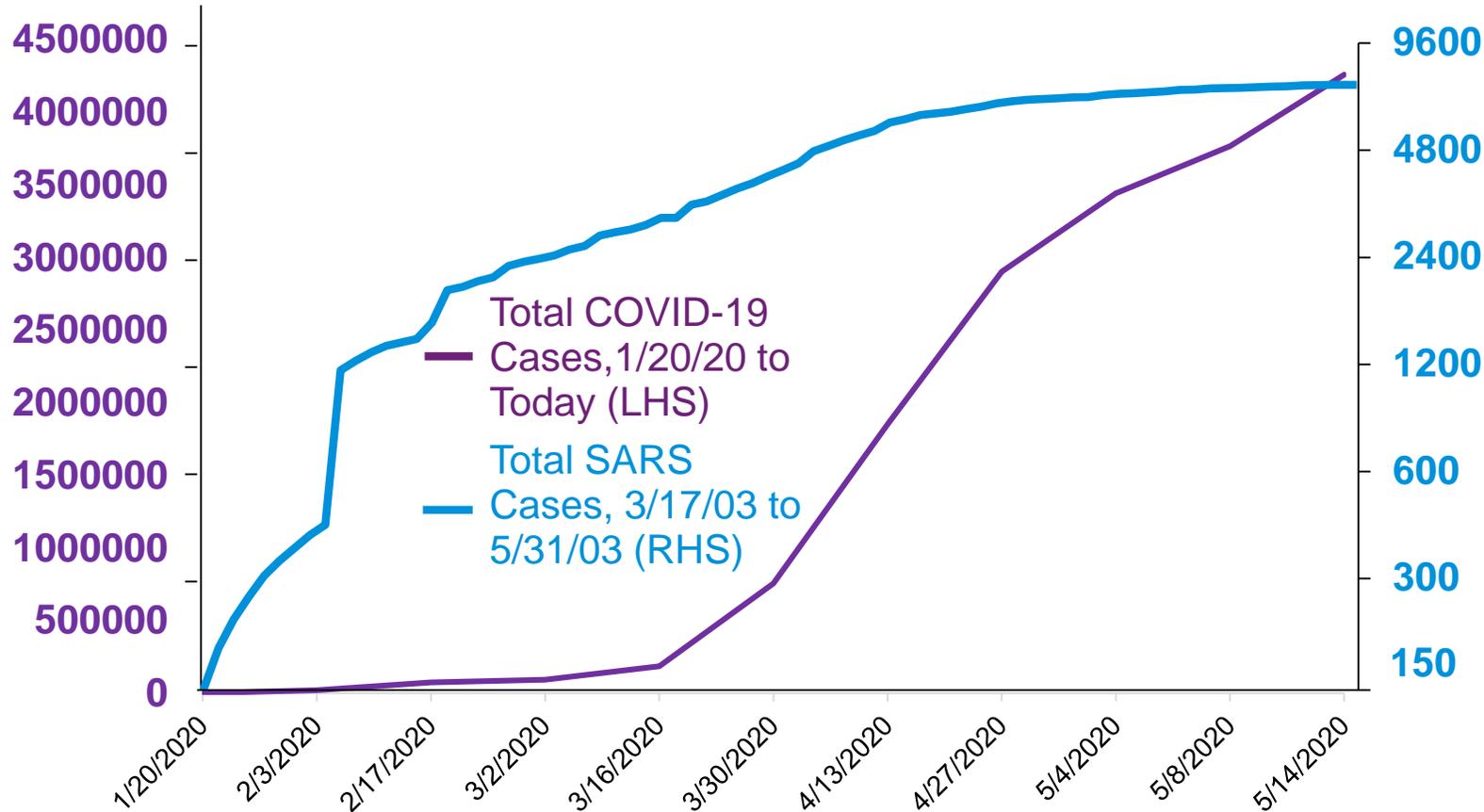




Medical Professionals Make Comparisons to SARs in 2003

Total Confirmed Cases as of May 14, 2020

Logarithmic Scale



- The majority (98%) of cases are now outside of China.
- Globally, as of 14 May 2020, there have been nearly 4.3 million confirmed cases of COVID-19, including 294,190 deaths, according to WHO.
- Many analysts are highlighting the similar path of the outbreak to SARS.
- But as the world is much more connected today, the impact of COVID-19 to the global economy has been **significantly larger** than during the SARS time.

Source: KPMG Economics, WorldHealth Organization, <https://covid19.who.int/>



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Two Curves are Being Managed at the Same Time

