

Preparing for Economic Downturns

How Risk Managers Can Help
Their Organizations Minimize
Risks





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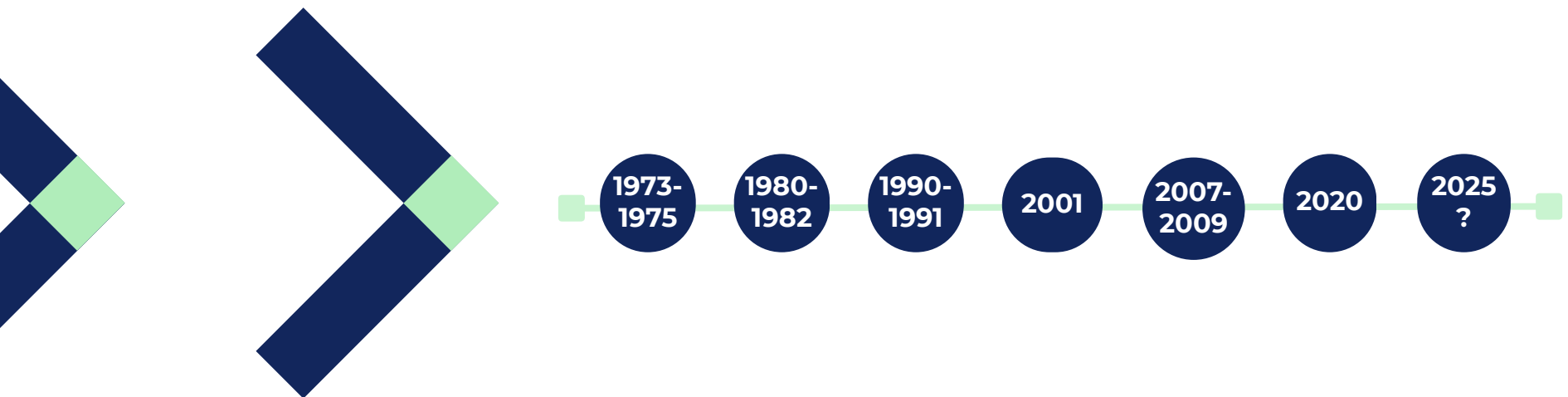
Framing the Challenge

Since the 1970s, the United States has experienced six economic recessions, each lasting anywhere from 2 to 18 months. Risk managers who have navigated these events already understand that economic downturns can both intensify existing risks and introduce entirely new exposures.

Most risk managers will encounter multiple economic downturns during their careers. Therefore, they should strive to understand how these periods adversely affect their organizations and prepare accordingly. As of early 2025, economic indicators show increased volatility, with multiple forecasts pointing to elevated recession risk.

Looking beyond recent history to include experiences from the 1970s and 1980s provides valuable additional context for risk managers preparing for potential economic challenges ahead.

Current economic analysis indicates rising concerns about a potential 2025 recession. J.P. Morgan Research has raised the probability of a recession occurring in 2025 to 60% — up from 40% earlier in the year — largely due to concerns about aggressive tariff policies and their potential impact on global trade. Meanwhile, surveys of chief financial officers reveal growing pessimism, with the CNBC CFO Council showing a majority of financial executives anticipating a recession by year-end.





Economic Recessions and Their Impact

EVENT	YEAR BEGAN	YEAR ENDED	DURATION	INSURANCE MARKET IMPACT
1970s Stagflation	1973	1975	~2 Years	Significant premium increases across commercial lines
Early 1980s Recession	1980	1982	~16 Months	Initial softening followed by hardening (1984-1987 liability crisis)
Gulf War	Jul 1990	Mar 1991	8 Months	Relatively stable market conditions
Dot-Com	Mar 2001	Nov 2001	8 Months	Hardening market (following 9/11 impacts)
Great Recession	Dec 2007	Jun 2009	18 Months	Premium increases, particularly in later stages
COVID-19 Recession	Feb 2020	Apr 2020	2 Months	Initial market disruption followed by significant hardening
Potential 2025 Recession	TBD	TBD	?	?



Lessons From Past Downturns

Current economic uncertainties in 2025 stem from several factors, including tariff policies, inflationary pressures, and geopolitical tensions. Looking back at previous recessions can provide valuable insights as organizations prepare for potential economic challenges ahead.

