



**Webinar – April 26<sup>th</sup>, 2020**

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**Business  
Solutions**

# Western Union: Story in numbers

**168**  
years

in business

**\$1bn**

invested in compliance  
over the past 5 years

**\$5.6**  
billion

in revenues in 2018

**\$821**  
million

operating cash flow in 2018

**287**  
million

customer to customer  
transactions



# Western Union Business Solutions

**60k+**

individual and  
business clients

**500+**

bank accounts and  
60+ bank relationships

**200+**

countries and  
territories

**130+**

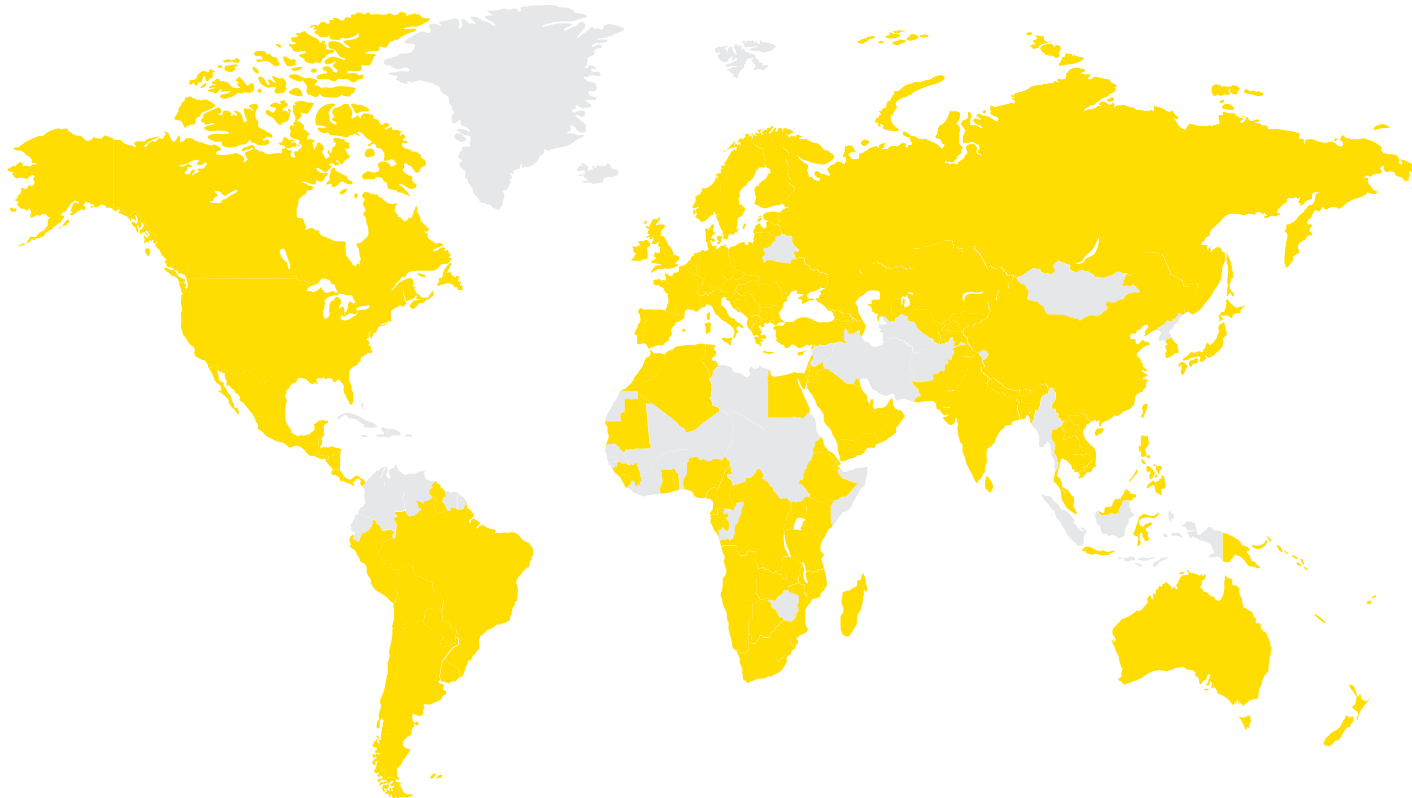
outgoing currencies,  
and 30 incoming



# Extensive global footprint

Global reach of payment types and currencies

Total reach of over **200 countries** and territories, in more than **130 currencies**



## Domestic ACH

35 countries  
9 currencies



## Domestic RTGS

68 countries  
31 currencies



## Offshore RTGS

25 countries  
25 currencies



## 3<sup>rd</sup> party RTGS

81 countries  
74 currencies



## Domestic incoming

47 countries  
22 currencies



## Offshore incoming

15 countries  
15 currencies



\*As of 12/31/2019

\* **ACH** Automated Clearing House | \*\***RTGS** Real Time Gross Settlement



# Coronavirus – The Black Swan that changed the game

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## Quote from the internet

“Where do you see yourself in 5 years from now”. So in retrospect, in 2015 not a single person got the answer right.

# Why Coronavirus matters...

## Coronavirus outbreak

**>5,500,000**

confirmed cases

**>347,000**

deaths

**214**

countries with confirmed cases

## Economic implications

**21%**

China's share of world GDP\*

**46%**

China's share of growth in world GDP\*\*

**2.4%**

2020 global GDP forecast, down from 3% pre-crisis

## Industry impact

**#1**

China buys 40% of the world's commodities

**\$258bn**

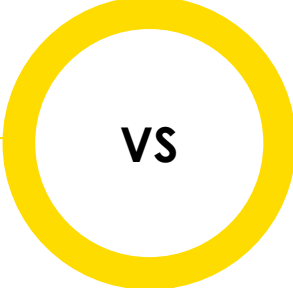
China's 17% contribution to global tourist spending

**60%**

China's share of paracetamol production

# Comparison 2008 vs 2020

	2008	2020
Origin	US	Wuhan – China
Reason	Mortgage Backed Securities <b>Real estate</b> Bubble	Pandemic due to <b>Covid-19</b>
Consequences / Expectations	Major financial melt down in the US that affected the whole world economy	Largest economic contraction since WWII Collapse of Oil and other commodities
Differences	Severe recession in the broader economy due to collapse of the US Housing Market The <b>real economy</b> was <b>not affected</b>	The whole <b>real economy is affected</b> : Restaurants, aviation, offices...
Actions from Central Bank	Monetary Policy <ul style="list-style-type: none"> <li>• <b>Decreasing interest rates</b></li> <li>• <b>Stimulus plans</b></li> </ul>	<b>Fast and very aggressive</b> Assets buy backs. (Trillion of dollars Stimulus) Monetary Policy – <b>decreasing interest rates</b>
Results	<b>Longest Economic Expansion</b> (2009 – 2020 → 128 months)	Self isolation and Social distancing will change consumer habits. <b>Pre-Covid will not be the same as post-Covid</b>