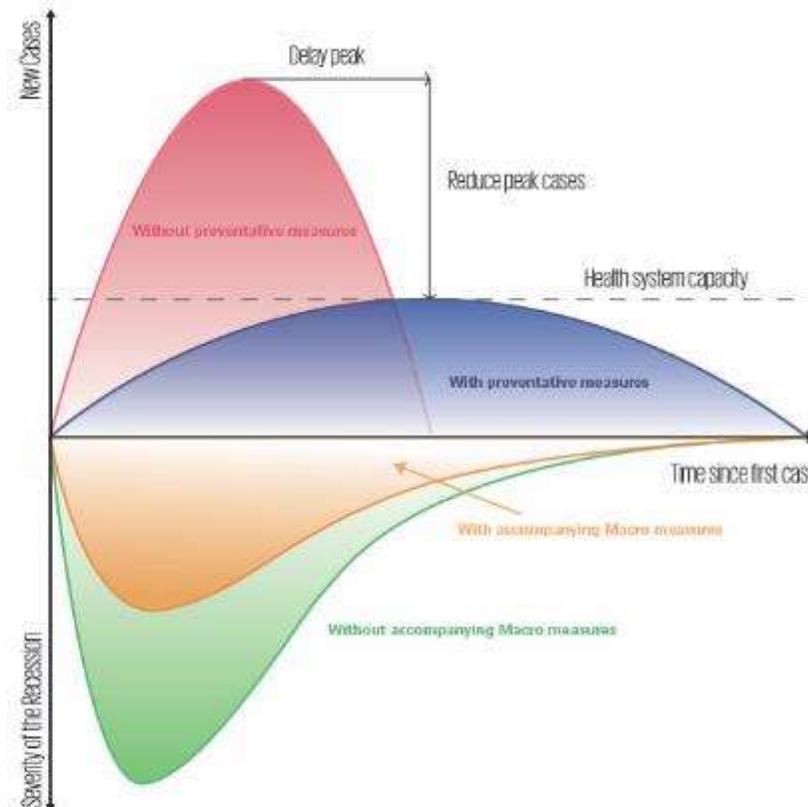
Nations must lower peak to avoid overwhelming health systems

Flattening the Pandemic Curve

Inverse relationship between health and economic impact

Flattening the Recession Curve

Source: KPMG Economics, Chart Adapted from CDC/
The Economist, Gournichas (2020)



- According to a paper by UC Berkley economist, Gournichas, if 50% of the world is infected, 1% of the world, 76 million people would die.¹
- This assumption is based on the available critical care beds and a 2% case fatality rate.
- A strong policy response includes measures that both delay and reduce the peak number of new cases to prevent the health care system from being overrun.
- Ongoing research for more effective treatment and a possible vaccine do not solve the immediate problem of system capacity.
- Governments are learning by doing when addressing the economic risks of closing the economy and asking citizens to engage in social distancing



COVID-19 shows up in high frequency manufacturing

Mfg PMI	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Europe											
France	51.9	49.7	51.1	50.1	50.7	51.7	50.4	51.1	49.8	43.2	31.5
Germany	45.0	43.2	43.5	41.7	42.1	44.1	43.7	45.3	48.0	45.4	34.5
Ireland	49.8	48.7	48.6	48.7	50.7	49.7	49.5	51.4	51.2	45.1	36.0
Italy	48.4	48.5	48.7	47.8	47.7	47.6	46.2	48.9	48.7	40.3	31.1
Spain	47.9	48.2	48.8	47.7	46.8	47.5	47.4	48.5	50.4	45.7	30.8
U.K.	48.0	48.0	47.4	48.3	49.6	48.9	47.5	50.0	51.7	47.8	32.6
Americas											
Brazil	51.0	49.9	52.5	53.4	52.2	52.9	50.2	51.0	52.3	48.4	36.0
Canada	49.2	50.2	49.1	51.0	51.2	51.4	50.4	50.6	51.8	46.1	33.0
Mexico	49.2	49.8	49.0	49.1	50.4	48.0	47.1	49.0	50.0	47.9	35.0
U.S.	50.7	50.4	50.3	51.1	51.3	52.6	52.4	51.9	50.7	48.5	36.1
Asia & Pacific											
Australia	52.0	51.6	50.9	50.3	50.0	49.9	49.2	49.6	44.3	53.7	35.8
China	49.4	49.9	50.4	51.4	51.7	51.8	51.5	51.1	40.3	50.1	49.4
Japan	49.3	49.4	49.3	48.9	48.4	48.9	48.4	48.8	47.8	44.2	41.9
Korea	47.5	47.3	49.0	48.0	48.4	49.4	50.1	49.8	48.7	44.2	41.6
India	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4
Indonesia	50.6	49.6	49.0	49.1	47.7	48.2	49.5	49.3	51.9	45.3	27.5
Malaysia	47.8	47.6	47.4	47.9	49.3	49.5	50.0	48.8	48.5	48.4	31.3
Singapore	49.6	49.8	49.9	49.5	49.6	49.8	50.1	50.3	48.7	45.4	44.7
Vietnam	52.5	52.6	51.4	50.5	50.0	51.0	50.8	50.6	49.0	41.9	32.7

- The PMIs are the most comprehensive high-frequency data.
- The global impact of China's slowdown was felt around the world; a PMI reading below 50 indicates recessionary conditions.
- The virus outbreak has disrupted manufacturing supply chains and sharply curtailed energy and commodity demand.
- The March and April PMI data for manufacturing has reflected growing economic stress as social distancing causes a sharp decline in demand.

Source: KPMG Economics, IHS Markit, Haver Analytics (Feb2020); Trading Economics (Manufacturing PMI Mar'20 & Apr'20)

Note: The Purchasing Managers Index (PMI) is a monthly survey of industry that is a real-time snapshot of economic conditions. It is a diffusion index and a reading greater than 50 indicates expansion while a reading below 50 indicates contraction.