The 1970s Stagflation Period

The 1970s presented a unique challenge with "stagflation" – the simultaneous occurrence of economic stagnation and high inflation. This created distinct risk management challenges:

- **Inflation-driven valuation gaps:** Asset valuations rapidly escalated, creating coverage inadequacy when losses occurred
- **Supply chain disruptions:** Material and component shortages affected business continuity
- **Rising insurance costs:** Commercial insurance premiums increased dramatically as insurers faced higher claims costs and attempted to keep pace with inflation
- **Investment challenges:** Traditional investment strategies struggled to maintain value in the inflationary environment

The stagflation period taught risk managers that conventional economic assumptions can be upended when multiple adverse conditions converge. Planning for contradictory economic signals (inflation during contraction) became an essential risk management capability.





The 1980s Liability Crisis

While the early 1980s recession (1980-1982) created its own challenges, the subsequent liability insurance crisis of 1984-1987 offers important lessons for risk managers. Though occurring after the recession had technically ended, this crisis demonstrated how economic downturns can trigger delayed effects in insurance markets:

- **Coverage availability:** Many organizations couldn't obtain certain liability coverages at any price
- **Premium volatility:** Some liability premiums increased 300% or more in a short period
- **Self-insurance growth:** The crisis accelerated the development of alternative risk financing mechanisms, including captives and risk retention groups
- **Regulatory intervention:** Government entities stepped in to address market failures

The lag between economic conditions and insurance market responses highlights the importance of forward-looking risk management strategies that anticipate not just immediate impacts but delayed effects that may appear during recovery phases.

The 2001 Dot-Com Bubble's Innovation Lessons

The dot-com bubble demonstrated how excessive optimism around technology innovation, combined with improper valuation metrics, could create highly speculative market conditions. The subsequent correction affected even fundamentally sound businesses.

In today's environment, where artificial intelligence and other emerging technologies are rapidly transforming business models, organizations must balance technological advancement with realistic risk assessment.





The Great Recession's Warning Signs: 2007-2009

The Great Recession, which lasted 18 months, resulted from a massive wave of residential mortgage defaults amplified by complex financial instruments. This crisis engulfed major financial institutions and required government intervention.

One enduring lesson from this period applies broadly: organizations must pay attention to early warning signals. Before the 2007-2009 crisis, careful observers noticed concerning trends:

- Unsustainable growth in certain sectors
- Relaxation of risk controls and lending standards
- Unrealistic assumptions regarding asset valuations
- Underappreciation of systemic risk within interconnected systems

Today's warning signals may appear in different forms—in highly valued technology sectors, geopolitical instability, or shifts in global trade policies.

The 2020 Pandemic's Lasting Impact

The coronavirus recession officially lasted only two months but resulted in profound, long-lasting shifts. Pandemic response measures forced many businesses to transition rapidly to remote work, while service sectors pivoted to alternative business models. These changes introduced or amplified risks across multiple domains:

- **Cybersecurity vulnerabilities** from dispersed work environments
- **Supply chain disruptions** that continue to affect operations today
- **Workforce challenges** including employee wellness concerns and labor shortages
- **Operational resilience gaps** that became evident under stress

A critical lesson from the COVID-19 experience is that organizations must prioritize—and adequately fund—comprehensive business continuity planning that accounts for prolonged, systemic disruptions.





Focus Areas for Risk Professionals

Helping your organization navigate economic volatility requires vigilance across several crucial domains. Areas to which risk professionals should pay particular attention during or leading into a downturn include:

Integrated Risk Management

Modern corporate risk management demands a holistic approach that recognizes the interconnected nature of risks. Businesses are increasingly linked with partners, vendors, and suppliers across global markets, creating complex risk networks where challenges in one area can cascade throughout the system.

Organizations should implement comprehensive risk identification and management frameworks that span:

- Operational risks
- Strategic risks
- Financial risks
- Compliance risks
- Technology risks

Loss Control

When balance sheets face pressure, every loss magnifies the strain. Effective loss control measures become essential during economic downturns. Different techniques apply to:

- **Property loss control:** Protecting physical assets against damage and deterioration
- **Casualty loss control:** Mitigating liability arising from workplace incidents and third-party losses
- **Financial loss control:** Implementing stronger financial controls and fraud prevention

During economic contractions, businesses typically experience increases in litigation as plaintiffs and law firms seek compensation paths. Proactive loss control can significantly reduce exposure during these vulnerable periods.



Business Continuity and Resilience

Resilience doesn't happen by chance. Organizations across all industries must create and maintain business continuity plans that enable recovery from operational disruptions. A crucial element in continuity planning is accounting for simultaneous or cascading disruptive events.

Adopting flexible resilience strategies rather than rigid, prescriptive plans enables organizations to adapt to a variety of scenarios:

- Severe weather and climate-related events
- Supply chain disruption
- Pandemics and public health emergencies
- Technology outages and cyberattacks
- Geopolitical instability



Risk Transfer

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Insurance Market Dynamics During Downturns

Insurance markets may respond to economic downturns in counterintuitive ways. While conventional wisdom suggests insurance premiums might decrease during economic recessions due to reduced economic activity, historical evidence reveals a more complex relationship:

1970s Stagflation Period	The 1980s Liability Crisis (1984-1987)	The Great Recession (2007-2009)
<p>This era demonstrated how economic conditions combining inflation and economic stagnation created a perfect storm for insurance markets. Commercial insurance rates experienced dramatic increases due to high inflation driving up claims costs, economic uncertainty elevating perceived risk, and higher claims frequency and severity across multiple lines of coverage.</p>	<p>Though this crisis occurred after the 1980-1982 recession, it's worth noting the lag effect between economic conditions and insurance market responses. The preceding recession contributed to the subsequent hard market conditions, with some liability insurance premiums increasing by 300% or more.</p>	<p>During this 18-month recession, commercial insurance premiums saw significant increases, particularly in the final six months of the downturn. This was driven by insurers' reassessment of risk models amid financial instability, reduced investment income forcing carriers to improve underwriting results, and rising claims costs in areas like business interruption and liability.</p>

This historical pattern suggests risk managers should anticipate potential premium increases despite economic contraction, particularly if:

1. The recession features high inflation (as in the 1970s)
2. The downturn is prolonged (as in 2007-2009)
3. Claims costs surge across key lines of coverage

Risk transfer strategies should therefore account for both the potential need for increased coverage and the possibility of higher premium costs during economic downturns.



Total Cost of Risk

Total Cost of Risk (TCOR) remains a valuable metric for all risk professionals. It encompasses:

- Insurance premiums
- Retained losses
- Loss prevention/mitigation costs
- Administrative expenses of risk management

Systematically reducing TCOR should be a perennial objective. Risk professionals who successfully lower this metric before economic downturns strengthen their organizations' financial resilience when it matters most.



LineSlip TCOR: Quickly and easily view retained losses, risk transfer, expenses, and identify trends from past years' claims and retained losses.



Steps Risk Managers Should Take

Every risk manager can position their organization to mitigate risk and reduce losses, regardless of economic conditions. During periods of economic uncertainty, the following actions become especially valuable:

Business Continuity and Resilience

Historical patterns indicate that insurance markets may behave counterintuitively during economic downturns. Risk managers should:

- **Review insurance program structures:** Evaluate deductibles, retentions, and limits to optimize for potential premium increases
- **Strengthen broker relationships:** Maintain open communication with insurance partners to anticipate market shifts
- **Explore alternative risk financing:** Investigate captives, parametric insurance, and other mechanisms that provide stability during volatile market conditions
- **Budget conservatively:** Plan for potential premium increases despite economic contraction
- **Document risk control efforts:** Compile evidence of risk mitigation activities to differentiate your organization during underwriting

Ask and Listen

Risk professionals must actively gather intelligence about changes within their organizations. Key questions to explore include:

- Is the company pursuing new business areas or markets to hedge against revenue loss in existing segments?
- What are the leadership team's primary concerns about entering a downturn?
- How might financial constraints affect risk mitigation investments?
- What operational changes are anticipated that could introduce new risk exposures?

Maintaining open communication channels with business leaders provides critical insights into evolving risk landscapes.



Collaborate Across Functions

Forming strategic partnerships within the organization is vital for effective risk management. Collaboration enables risk managers to:

- Keep communication channels open about developments that could alter the risk profile
- Educate business leaders about emerging risks and mitigation strategies
- Support organizational objectives while maintaining appropriate risk controls
- Coordinate responses to economic challenges across departments

Areas not directly within a risk manager's responsibilities—such as supply chain management, vendor contracting, and technology decisions—often harbor significant risks that require cross-functional oversight.



Question Assumptions

Operating with outdated or incorrect assumptions during economic shifts can lead to adverse outcomes ranging from unnecessary expenses to strategic failures. By systematically challenging assumptions, risk professionals enable their organizations to:

- Avoid initiatives outside established risk tolerance parameters
- Identify hidden vulnerabilities in business plans
- Ensure continuity strategies remain viable under changing conditions
- Validate that risk transfer mechanisms remain adequate

Risk managers should lead scenario planning exercises that test key business assumptions against various economic conditions.





Leverage Advanced Analytics

Modern risk management increasingly relies on sophisticated data analytics to identify patterns, predict outcomes, and quantify exposures. Leading organizations are implementing integrated tools that:

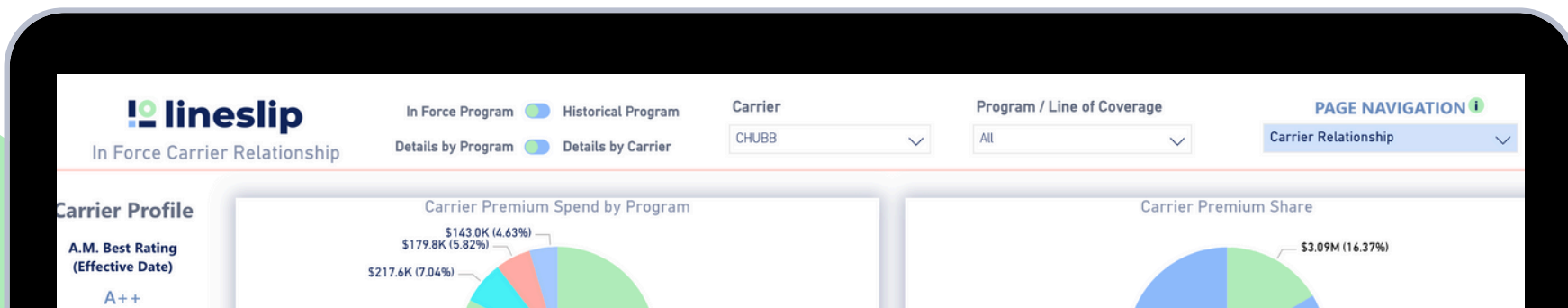
- Present holistic views of risks across the enterprise
- Capture key risk indicators to monitor how risks are trending
- Promote accountability for risk mitigation actions
- Provide real-time risk reporting to inform management decisions

During economic uncertainty, these capabilities become even more valuable, enabling risk managers to model scenarios, forecast impacts, and prioritize responses.

Risk managers should specifically develop predictive models that incorporate leading indicators of insurance market hardening. By tracking factors such as:

- Industry-wide combined ratios
- Reinsurance pricing trends
- Interest rate movements
- Catastrophe loss frequencies
- Insurer investment portfolio performance

Organizations can anticipate insurance market shifts before they impact renewal pricing, giving time to implement strategic adjustments to risk financing approaches.





Prioritize Cyber Resilience

As organizations navigate economic pressures, cyber risks frequently intensify. Economic downturns historically correlate with increased cyber threat activity, while organizations may simultaneously face budget constraints for security investments.

Risk managers should:

- Advocate for maintaining essential cybersecurity protections despite budget pressures
- Incorporate cyber risk quantification into broader risk assessments
- Prepare for systemic cyber events that could affect third-party service providers
- Ensure incident response plans remain viable under resource constraints

Build Cash Reserves and Financial Flexibility

Financial resilience provides a crucial buffer during economic turbulence. Risk managers should advocate for:

- Maintaining adequate cash reserves to weather prolonged challenges
- Securing flexible credit arrangements before they're needed
- Identifying non-critical expenditures that could be quickly reduced
- Protecting critical revenue streams through appropriate risk transfer





Key Takeaways

Economic downturns, while challenging, also present opportunities for risk managers to demonstrate their strategic value. By implementing the approaches outlined in this paper, risk professionals can help their organizations not merely survive economic turbulence but emerge stronger and more resilient.

Drawing from lessons across multiple economic cycles—from the stagflation of the 1970s to the present-day concerns about tariff-driven economic contraction—successful risk management during downturns requires both historical perspective and forward-looking capabilities.

The shifting relationship between economic conditions and insurance market dynamics underscores the need for sophisticated, proactive risk management. Organizations that anticipate not just the direct impacts of economic contraction but also the potential lag effects on insurance availability and pricing will be better positioned to navigate challenging periods.

The most successful risk managers combine:

- Forward-looking analytics that identify emerging threats
- Strategic risk transfer mechanisms that protect balance sheets
- Operational resilience capabilities that maintain business continuity
- Cross-functional collaboration that aligns risk management with business objectives
- Historical perspective that informs expectations about insurance market responses
- Alternative risk financing strategies that provide stability during market volatility

By embracing these practices, risk managers position themselves as essential strategic partners in navigating the economic uncertainties that lie ahead in 2025 and beyond.

If you're ready to explore how technology can help you better assess your program, identify potential gaps, plan for potential scenarios and ensure business continuity, let's talk. Schedule a quick demo to see how LineSlip can help you make better, more strategic risk decisions.



Check out [LineSlip Risk Intelligence](#) today. [Schedule a demo](#) to see it in action.

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