# Covid-19 Impact on the Canadian economy

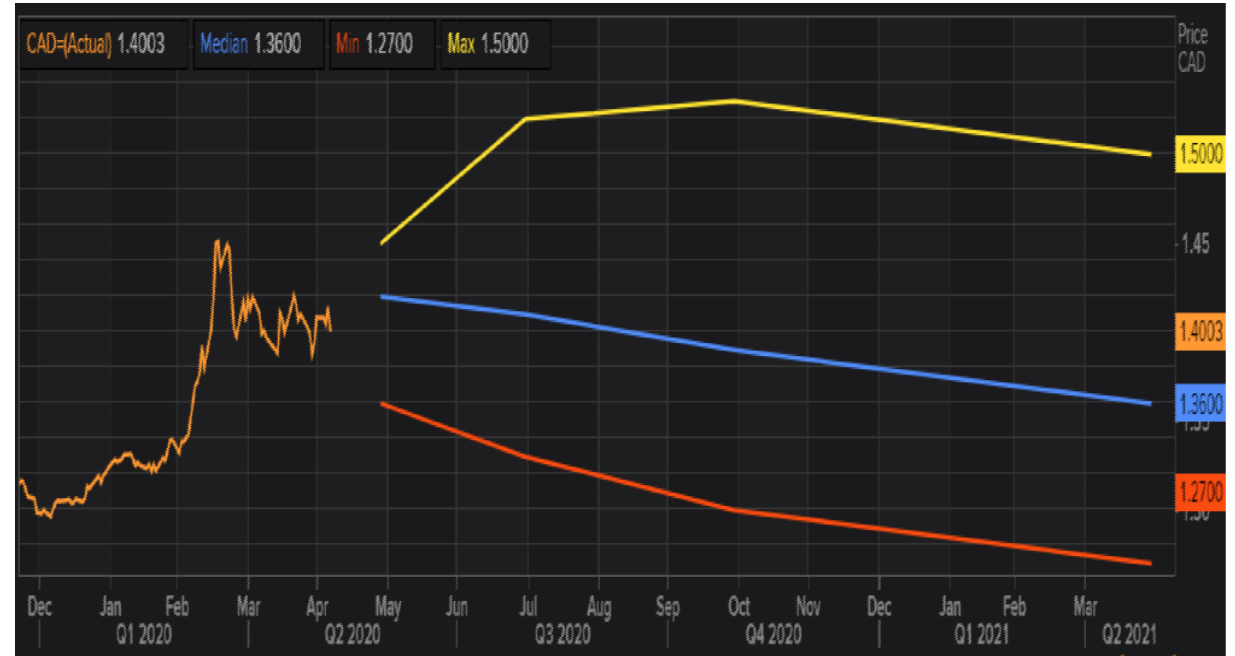
	2008	VS	2020
Unemployment	7%-8%		13%
Retail Sales MM	-2.7%		-15.60%

# CADUSD vs WTI



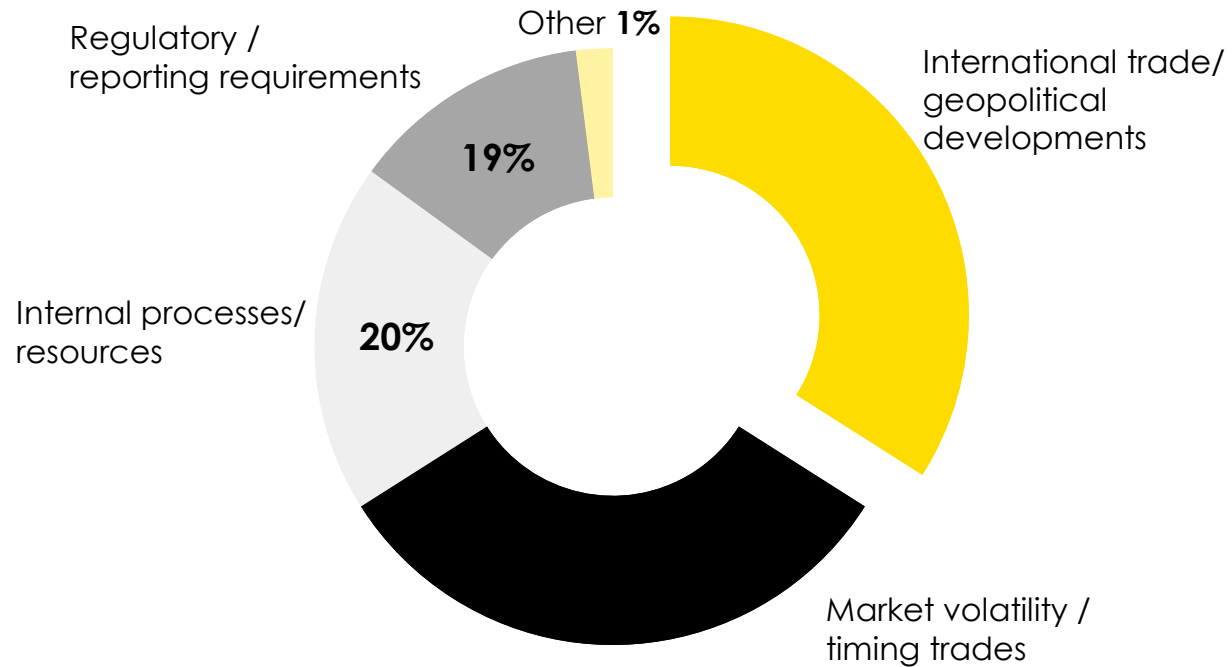
# USDCAD Economist Forecast

Bank	1 year
National	1.3500
CIBC	1.3800
Desjardins	1.3700
Scotia	1.3500
TD	1.3900



# Impact that uncertainty has?

## Companies' biggest worry with currency and risk management



## Who did we survey?

- 4,212 survey respondents worldwide – FX and payments decision makers only
- Countries: CA, US, UK, FR, DE, AT, AU
- Industries: all major sectors including manufacturing, retail, travel, education, legal, IT, Technology, Medical, and NGO
- Independent research conducted on behalf of Western Union Business Solutions in October 2019.