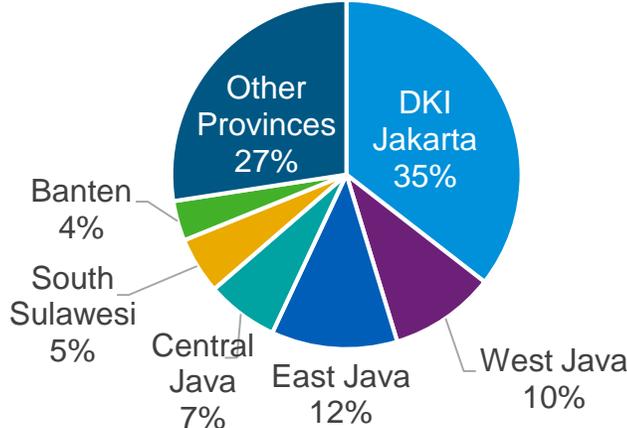




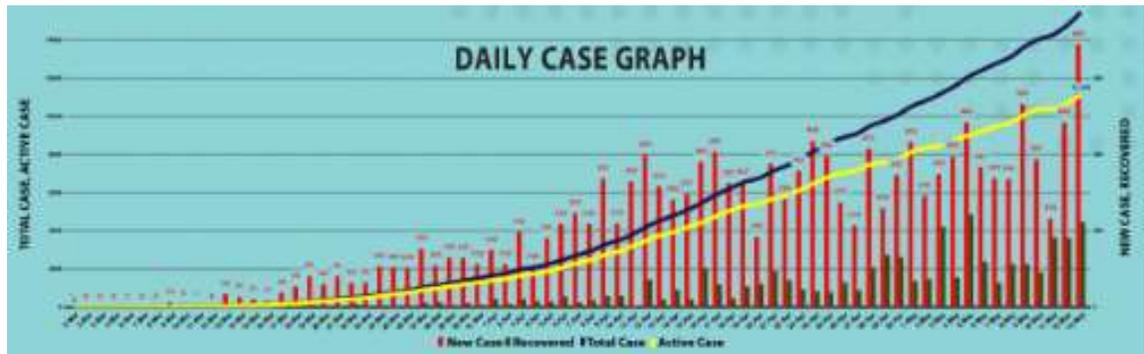
Indonesia COVID-19 - Current Status (as of 14 May 2020)

Total confirmed cases	Recovered	Death	Patient under supervision (PDP)	People under supervision (ODP)
16,006	3,518	1,043	33,672	258,639

CONFIRMED CASES



COVID-19 CASES IN INDONESIA



NUMBER OF CONFIRMED COVID-19 CASES SPREAD IN 215 COUNTRY AND AREA/TERRITORIAL
As per May 14th, 2020 at 12:00 P.M.

No.	Country	Number of Case	Deaths	Population	Deaths / 1 M Pop
	World	6,129,475	287,525	7,794,798,728	37
1	USA	1,322,054	79,634	331,002,651	241
2	Russia	242,271	2,212	145,914,462	15
3	Spain	228,030	25,920	46,754,778	576
4	UK	225,467	32,692	67,886,011	482
5	Italy	221,216	30,911	60,461,826	511
6	Germany	171,306	7,634	83,783,942	91
7	Brazil	168,831	11,519	212,558,417	54
8	Turkey	141,475	3,894	84,139,067	46
9	France	138,161	25,948	65,273,511	413
10	Iran	112,725	6,783	83,992,949	81
35	Indonesia	16,006	1,043	269,603,490	4

Source: World Health Organization (WHO), worldometers.info (UN Population Division), BPE

