

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

ACCOUNTING & AUDIT

How to Protect Client Financials During the Covid Pandemic

Mar. 16, 2020



As the novel coronavirus outbreak shows no signs of slowing and is now officially declared a pandemic by the World Health Organization (WHO), the global economy will continue to take a toll. Recently, the stock market plunged signaling the threat of

a recession and businesses are bracing themselves for the financial fallout of quarantines, supply chain barriers and the impact on their workforce. For small and middle-market companies, CPAs are often a trusted financial advisor. And, for some, their CPA often practically serves as their CFO. As such, CPAs can play an important role in helping their clients navigate the financial headwinds created by this global health crisis.

Below are steps that CPAs can take to help educate clients:

Define the Financial Impact

What events and developments related to the coronavirus will impact the company revenue? How will it translate to the income statement, balance sheet and cash flow? Should projected expenses be rebalanced to match revenue expectations? Understanding these potential challenges will help inform financial strategies to mitigate losses.

Consider Holding More Cash than Usual

Given the possibility of higher-than-normal claims and also the possibility of market losses, both as a consequence of deteriorating economic conditions caused by spread of the coronavirus, consider whether it may make sense to retain larger percentage of assets than usual in cash or highly liquid cash equivalents.

Take Advantage of Low Interest Rates

Interest rates are historically low. Businesses should consider refinancing short-term and long-term debt. In this low interest rate environment, it may be a good time for businesses to open or increase a line of credit to provide additional flexibility during a period of uncertainty, such as this.

Encourage Clients to Follow These Best Practices:

1. Employee Communication

Preventing the spread of disease among the company workforce is critical. No drug or vaccine is yet available, however, proper measures will impede the proliferation. Leadership should be advised to communicate not only best practices, but policies, that include these precautionary measures:

- Limit or avoid business travel, particularly on planes and public transportation
- Skip conferences and tradeshows

- Refrain from shaking hands
- Encourage employees to wash their hands and refrain from touching their face
- Keep business premises, workspaces and offices clean and disinfected
- Request that employees stay home if they are sick

2. Establish Measures for a Remote Workforce

Preventing serious disruption to productivity is key when safeguarding business sustainability. Although it's impossible for certain industries and job functions to have remote operations, if it's within the company's capabilities, it behooves businesses to have a plan for a remote workforce in the event of quarantines and illness. An IT company can work with the business to establish remote, digital access. However, it cannot be assumed that all employees have internet access. Businesses need to be prepared to invest in internet access plans or hot spots for workers. Also, workers without a laptop computer or smartphone may need devices provided. Before any remote workforce is launched, the leadership must develop policies for working remote and also ensure data security.

3. Ensure there is a Disaster Preparedness Plan in Place

If – and this is a big “if” – the coronavirus reaches the level of a true disaster, does the business have a plan? Whether it's a pandemic, act of violence or a natural disaster, a plan is imperative for business continuity. [Ready.gov](https://www.ready.gov) provides preparedness planning and toolkits for businesses. The plan should include goals and objectives, threats and hazards, action items and protocols to protect people, data and assets. The plan will require dissemination and employee training for adequate execution.

Review the Company Insurance Policies

Businesses should be advised to check and see if the company's insurance policies cover the financial fallout of a global pandemic, such as these types of policies:

- Supply Chain Interruption
- Loss of Key Customer or Key Supplier
- Subcontractor Default
- Property (e.g., loss of access to business premises due to quarantines)
- Business Interruption
- Employment Liability
- Medical
- Catastrophic Risks

Although the company may have a policy that covers one or more of these risks, few policies cover losses sustained from an outbreak, meaning that many businesses may simply have to absorb the losses.

Captive Insurance as a Cure

Forward thinking CPAs often advise their clients to mitigate risk by owning a captive insurance company. Owning a captive insurance company is often one of the best approaches for mid-market and small companies to prepare for the unexpected. Captive insurance is simply a choice for a business to own its own insurance company. Captives are licensed commercial companies and are able to gain access to reinsurance pools or the reinsurance markets to provide a backstop for risks they insure. A captive is a form of self-insurance that enables businesses to participate in a portion of their own risk. Businesses buy insurance from their captive and are able to retain the profits accumulated in their captive. Captives also receive favorable tax treatment – just like commercial insurance companies – to help them accumulate loss reserves. Captive loss reserves not paid out in claims or expenses accumulate year-to-year. This accumulation of loss reserves can pay claims to the business in the event of an insured loss and provide a powerful defense against the unexpected, including the impact from pandemic disease, supply chain interruption and business interruption – which appears to be looming in the shadow of the bad news coming out of China these days.

Businesses that already own a captive are likely insured against some or all of the potential impacts of the Coronavirus. CPAs can work with businesses they advise to review their policies and be prepared to file claims if losses occur.

Prepare Now for the Next Crisis

At this point, businesses are late to the game to insure against the coronavirus pandemic, but it's a lesson on the importance of having the right financial strategies in place to safeguard profitability and the financial viability of the company. CPAs can start now and advise clients to not be caught off guard—and in fact, may even financially thrive in a crisis situation with the right practices and initiatives in place.

=====

Randy Sadler started his career in risk management as an officer in the U.S. Army, where he was responsible for the training and safety of hundreds of soldiers and over 150 wheeled and tracked vehicles. He graduated from the U.S. Military Academy at

West Point with a Bachelor of Science degree in International and Strategic History with a focus on U.S. – Chinese Relations in the 20th century. He has been a Principal with CIC Services, LLC for 7 years and consults directly with business owners, CEOs and CFOs in the formation of captive insurance programs for their respective businesses. [CIC Services, LLC](#) manages over 100 captives.

[Accounting & Audit](#) • [COVID-19](#) • [Firm Management](#) • [News](#)

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved