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Fair weather bankers are no use in today's stormy climate

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Each recession is littered with high-profile casualties. This time, however, the limitations of mark-to-market accounting, regulatory intervention and the unique squeeze on credit are creating bankruptcies and restructurings unlike anything we have seen before.

Facing this tsunami are insolvency practitioners, financial restructuring advisers, turnaround specialists and lawyers. However, a decade of growth means that the number of professionals experienced at running companies in a downturn or advising on restructurings is dangerously small. The key players are in extreme demand and already operating at peak capacity. With experienced resources stretched, some restructurings are sure to end badly.

Investment banks are particularly light on the experience needed. Many practised workout professionals went to the advisory side long ago and, while bankers can help to restructure debt covenants, the skills gap for more complex situations is wide.

To make matters worse, the volume of Chapter 11 work has limited the appetite of all but a few American restructuring firms to get involved in the European market. European advisory boutiques seeking experienced practitioners find most too busy to contemplate moving. Meanwhile, demand continues to grow. England and Wales saw a 92 per cent rise in administrations, receiverships and company voluntary arrangements between 2007 and 2008. It is thought that up to 40 per cent of the top 100 private equity firms could go out of business in the next three years as their portfolio companies default on their debt.

Financial restructuring advisers need a strong, technical understanding of company capital structures, the financing product range and the regulatory regime. In addition, they must have the capacity to negotiate successfully with competing interests under stress, be able to inject a structured process on to turmoil and have the wit to develop radical solutions.

This coming round of restructurings has a dazzling panoply of new creditor participants and stakeholders: hedge funds and banks looking at debt-for-equity swap opportunities; and trading desks seeking to arbitrage potential outcomes. Independent advisers may find it difficult to ascertain the changing motivations of many of these new participants.

The present practice among some advisory firms and investment banks is to send underutilised M&A or financing bankers to originate and execute restructuring mandates. This comes with risks, as restructuring formulas frequently will be unsuccessful in this credit environment and a greater level of product knowledge, experience and network will be required. The restructuring space faces a critical talent crunch that needs to be addressed quickly. The talent will need to be sourced from related disciplines and retrained, but the nature of their experience will be crucial. Finance professionals with backgrounds in legal analysis and advanced negotiation skills need to be the targets. Success as a financing or M&A banker is not enough.