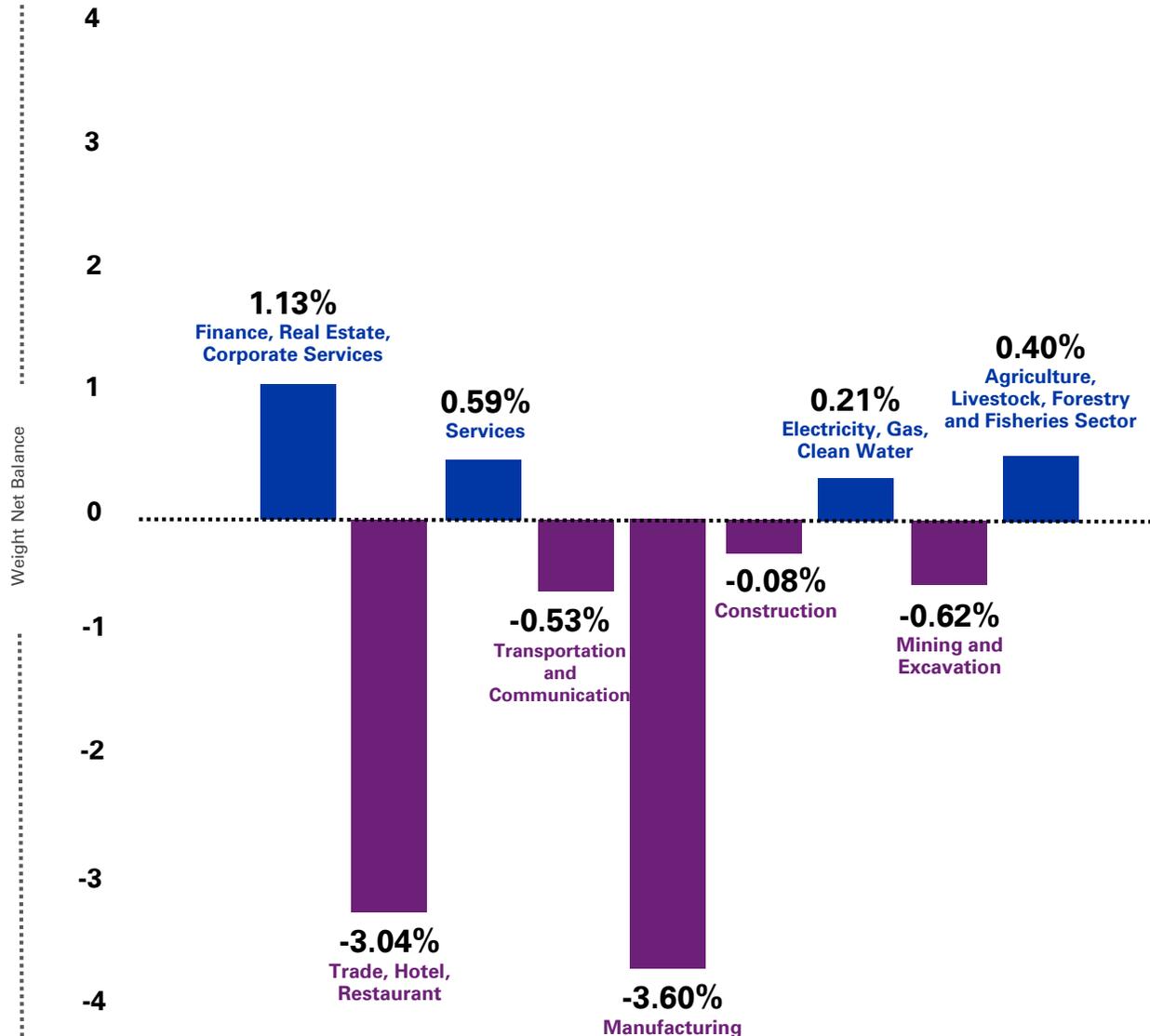
Source: Indonesian National Board of Disaster



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BI Survey: Manufacturing & Tourism Took the Hardest Blow from Corona



- After the shock, resilience and adaptability are the key factors.
- Business transformation in some sectors may be accelerated
- In April 2020, IMF projected Indonesia economy growth to be only 0.5% for 2020 and 8.2% in 2021, under the base scenario.
- MOF forecast for 2020, between +2.9% and -0.4%
- Indonesia Q1 2020 GDP growth was only 2.97% yoy.

Source: Bank Indonesia (Business Sector Survey Q1 2020)



Economic Stimulus Measures

On **31 March 2020**, Indonesia Government announced total state spending for the 2020 State Budget in handling COVID-19 outbreak is **Rp405.1 trillion**.

<p>Healthcare Sector</p>	<p>Social Protection</p>	<p>Tax Incentives and Credit for Business</p>	<p>Economy Recovery Program</p>
			
<p>Budget Rp75 trillion</p>	<p>Budget Rp110 trillion</p>	<p>Budget Rp70.1 trillion</p>	<p>Budget Rp150 trillion</p>
<p>Allocation:</p> <ul style="list-style-type: none"> ▪ The purchase of medical equipment such as test kits and ventilators ▪ Incentives for medical workers ▪ Subsidy of Social Security Agency (BPJS Kesehatan) premium 	<p>Allocation:</p> <ul style="list-style-type: none"> ▪ Family Hope Program & Staple Food Program. ▪ Preemployment Card Program (Rp20 trillion). ▪ Free electricity for customers using 450 KVa and 900 KVa. ▪ Support for low-cost housing ▪ Basic logistical support and basic needs (Rp25 trillion) 	<p>Allocation:</p> <ul style="list-style-type: none"> ▪ The corporate income tax reduced from 25 percent to 22 percent for 2020 and 2021. Further down to 20 percent 2022 onwards. ▪ Tax benefit for manufacturing sectors 	<p>Allocation:</p> <ul style="list-style-type: none"> ▪ Credit restructuring and financing for small and medium businesses. ▪ Credit relaxation for loans below Rp10 billion for business purposes ▪ Interest will be reduced and repayments will be delayed for up to one year



Government Regulation (PP) No. 23/2020

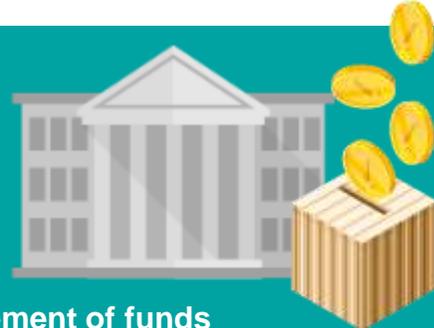
On 11 May 2020, the government has issued Government Regulation no. 23 of 2020 on *the implementation of National Economic Recovery (Pemulihan Ekonomi Nasional – “PEN”) Program* in order to support state financial policies for the mitigation of COVID-19 pandemic and/or to deal with threats that are potentially harmful to the National Economy and/or stability of the financial system as well as to save the national economy. The main function of the PEN Program is to **protect, maintain** and **increase economic capabilities** of Micro, Small and Medium scale enterprise, large-scale enterprise and cooperatives.



