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ACCOUNTING & AUDIT

Business Strategies for the Next Wave of COVID-19

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Millions of businesses struggled to survive during COVID-19 with many still at risk of closing. According to a Goldman Sachs survey of more than 1,500 small business owners, 50 percent said they didn't feel they could continue operating their businesses more than three months under the coronavirus conditions.

However, with the lifting of restrictions, many business owners and leaders remain optimistic as they have either reopened or are pursuing a phased reopening plan. Although the relaxation of restrictions translates to a much-needed boost in revenue for many businesses large and small, it's important for business owners and professionals to prepare for the likelihood of a second wave of COVID-19, resulting in a new round of restrictions.

Epidemiologists predict another wave of coronavirus in the fall or winter. According to the U.S. Centers for Disease Control and Prevention, the four common coronaviruses first identified in the mid-1960s peak tend to peak in the winter months—and just in time for the start of flu season.

A second wave of COVID-19 translates to not only restrictions, but further supply chain barriers, business closures, limits on gatherings, events and travel, and sick employees—which all leave businesses vulnerable.

Many businesses will tend to fall within one of three categories in the face of a potential second wave:

1. Businesses that continued to be successful during the first wave may continue to succeed during a second wave.
2. Some businesses that continued to succeed during the first wave not be able to thrive during a second wave.
3. And, some businesses that were hit hard during the first wave and struggled for survival may not endure a second wave at all.

For CPAs, who serve as trusted advisors to business owners and leadership teams, it's important to provide businesses with advice that will enable them to prepare now and be better equipped to ride out the next wave. These are some financial strategies that businesses can pursue:

Postpone Capital Expenditures

Although business may see an uptick, with the threat of a potential second wave, it is likely best for business leaders to postpone large purchases and capital expenditures.

If capital equipment is needed to meet demand, consider leasing equipment. These funds may be needed in the event of a second wave.

Keep Cash Free and Credit Lines Open

Although a business has made it through the first wave of COVID-19, it's important that CPAs advise businesses continue to have cash on hand and available credit lines open in case it is needed. This will help ensure payments can continue to be made and employees paid—allowing the business to remain a going concern.

Renegotiate Terms or Slow-Pay / No-Pay Creditors

If revenue is impacted and bills are piling up, reach out to creditors before the business is in default. It may be possible to renegotiate mortgage or rent terms. For example, the business can request a three month break from payments or have rent lowered for several months. In some cases, a creditor could be slow-paid. Also, many credit card issuers are offering to defer payments, waive late fees or interest, or provide an extended payment plan.

Don't Slow-Pay / No-Pay the IRS

If a business has been hard-hit by COVID-19, negotiation can often happen with creditors—but not with the IRS. They are the one creditor a business cannot skip paying. Any contingency plan has to include paying taxes fully. If a company's back is against the wall or in crisis, recommend that the IRS is still paid. Plus, the IRS moved the tax deadline back, providing more time for companies to make their tax payments.

Take Advantage of Government Programs

During the first wave of COVID-19, the government has offered several ways to help businesses survive in addition to SBA funding programs. These include the Paycheck Protection Plan (PPP), SBA Express Bridge Loans, SBA Debt Relief and EIDL Loan Advance. These programs help businesses retain employees and ride out the wave until business levels improve. In the event of a second wave, it's likely the government will offer additional assistance. It's advantageous to encourage business owners or leaders to go ahead and apply for these programs in case they are needed. It's also important to be "first in line" if possible. CPAs should be vigilant and on the look out for all government aid available.

Consider Filing a Business Interruption Insurance Claim

If the business has third-party commercial insurance, CPAs can recommend that they consider filing a claim—or be ready to file one. Whether or not the business is considering filing a claim, now is a good time for them to review the insurance policies and determine coverages and exclusions. Although they may have business interruption insurance, it may not cover the fallout from a pandemic. It's good to review it and find out. In recent headlines, insurers have been denying COVID-related claims. However, legislators in several states have introduced bills to force insurers to cover COVID-19 claims. There is also discussion in Congress on creating a COVID-19 reinsurance backstop (similar to the TRIA terrorism backstop). Presumably, such a backstop would enable insurers to cover COVID-19 business interruption claims. For this reason, it may make sense to file a claim or be prepared to file one.

Consider Captive Insurance

In many instances, third-party commercial insurance alone isn't enough in the event of a threat like a global pandemic. This is an ideal place to supplement commercial insurance with a captive insurance company.

A captive insurance company is a licensed insurance company that is usually owned by the business owner, owners, a related business or other related entities. The captive can then insure a wide variety of the related business' risks—risks likely to be triggered during a crisis like a pandemic that leads to supply chain interruption, loss of a key supplier or customer, subcontractor default, bankruptcy of certain counterparties, losses from governmental actions (like forced business suspension or quarantines), etc.

And via reinsurance arrangements, the captive insurance company can then pool its risks with the risks of many unrelated business, usually including those in completely different industries. Some of those businesses and industries will no doubt be the beneficiaries of most any unexpected, significant and formidable event.

Consequently, the captive insurance company can not only ensure that businesses have sufficient liquid reserves, but the losses of those businesses and industries that are harmed by the event are paid in part by those that are windfall beneficiaries of it. This contributes to a much more robust economic system, which ultimately benefits all actors in the economy. If more small and middle market businesses owned their own captive insurance company, far more would be able to weather a crisis like COVID-19 or navigate through other potential crises. In some cases captive insurance

companies may also receive very favorable tax treatment to help them build loss reserves. This can also provide additional liquidity during times of crisis.

Why It's Important to Act Now

With COVID-19's first wave and impending second wave already underway, it's late in the game to benefit from a captive insurance company now, however, it is still important to pursue since the next threat could be imminent.

Events like COVID-19 are considered "Black Swans". They are unpredictable and typically have severe consequences. They also create "losers" and "winners." In addition to COVID-19, Black Swan events have included the 9-11 terrorist attack, the 2008 financial crisis and devastating natural disasters such as hurricanes or earthquakes. The nature of a Black Swan event is that although they are unpredictable there is one thing business leaders can count on: The next Black Swan event can and will happen. If you found that the business was unprepared for COVID-19, whether it's the first wave or second wave, start now and be prepared for the next threat.

This is the time to take the necessary steps addressed above, review the business continuity, disaster response and crisis communications plans, and to review the business's insurance policies and consider forming a captive insurance company.

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