Sources: Source: Western Union Business Solutions – 2020 FX Barometer global research study

# Counterparty risk



## Definition:

Every financial transaction that happens must have a **counterparty** in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller who **is** willing to sell and vice versa. **Counterparty risk** is the likelihood or probability that one of those involved in a transaction might default on its contractual obligation. **Counterparty risk** can exist in credit, investment, and trading transactions.



## Why is it important?

**Counterparty Credit Risk** is the **risk** that a party, usually to an OTC derivative contract, may fail to fulfill its obligations. More specifically, the amount of **exposure** is uncertain due to the random nature of the contract's pay-offs.

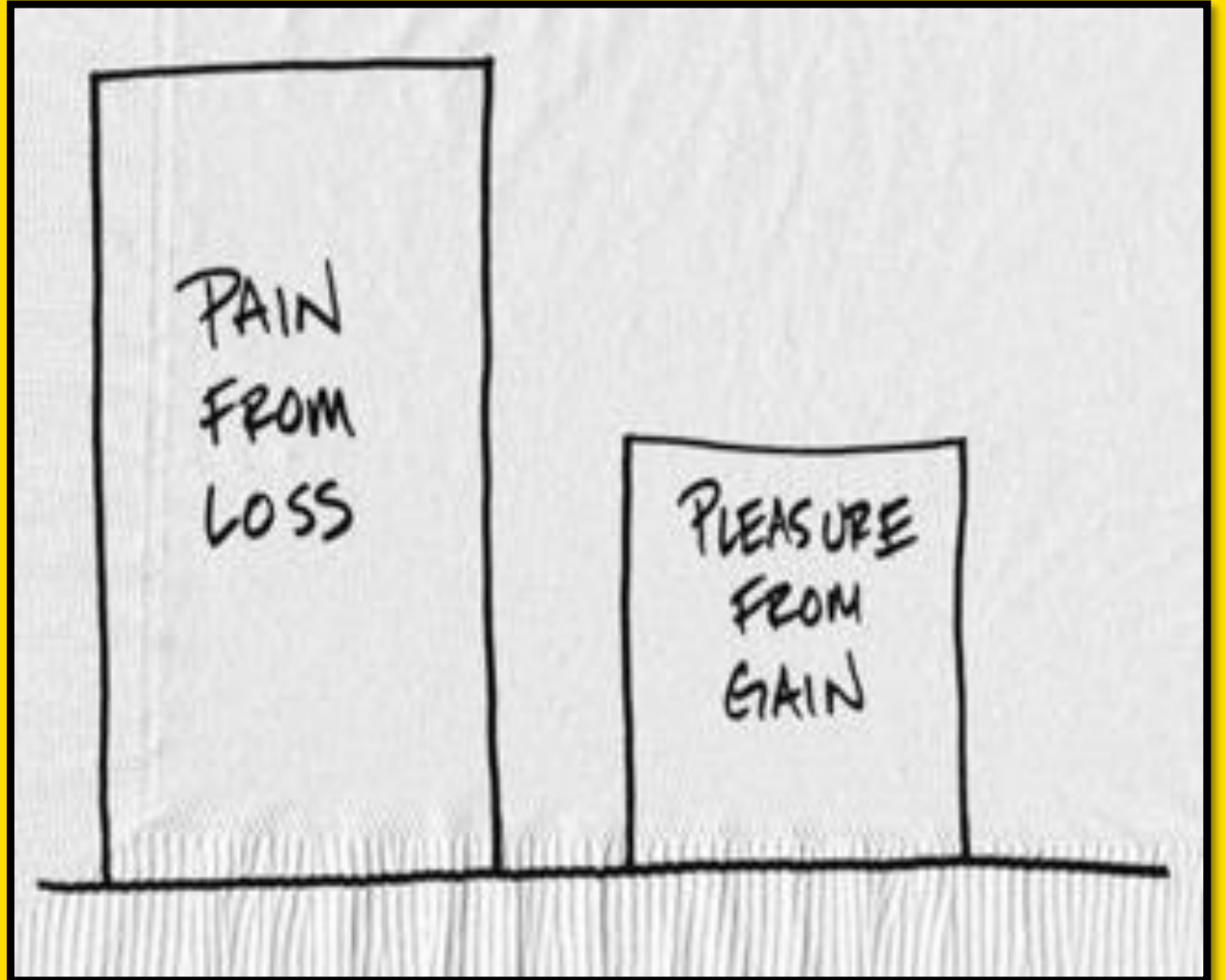


# Uncertainty and behavioural biases

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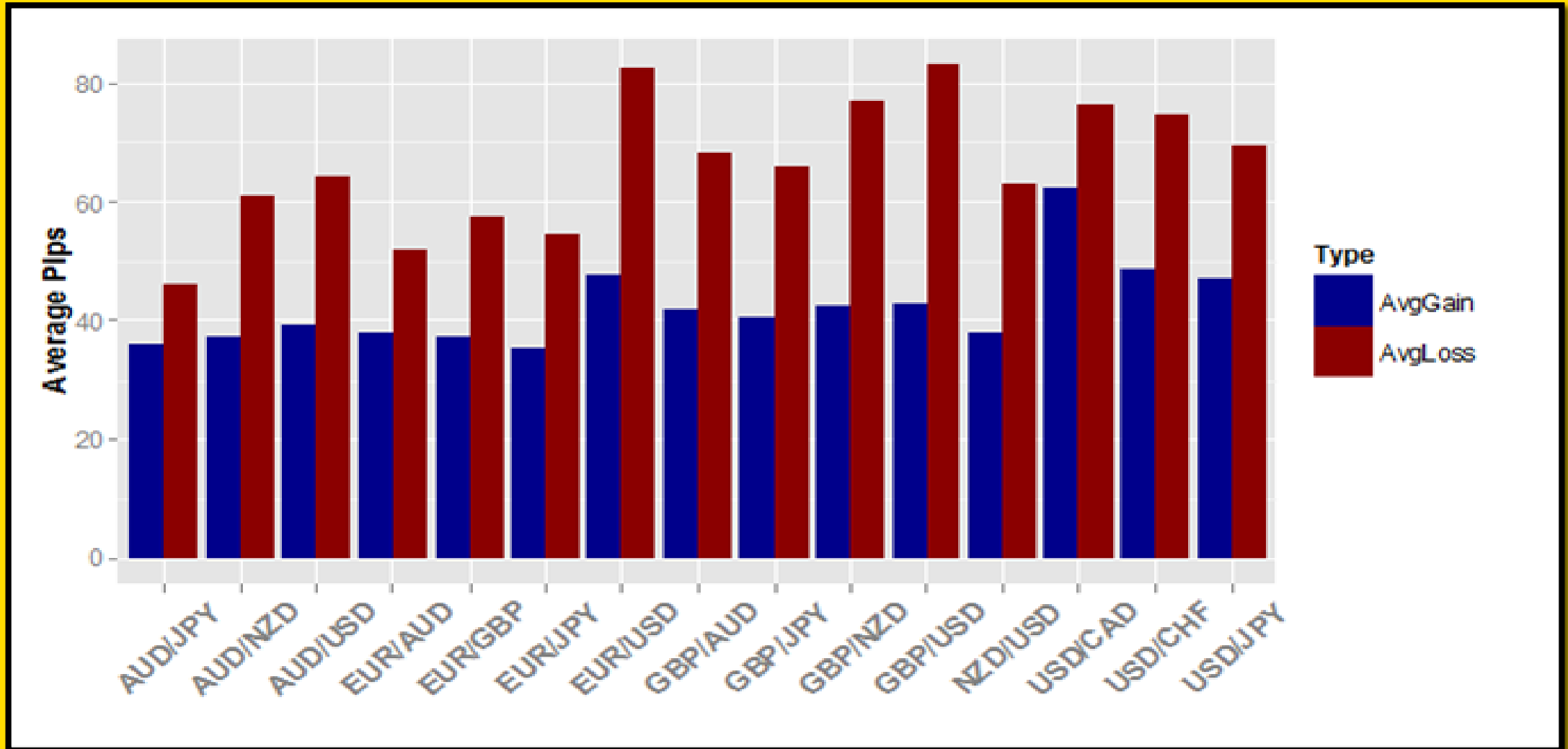
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# Loss aversion