The regulation lays out the paths the government will be taking towards recovering the national economy :



State equity participation (PMN)
to improve capital structure and business capacities of the BUMN and subsidiaries impacted by the COVID-19.



Placement of funds
on Commercial banks whose been: 1) **at least 51%** of the shares owned and incorporated as **Indonesian citizen or legal entities** 2) categorized as **'Healthy'** and 3) **listed as top 15 banks by total size of asset**



Government is allowed to make long-term investments
in stocks, debt papers and/or direct investment to gain economic, social and other kind of benefits.



State guarantees
for State-Owned Entities (BUMN) and business players in the form of guarantees for working capital.



Interest subsidies as a part the state expenditure are available to those who are:

- 1) **UMKM** and/or **cooperatives** with a **credit-ceiling threshold of IDR 10 billion**;
- 2) **Never** being included on the **national blacklist**;
- 3) Currently must be in number **1** or **2** performing loan category and
- 4) Have **secured a Taxpayer Identification Number**

Source: <https://jdih.setneg.go.id/viewpdfperaturan/P18872/PP%20Nomor%2023%20Tahun%202020>; Ministry of Finance; Jakarta Post



National Economic Recovery Program - Updates (14 May'20)

****No official documents / press release issued by the Government / Ministry of Finance at the moment.**

Based on the draft Finance Ministry presentation material presented during the meeting with House of Representatives, the government has allocated IDR **318.09 trillion** (US\$21.28 billion) for the **National Economic Recovery (Pemulihan Ekonomi Nasional – “PEN”)** program.

Breakdown *)

*) This is based on article in media, and may not represents the actual official allocation by the Government

Allocation	 SOE (State capital injection, working capital investment)	 Tax incentives for businesses	 Fund placements	 loan interest subsidies for ultra-micro enterprises, MSMEs, and cooperatives	 Tourism support	 MSMEs new loans guarantee	TOTAL
Amount (approximate) in IDR trillion	155	63	35	34	25	6	318.09

Source:

Jakarta Post (<https://www.thejakartapost.com/news/2020/05/12/government-issues-regulation-on-economic-recovery-program-focuses-on-soes-msmes.html>;
<https://www.thejakartapost.com/news/2020/04/30/small-businesses-get-subsidies-loan-relief.html>; <https://www.thejakartapost.com/news/2020/05/13/experts-demand-transparency-supervision-of-soes-recovery-program.html>)

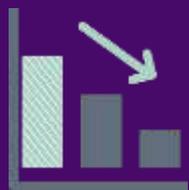
Kompas (<https://bebas.kompas.id/baca/bebas-akses/2020/05/14/bumn-akan-digelontorkan-lagi-dana-rp-156-triliun/>)





Economic Stimulus Measures

Monetary Stimulus by Bank Indonesia



Lower the BI 7-Day (Reverse) Repo Rate

25 bps



Intensify triple intervention policy

in the spot and DNDF markets



Reduce the foreign currency reserve requirements from

8% → 4%



Extend the SBN repo tenor and provide daily auctions, and increase the frequency of FX Swap auctions to daily



Expand the types of underlying transactions for Domestic Non-Deliverable Forwards (DNDF)



Lower the rupiah reserve requirements by

50 bps



Loosen the Macroprudential Intermediation Ratio (MIR)



Provide hygienic currency fit for circulation & reduce the costs of the National Clearing System (SKNBI)

Banking and Financial Stimulus



One-year postponement of credit or leasing payments for loan up to Rp10 billion



Postponement of credit or leasing payments without ceiling limits. (applicable for SME and non-SME)

This relaxation is applicable for up to 31 March 2021.



Economic Stimulus Measures

Issuance of Pandemic Bonds

- Government has the authority to issue state bonds or sharia sovereign bonds with a specific purpose, specifically to deal with the COVID-19 pandemic, and the bonds **might be purchased by the central bank, state-owned companies, corporate investors and/or retail investors**. The proceeds from the bonds sales are to be used by the government for national economic recovery

On 7 April 2020, Indonesia raised **\$4.3 billion pandemic bonds** to fund the national COVID-19 relief and the recovery efforts. This is **the longest-dated U.S dollar bond** ever issued by an Asian nation.

Bonds 	Amount 	Yield 	Maturity 	Maturity date 
RI030	US\$ 1.65 billion	3.9%	10.5 years	15 Oct 2030
RI1050	US\$ 1.65 billion	4.25%	30.5 years	15 Oct 2050
RI0470	US\$ 1 billion	4.5%	50 years	15 Apr 2070

Citigroup Global Market, Deutsche Bank, Goldman Sachs, Hong Kong and Shanghai Banking Corporation (HSBC) and Standard Chartered acted as joint book-runners for the deal, with local brokers Danareksa Sekuritas and Trimegah Sekuritas as co-managers.

Government also announced that it had **raised its estimated 2020 net bond issuance to Rp 549.6 trillion** to cover the country's widening deficit. However, there will be no more pandemic bonds to be issued.

Source: Reuters, Jakarta Globe, CNN Indonesia, Bisnis Indonesia



Economic Stimulus and Employment-related Measures

Other non-fiscal measures



Import restrictions to be reduced for goods under the 749 Harmonized System (HS) code



Import restrictions to be simplified for raw materials and several food commodities



Export-import processes to be sped up for reputable traders.



