CENTRAL PENN BUSINESS JOURNAL

cpbj.com • March 17, 2023

Don't Cut Insurance During a Recession

By Kevin McPoyle

96% of US midsize business leaders are expressing a negative outlook about the global economy according to JP Morgan.

With recessionary clouds gathering, C-suite executives should be asking department heads to submit a list of cost cutting measures. If the economy navigates its way past recession, everyone can breathe a sigh of relief during happy hour. The list of cost cutting measures can be filed for future use. If recession does settle in, proactive companies can take quick action to preserve gains made during the economic expansion.

Kevin McPoyle

Since insurance doesn't generate revenue and can be viewed as a discretionary item, it can be a tempting cost cutting target. While this temptation is understandable, we recommend keeping all insurance coverages in place. In some instances, coverage **should even be increased.**

Following are recommendations regarding several key coverages:

Commercial Crime Insurance – It stands to reason an uptick in crime can occur during an economic downturn. Two income families can become one or no income families. Job losses can combine with reduced payroll hours to cause economic distress. Meanwhile, mortgage and car payments are still due, children must be fed and it can cost up to $1,500 to fill the oil tank.

For retail stores, an economic downturn can result in increased shoplifting.

Crime, specifically workplace fraud and theft, can also increase inside workplaces. Criminal acts can range from inventory and materials theft to theft of corporate financial assets.

Keep in mind terminated employees can commit crimes ranging from petty theft to IT sabotage prior to their departure from the firm.

Organizations operating without a commercial crime insurance safety net will have no safe harbor when criminal acts are discovered, adding additional pain to what may already be a strained balance sheet.

EPLI Insurance – Employee layoffs are often a consequence of a recession. Google parent Alphabet has recently cut 12,000 jobs, about 6 percent of its global workforce. Technology firms have together cut more than 190,000 jobs since the start of 2022.

In a downsizing, older workers who are unable to land another job may file claims of age discrimination. This worry is supported by the fact 2008 – a recessionary year – is the largest year for age discrimination claims filed during the past 20 years with the EEOC.

There is also the "iceberg effect." Employees who willingly withstood injustices such as sexual harassment, bullying, overzealous middle managers and discrimination – both real and perceived – while employed, may elect to sue for damages upon termination.

Cyber Insurance – Cyber security is another cost center vulnerable to cutbacks during a recession. Cutbacks may include downsized cyber tech as well as downsized cyber center head count. Unfortunately, cyber intrusions tend to increase during economic downturns. This, then, can come at a time when companies are ill prepared to meet the heightened challenges.

Within companies cyber events can multiply as terminated IT personnel "act out" before and following their departure.

We advise companies to stay dry beneath their cyber umbrella by maintaining both their cyber infrastructure spend and insurance coverage, to anticipate potentially devastating effects of a cyber intrusion during a recessionary period.

Trade Credit Insurance – Recessionary economic cycles do not discriminate. Just as your company will experience challenges and setbacks, so will clients and customers. Consequently, companies are advised to review their account receivables for red flags during this relative calm before the potential recessionary storm.

Trade Credit Insurance, also known as Accounts Receivable Insurance, provides balance sheet protection by reimbursing a company for losses resulting from an inability to collect accounts receivable. Coverage kicks in whether the client is insolvent or simply refuses to pay, so long as this refusal wasn't caused by defective products or services.

Directors and Officers (D&O) Liability Insurance – When a company fails or is failing due to a recession, investors and creditors can at times look for someone to blame. This blame can be directed towards directors and officers. Lawsuits can include claims of various acts of wrongdoing, such as misappropriation of corporate assets or misleading financial statements. Even if there is no substance to the claims, legal defense costs can be burdensome.

Directors and officers of inadequately insured entities can be left with little to no protection. Their personal assets will be exposed while they are left to fund their own defense. What's more, they could potentially be held liable for damages awarded by a court.

What's the bottom line?

Resist the temptation to reduce your insurance coverage during a recession. Instead, meet with your trusted risk management and insurance partner to discuss how your insurance coverage can help your company weather a recessionary slump.

Kevin McPoyle, CIC, RPLU, CPLP is President of KMRD Partners, Inc., a nationally recognized risk and human capital management consulting and insurance brokerage firm with offices throughout Pennsylvania. Kevin can be reached at kmcpoyle@kmrdpartners.com