# Loss Aversion

Per currency pair

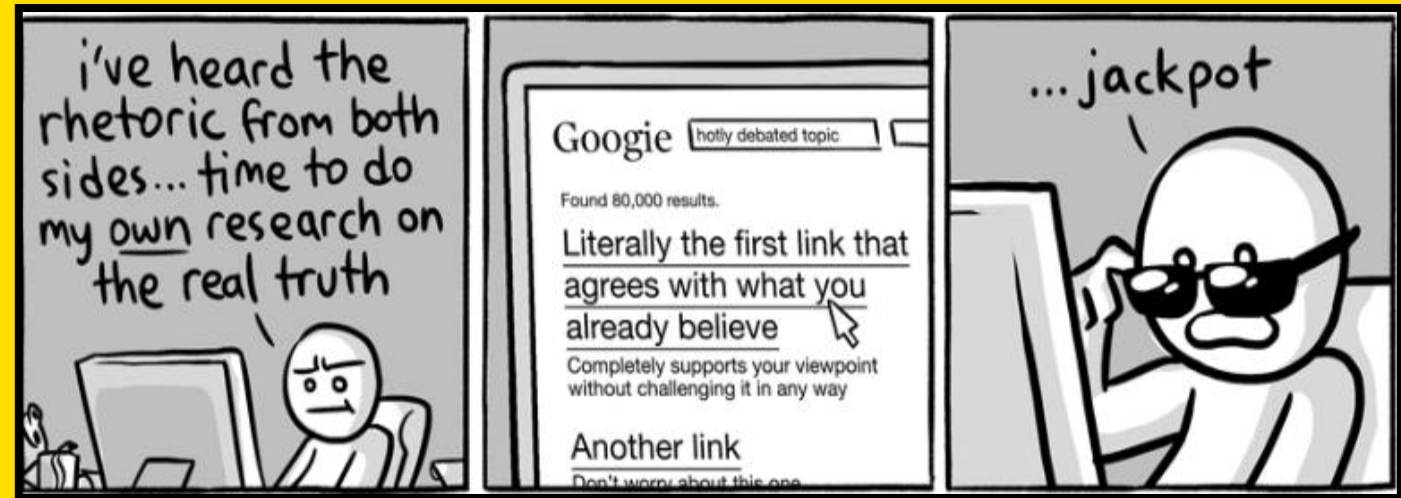




# Hindsight bias



# Confirmation bias





# Hedging strategies

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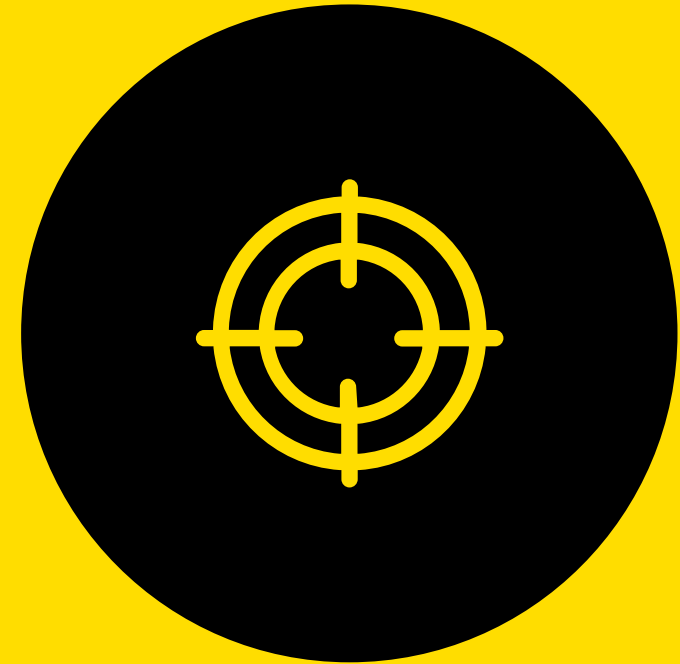
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# What is a strategy?