National logistics ecosystem development to be improved.



Relaxation of credit scoring requirements



Relaxation of loan restructuring requirements



Issuance of import recommendations to be sped up



Requirement to eliminate non-priority expenditure plans and to re-focus their activities and re-allocate the budgets to speed up the handling of COVID-19

Employment-related Measures

If the employees are absent from work because they are categorized as; a person under supervision, suspected of, or actually infected with COVID-19, the employees are entitled to receive full salary.



For companies forced to limit their business activities due to government policies, the companies may change the amount or method of payment of the employees' salary

Employers may opt to temporarily suspend the business in whole or in part, but still have to pay for employees' salary and benefits in full during the suspension period, unless both parties agree otherwise





Other Measures



Non-banking financial institution

- **Extension of the deadline** for submitting periodic reports to OJK
- The **fit and proper test of the IKNB main party** can be conducted through video conference
- **Relaxation for determining the quality** of financing assets and financing restructuring
- In calculating the level of solvency of an insurance company or the level of funding of a pension fund with a defined benefit program, assets in the form of debt instruments can be **valued based on amortized acquisition value**
- **Postponement of the implementation of the life cycle fund provisions for pension funds** that carry out defined contribution pension plans



Capital Market

- **Ban of short selling**
- 30 minutes trading halt for 5% index decline
- **Buy back shares** without going through General Meeting of Shareholder (GMS);
- **Extension of the use of financial statements for IPO** from 6 months to 9 months



Others

- Relaxation of the **deadline for submitting financial statements and holding a GMS**;
- Allowing company to conduct GMS through an **electronic system (e-GMS)**;
- Relaxation of the implementation of financial statements and appraisal reports on the Capital Market;
- Relaxation related to the initial bidding and the public offering period.



Large-Scale Social Restrictions

Regional heads are allowed to take three actions related to social restriction, such as:

- **closing schools and workplaces**
- **restricting mass religious activities, and**
- **restricting events in public facilities.**



Travel restriction

Temporary ban on **all arrivals and transit by foreigners** in Indonesia.

Exemption applied to:

- foreigners with both limited and permanent residence permits
- diplomatic officials
- health workers
- medical and food supplies, and
- air and sea transportation crews

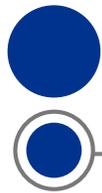


Key Five Areas for Boards' Focus in Navigating this Pandemic



Key Five Areas for Boards' Focus

To help Boards in their oversight of the company's COVID-19 – managing through the immediate crisis as well as addressing vulnerabilities exposed by the outbreak



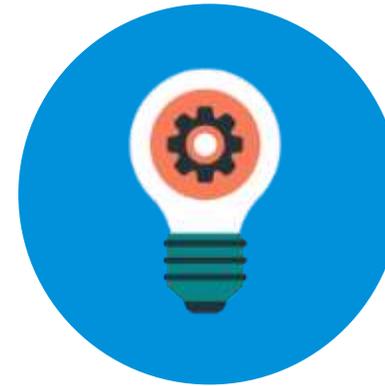
The safety and well-being of the Company's employees



Financial risks and scenario planning – duration, severity and longer-term dislocations



Understand key operational risks-the supply chain, labor, and technology capabilities to maintain operations



Ensure the Board is staying apprised of the Company's response to crisis



Assess accounting and financial reporting impacts

1. The Safety and Wellbeing of Company's Employees



What policies are in place to protect and support employees?



Do we communicate these policies and provide timely updates – clearly and frequently to employees?



Does the Company understand how its other key stakeholders are being impacted by the crisis?

2. Focus on Financial Risks and Scenario Planning – Duration, Severity and Longer-term Dislocations



Given the uncertainty regarding the economic impact of the crisis, scenario planning is essential



Understand the array of financial risks to the business and how the management is addressing the risk under different scenarios



Focus on fair value and possible asset impairments that may pose significant risks for the Company

- ✓ Liquidity, access to capital, cash flow
- ✓ Hedging against commodity, currency, interest rate fluctuations
- ✓ Exposure to third parties
- ✓ Threat of a deep recession

- ✓ Investments
- ✓ Goodwill and intangibles
- ✓ Pensions

3. Understand Key Operational Risks-the Supply Chain, Labor, and Technology Capabilities to Maintain Operations



Supply Chain

What measures are being taken to stabilize the company's supply chain?



Business Continuity

Is the Board confident in the Company's business continuity plans?



Technology

Are the Company's technology capabilities able to support remote working and virtual operations?

