BRC
BOARD RISK COMMITTEE

BOARD RISK REPORT

IN BRIEF - BOARD BULLETIN

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Inflation, high interest rates, possible stagflation - Is your risk plan ready?

By Joseph J. Prochaska, Jr.

This is clearly an unsettling time in the economy. Higher interest rates, oil and gas prices, food and raw material prices, and soon, the prospect of diminishing job creation are spawning headlines every day. Inflation is causing increasing economic discomfort and talk of a recession is increasing. However, there is significant uncertainty being caused by both the real and the market perceptions of inflation which is evidenced by the knock-on impact of significantly rising interest rates. This adds to costs for all of us.

Various estimates of 2022 inflation have it ranging from 6 to 9% without a clear indication of how long it will continue at or near that pace. Because inflation increased so rapidly there has been little time for companies to react to the changing environment or institute previously drafted plans. And inflation is beginning to force reductions in household spending as well as raising the cost for businesses to produce and deliver their products. Indeed, on June 22, 2022, Federal Reserve Chair Jerome Powell suggested the central bank's inflation fighting interest rates increases could push the economy in the direction of a recession, he also stressed the FED's determination to avoid that outcome (see WSJ).

Now is the time for boards to dust off existing plans that outline customized strategies to manage the impacts from rising interest rates and the possibility of sustained inflation.

Based upon the market reaction over the past few weeks it is also clear that companies and individuals may not understand what the FED's recent interest actions mean or are reacting to the wave of media discussion about recession fears. They may well believe the economy is worse than the actual data suggests.

With the actions of the FED over the last few weeks and the specter of additional interest rates hikes for the remainder of 2022, it's important to ask whether your organization's risk plans address the following items:

- Do your plans have sufficient and updated triggers for when you need to conserve cash and capital?
- Are there contingency plans for actions that can be implemented quickly as the triggers are met – to raise cash, conserve cash, bolster capital, if needed?
- Do your plans have prudent measures to adjust pricing without losing market share to recoup your rising costs?
  - Have you thought through the communication elements for your customers and your associates?
- If repricing your products is not possible, do you have a concrete plan to reduce your costs in areas not impacting production or product creation?
- Do you have plans to communicate to your stakeholders the potential impacts to profitability, dividends, staffing and investments in the future?
- Have your triggers factored into account the possible long term and short-term durations of this economic dislocation? i.e., are there escalating triggers and actions?

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Joe is an experienced Board member and strategic financial executive with over 30 years' helping some of the world's largest insurance related companies improve profits, navigate transformation activities including mergers and acquisitions, and enhance financial systems. Joe is designated as a Qualified Financial Expert under Sarbanes-Oxley and serves as an Independent Director and Qualified Risk Expert on the Synovus Financial Corporation Board. Joe's Board experience includes participation on Private Company Boards in the real estate, technology, and data analytics arenas, as well as various Charitable Boards.

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