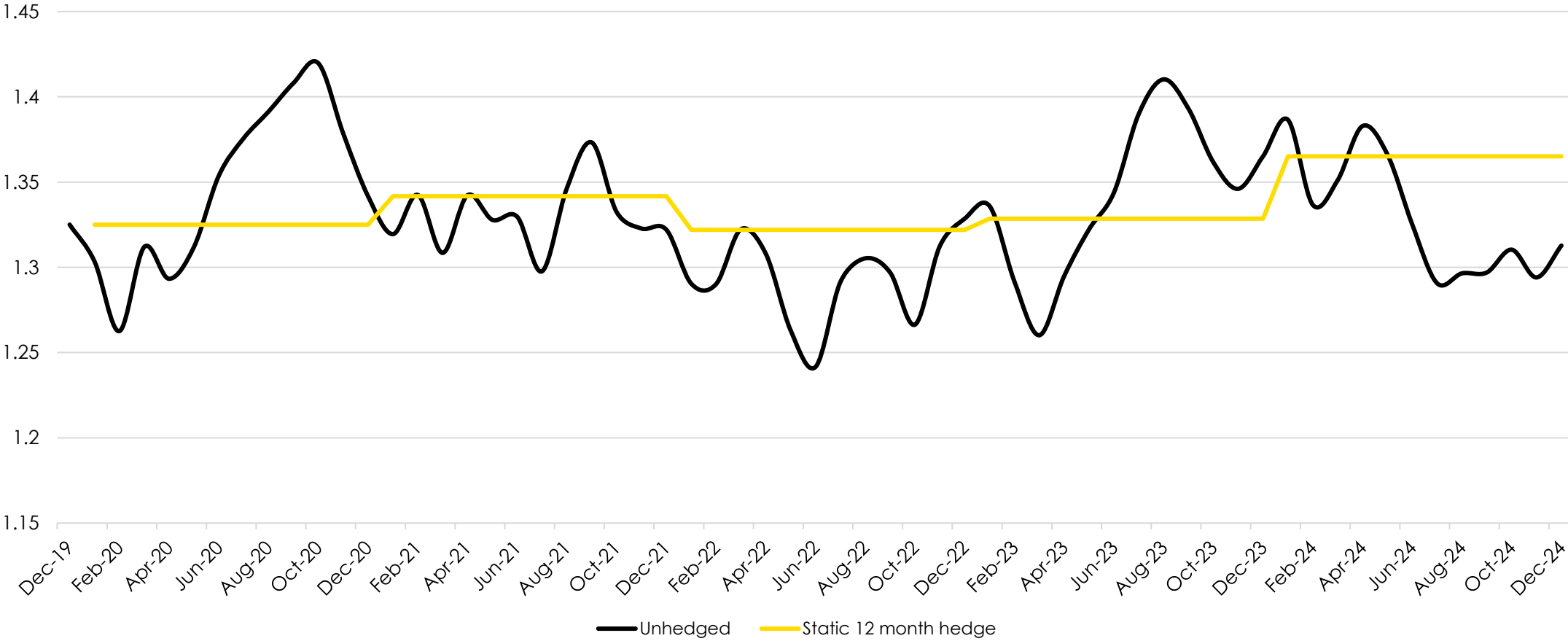
**Percentage of hedging**

**Tenor**

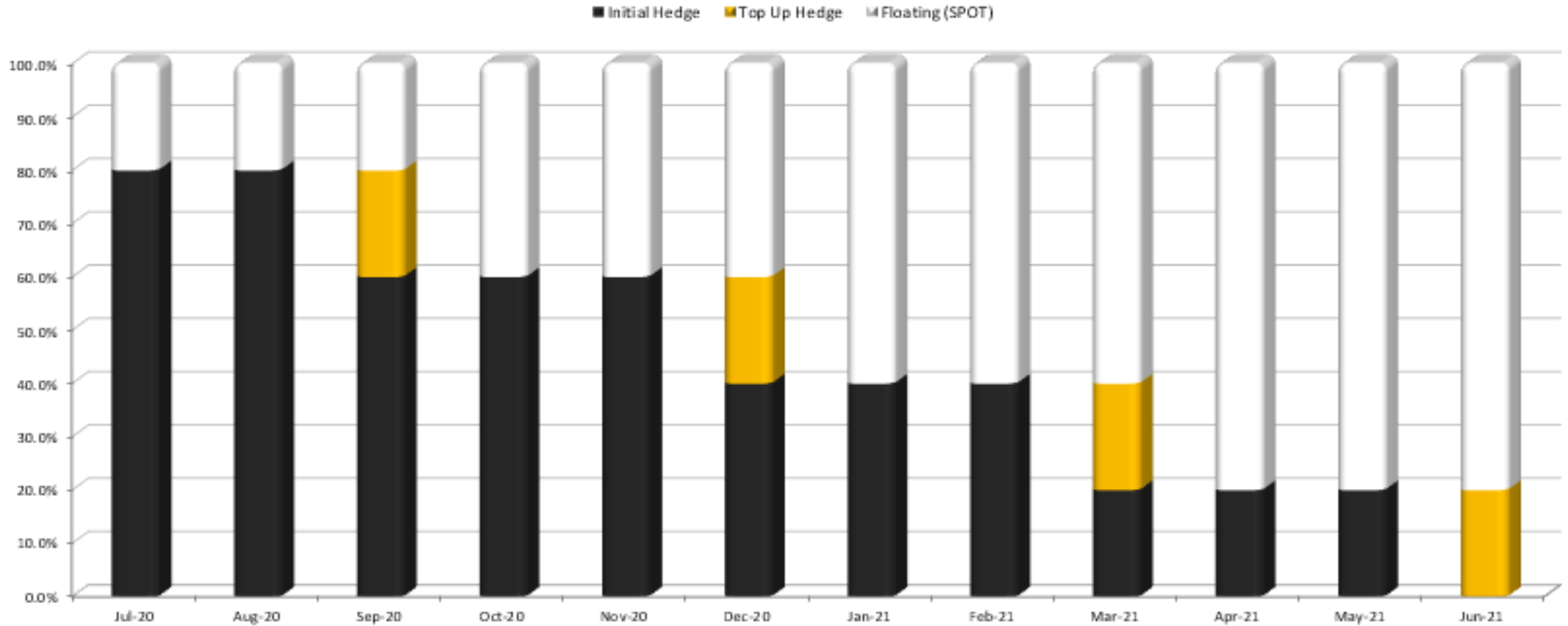
**Product**



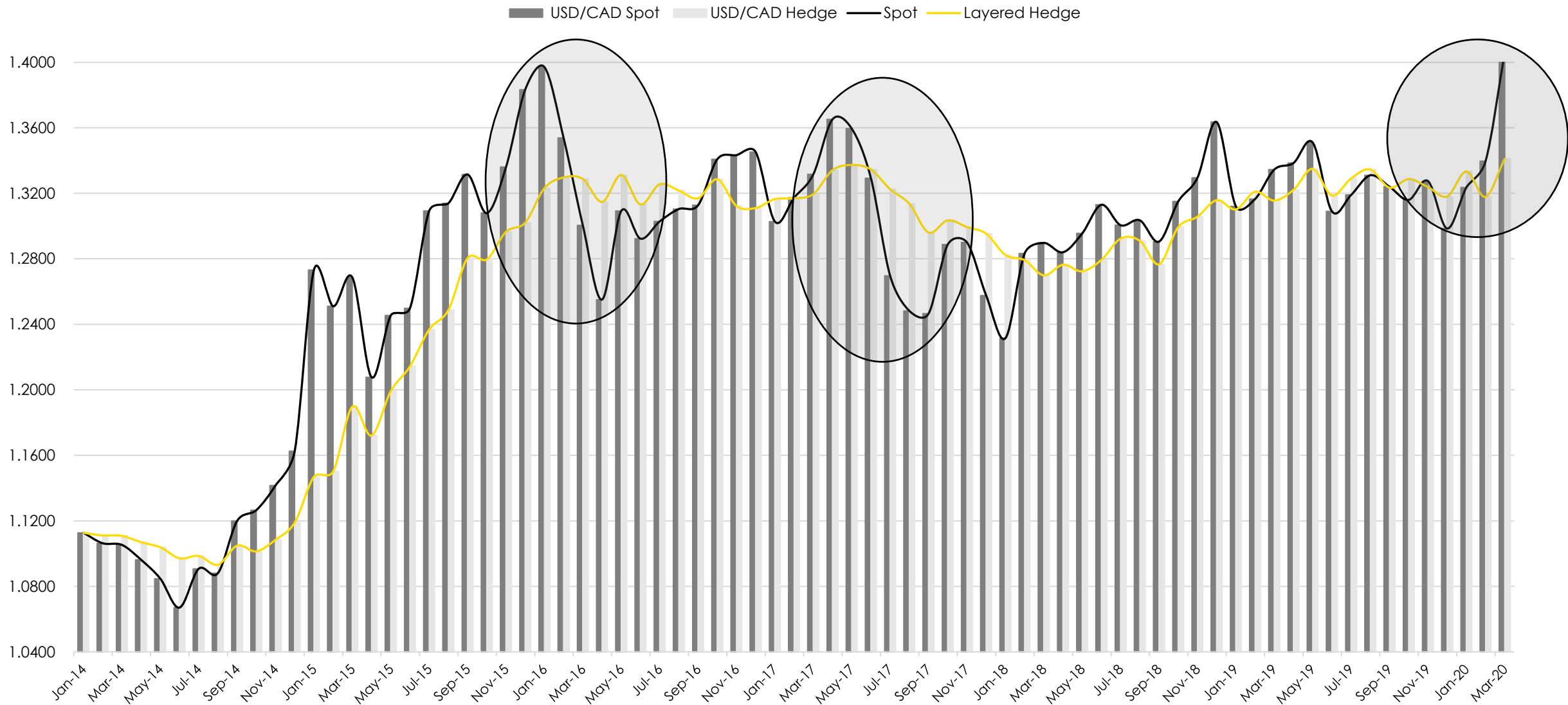
# Static hedge



# Layered hedge



# Back testing 2014 - Q1 2020





# Products that price well in a volatile environment

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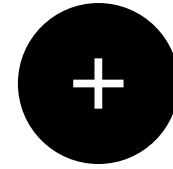
# Type of products



**Protection**



**Participation**



**Enhanced**

**TARF**

# Protection – Forward – Seller

Expiry