4. Ensure the Board is Staying Apprised of the Company's Response to Crisis

Understand the scope of the crisis and how the Management is responding



1. Have we determined the scope of the crisis? Are we of the same mind to what being done?



2. Is it clear who is on point for key elements of the response?



3. Are there benchmarks and checks on progress for crisis mitigation efforts?



4. In addition to internal reporting, does the Board seeing both the company's internal and external communications?

Consider the potential impact of COVID-19 crisis on the Board's operations and effectiveness



1. Does the Board have contingency plans in place to meet virtually as needed?

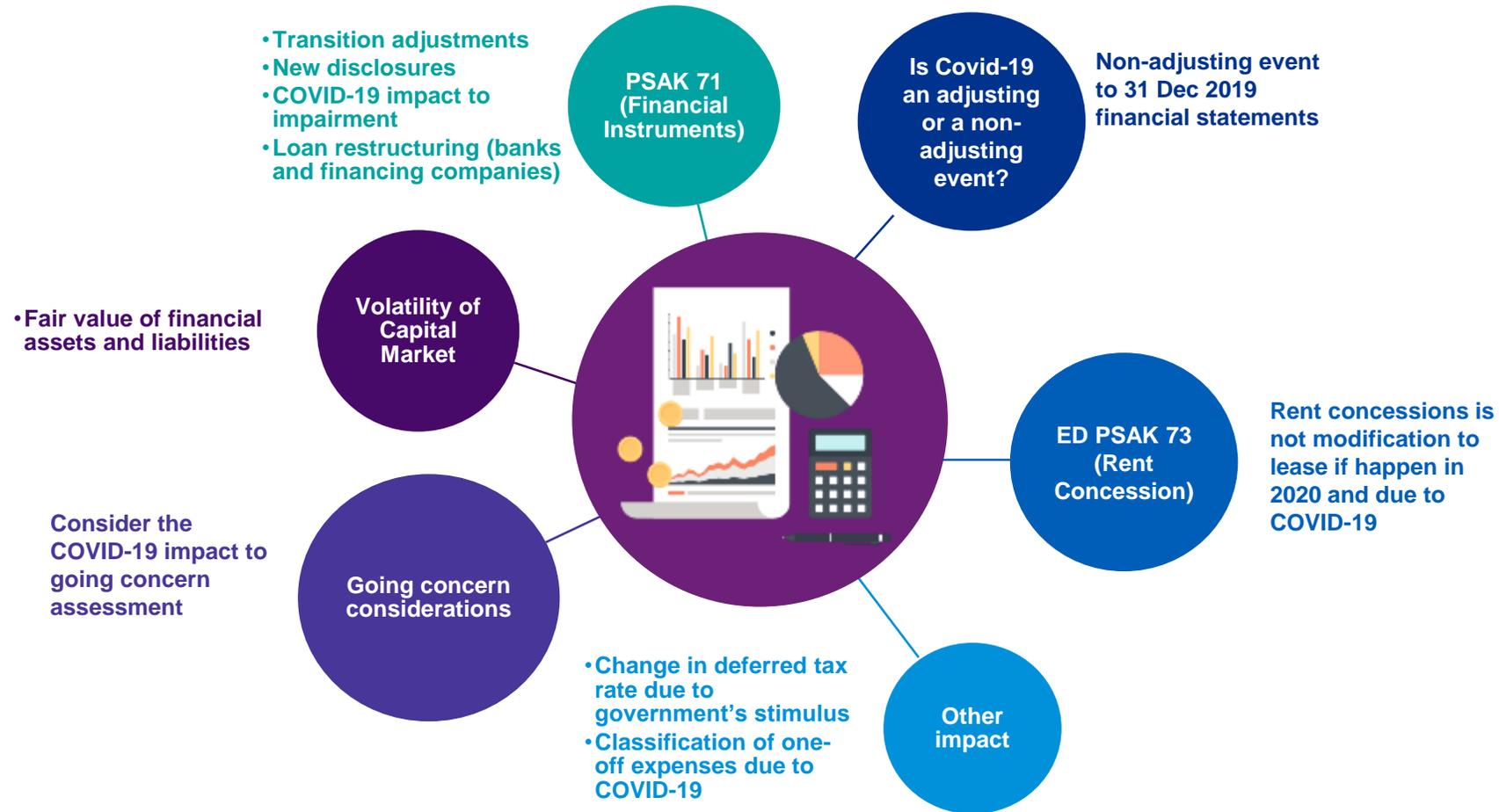


2. Does the lead director / independent chair need to step in ensuring the efficiency of the Board / Management?



3. Are Board members taking precautions to limit their own exposure to COVID-19?

5. Assess accounting and financial reporting impacts



5. Assess accounting and financial reporting impacts

What is the impact on revenue-cycle accounting?



Are assets being carried at an appropriate amounts?



What are the interim reporting considerations?



Are all liabilities fully recorded and properly presented?



How should government assistance be accounted for?



What is the impact for insurers?



What is the impact on employee benefits?



Scan me for answers





Concluding Thought for the Board

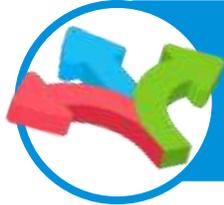


Key takeaways for the Board

The best boards “**Won’t want to waste the crisis**”



▶ Changed behavior and new ways of working



▶ Boards may view and approach risk in a profoundly changed way



▶ Decisive and motivational leadership within a framework or clear purpose and values.



▶ Good judgement and right decisions at the right time.