3M

Protection rate

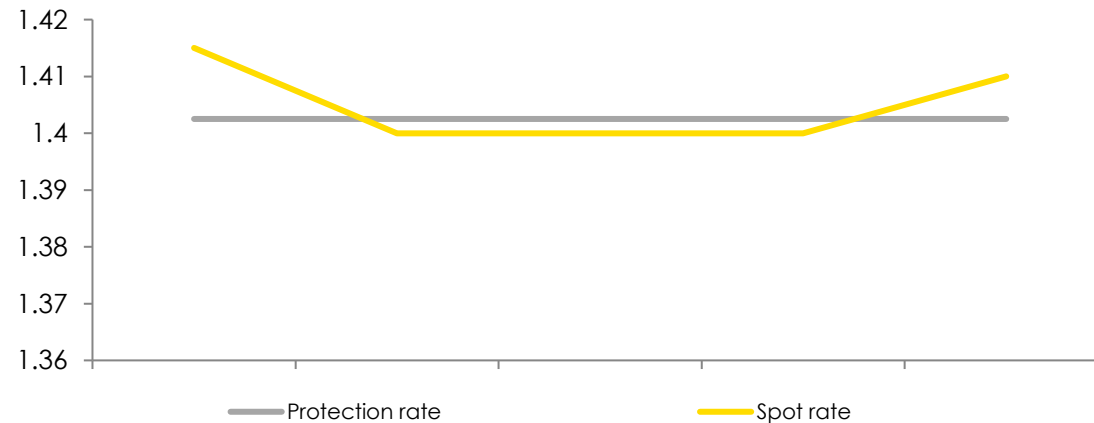
1.4025

Amount

1M

## 1<sup>st</sup> scenario

The spot rate at expiry is higher than the protection rate.

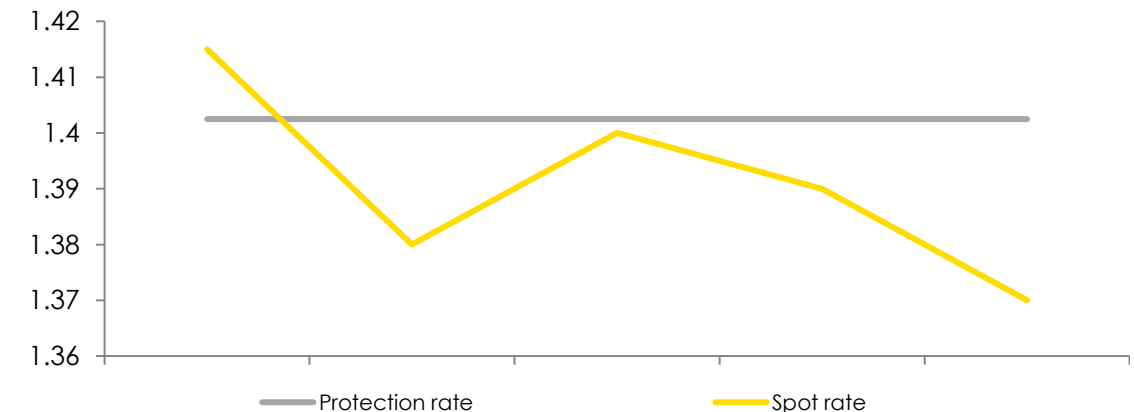


### Outcome:

The company will book 1M at the protection rate.

## 2<sup>nd</sup> scenario

The spot rate at expiry is lower than the protection rate.



### Outcome:

The company will book 1M at the protection rate.

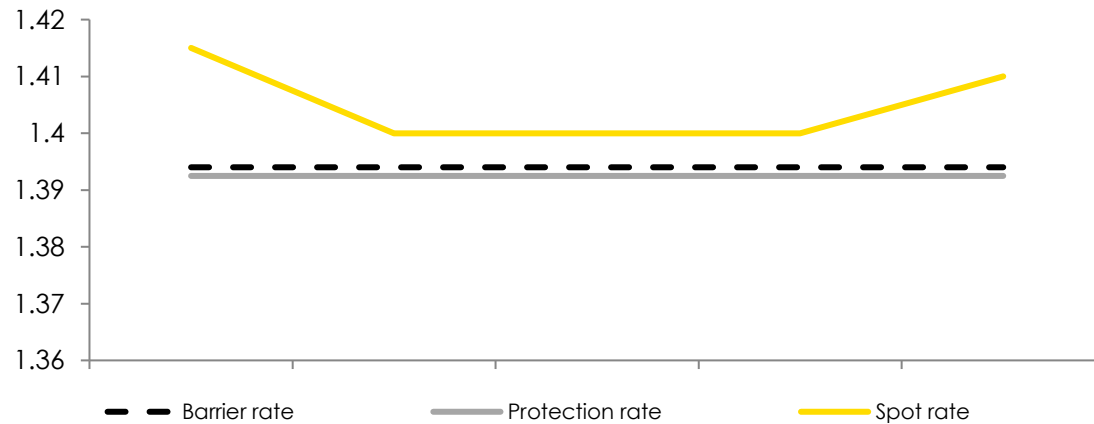
- This product will prove to be most advantageous in a volatile market.
- This product should be used in conjunction with other hedging products to form a powerful risk management strategy.

# Protection – KO Convertible – Seller

<b>Expiry</b>	3 months	<b>Protection rate</b>	1.3925	<b>KO Barrier</b>	1.3925	<b>Amount</b>	1M
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## 1<sup>st</sup> scenario

The spot rate never hits the KO barrier rate during the time of the contract

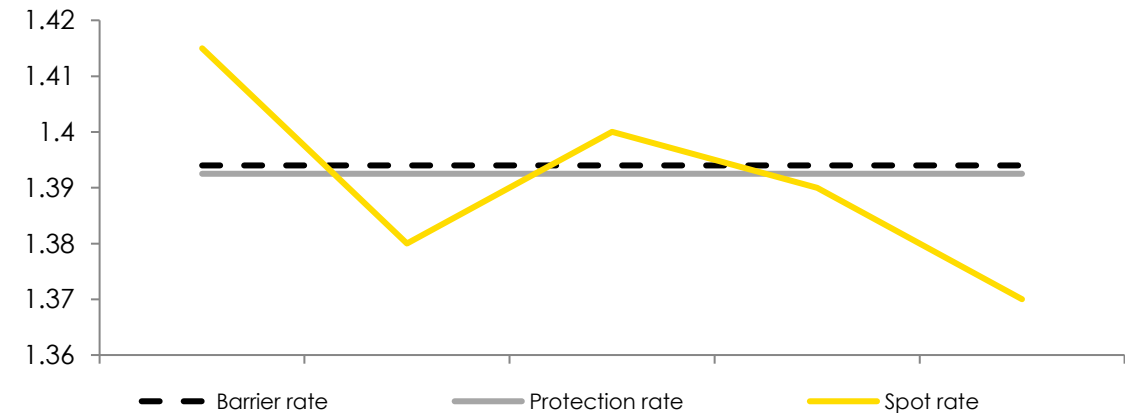


### Outcome:

The company will book 1M at the protection rate.

## 2<sup>nd</sup> scenario

The spot rate hits the KO barrier rate at any moment during the life of the contract



### Outcome:

The company will end up with a plain vanilla with a strike of 1.3925

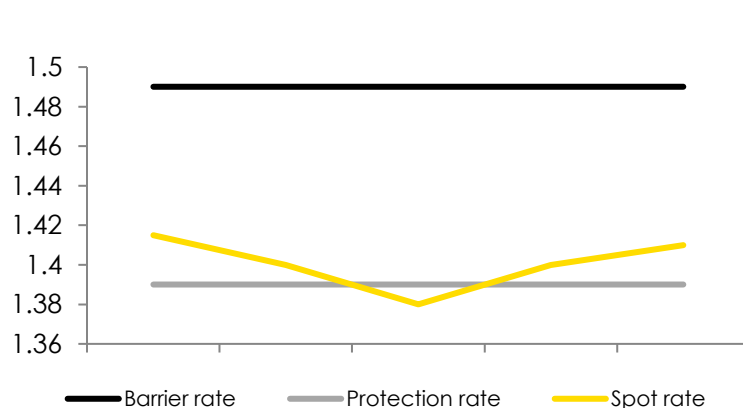
- This product will prove to be most advantageous in a volatile market.
- This product should be used in conjunction with other hedging products to form a powerful risk management strategy.

# Participation - European Knock In Collar – Seller

<b>Expiry</b>	3 months	<b>Protection rate / KI rate</b>	1.3900 / 1.4000	<b>Barrier</b>	1.4900	<b>Amount</b>	1M
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## 1<sup>st</sup> scenario

The spot rate at expiry is higher than the protection rate and the barrier is not hit at expiry.

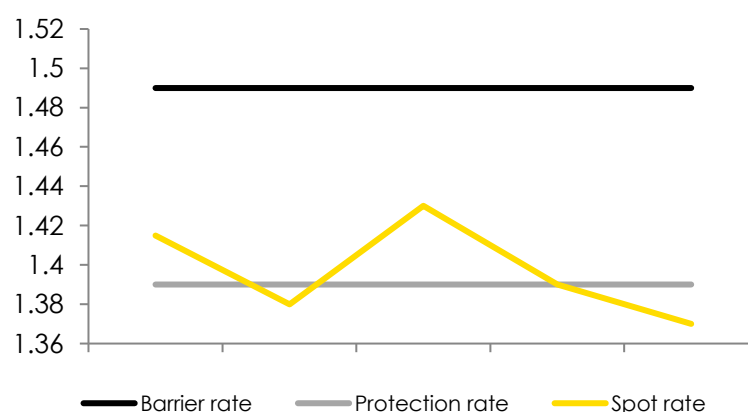


### Outcome:

The company will book 1M at the spot rate

## 2<sup>nd</sup> scenario

The spot rate at expiry is lower than the protection rate.