Differentiator

**Stronger
than before**

New Reality



Shifting focus on business infrastructure investment – physical versus virtual office



Expectation of better “User experience” while working remotely



Increase in Investment on Technology to work remotely and collaboration tools infrastructure



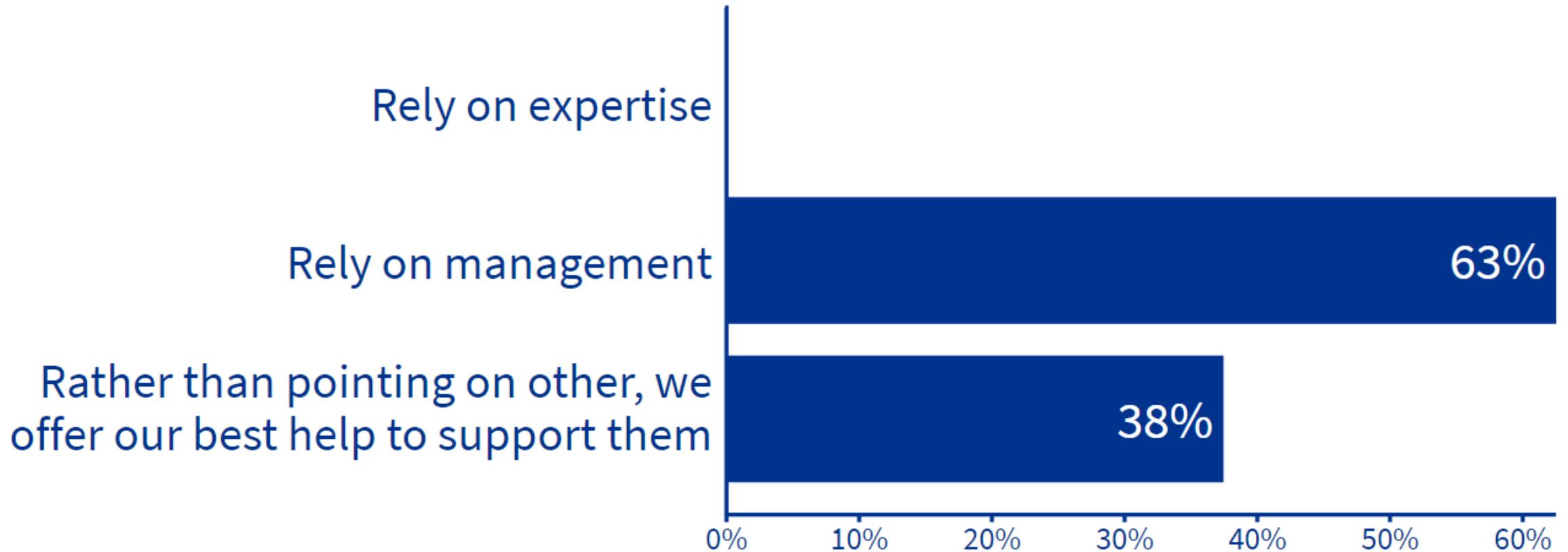
Introduction of new controls by regulators to govern the security of the remote working models



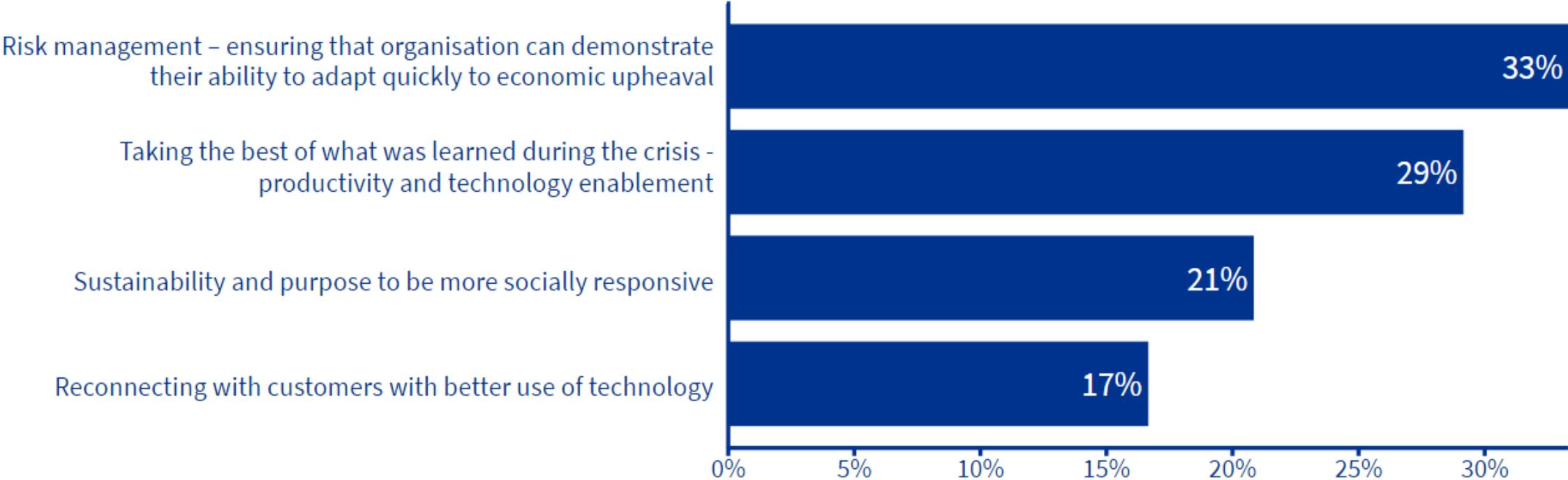
Polling Results



In your perspective, how do you manage the whole pandemic crisis?



After the COVID-19 pandemic passed by, which of the following initiative will you explore? (Maximum 3 answers)





Thank you





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