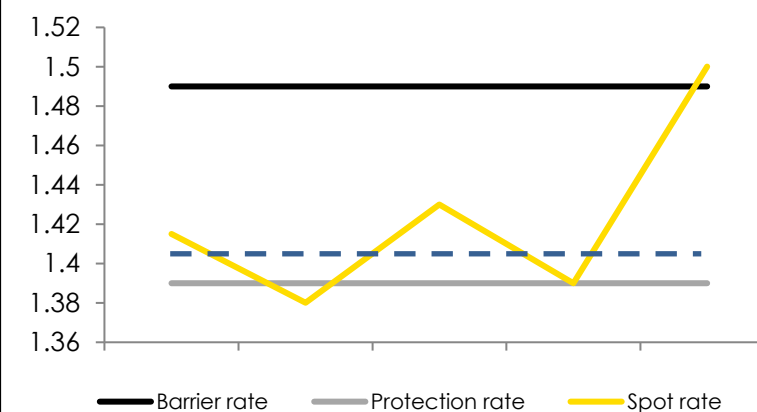


### Outcome:

The company will book 1M at 1.3900

## 3<sup>rd</sup> scenario

The spot rate at expiry is lower than the protection rate.



### Outcome:

The company will book 1M at 1.4000

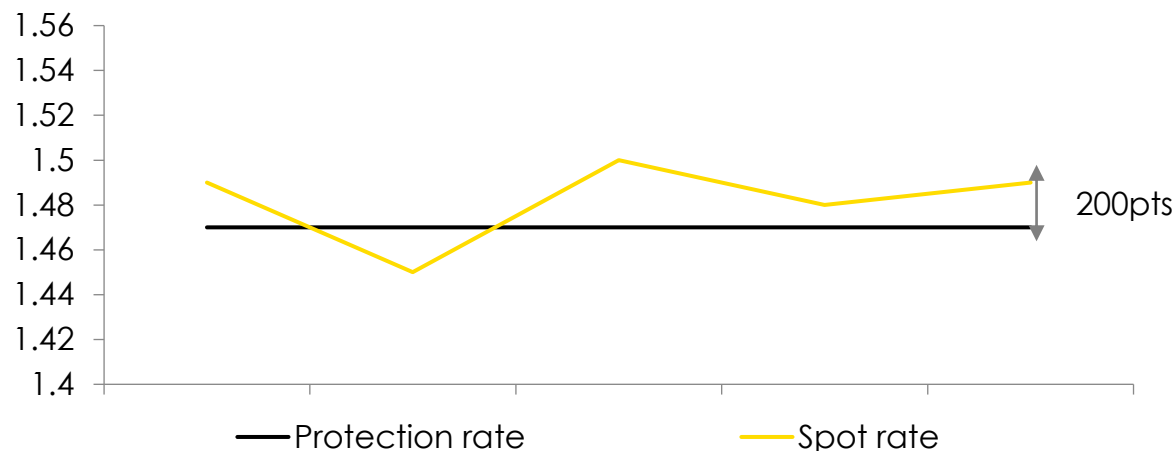
- This product will prove to be most advantageous if the market moves against you.
- This product should be used in conjunction with other hedging products to form a powerful risk management strategy.

# Enhanced – Lev TARF – Seller

<b>Expiry</b>	12 month (12 Fixings)	<b>Protection Rate</b>	1.4700	<b>Target Bucket</b>	1000	<b>Amount per fixing</b>	USD100K / 200K
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## 1<sup>st</sup> scenario – 1<sup>st</sup> Fixing date

The spot rate at expiry is higher than the protection rate

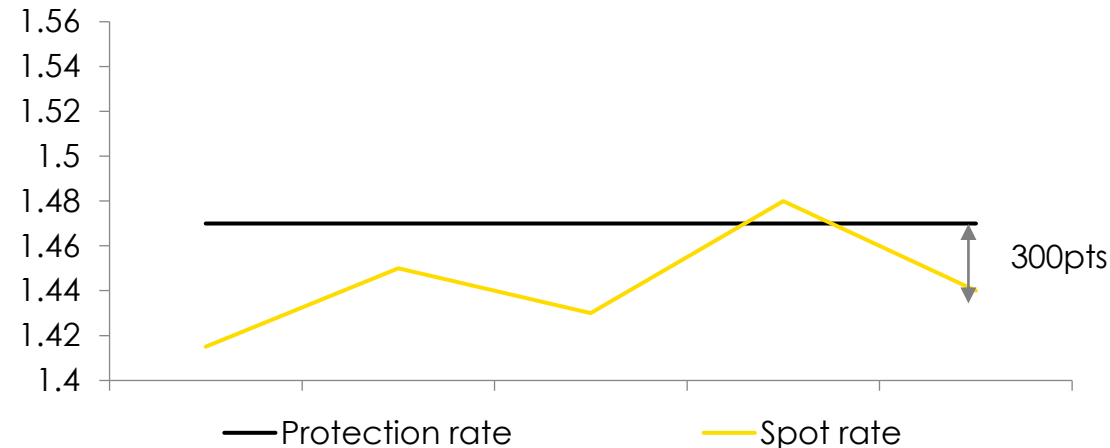


### Outcome:

The company will book **USD 200,000** at **1.4700**.  
No points are redeemed as the spot rate is lower than the enhanced rate. The balance of the target bucket remains at **1000**.

## 2<sup>nd</sup> scenario – 1<sup>st</sup> Fixing date

The spot rate at expiry is lower than the protection rate.



### Outcome:

The company will book **USD 100,000** at **1.4700**.  
300 points are redeemed from the Target Bucket and the remaining balance of the Target Bucket is **700** points.

- This product will prove to be most advantageous if the market moves against you.
- This product should be used in conjunction with other hedging products to form a powerful risk management strategy.

# Enhanced – Lev TARF – Seller

Fixing	Jun-20	Jul-20	Aug-20	Sep-20	Oct-19	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
<b>Fixing Value (USD)</b>	100/200	100/200	100/200	100/200	100/200	100/200	100/200	100/200	100/200	100/200	100/200	100/200
<b>Enhanced Rate</b>	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700	1.4700
<b>10 am NY fixing at Expiry</b>	1.4900	1.4400	1.4200	1.4300	0	0	0	0	0	0	0	0
<b>Utilization</b>	0	300	500	400	0	0	0	0	0	0	0	0
<b>Balance of points</b>	1000	700	200	0	0	0	0	0	0	0	0	0
<b>CAD Amount</b>	294,000	147,000	147,000	<b>*73,500</b>	0	0	0	0	0	0	0	0

**\*Notional Adjustment:**  
 (200/400) \* 100,000 USD \* 1.4700

# Risk management in risky times



Recognize biases exist

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Clearly define hedging objectives, make a plan and stick to it

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Let the strategy make the decision

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Measure results over time

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Seek opinions contrary to your own



**Questions?**



# Thank you.

## Contact us.

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