

***Insurance Times:*** Businesses Urged To Keep Disaster Plans Simple  
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AN AGENT, REGULATOR, SAFETY EXPERT AND ASSOCIATION LEADER OFFER ADVICE ON HOW  
BUSINESSES CAN MINIMIZE DISASTER LOSSES

by Mark Hollmer  
InsuranceTimes

Garbage cans and a checklist form the two basic elements of Nancy James' office disaster evacuation plan. First, James keeps a list of critical files, which comes in handy in case they ever need to evacuate the building. If that happens, James and her employees will empty their wastebaskets in the middle of the floor, fill them with critical files from the list and then exit the building.  
"And that's that," said James, owner of N.P. James Insurance in Concord, Mass.  
James' plan serves as an example of what experts say every business needs and many lack – a disaster recovery plan.

List Creation

A disaster recovery plan serves as one part risk management and one part list creation. Insurance coverage can play a crucial third element of the plan to protect any part of your business with a risk of damage that can't be reduced any other way.

Disaster recovery planning helps a business carry on somehow or somewhere else should disaster hit. Elements of the plan can incorporate everything from backup files to pre-arranged substitute office space.

The Sept. 11 terrorist attacks of the World Trade Center, which disabled or shut down hundreds of businesses, reinforced the realization that a disaster – natural or manmade – can cause serious problems that can either disrupt or destroy a business outright.

And though some may see themselves helpless to prevent damage or problems for businesses in the face of disasters, experts argue otherwise.

"Every business owner is exposed to disasters whether they're natural or manmade, but the level of risk is subject not just to chance but also to choice," said Diana McClure, a New England consultant for the Institute for Business & Home Safety.

"We believe that effective disaster preparation -- that means planning ahead, including planning for recovery – is possible, and that it can fit into a company's budget."

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Many small businesses, unlike their larger counterparts, fall short in their disaster planning, McClure said.

"A lot of larger businesses do disaster planning because they are either required to because of (regulation – i.e. financial services) and also the larger businesses very likely can afford to have a person that's responsible" for planning, she said.

Small businesses, she said, don't typically create disaster recovery planning for themselves because "they're too busy just running the daily operations or keeping their business going."

McClure said businesses should look at disaster recovery planning as "businesses continuity planning" that serves as a natural part of corporate strategic goals.

McClure works with the IBHS Commercial lines committee, which has produced the Open for Business disaster planning tool kit for small businesses.

The kit offers tips beyond insurance coverage to help with disaster planning, like working with municipal disaster managers, town officials, suppliers and others to promote loss prevention or ensure financial survival in the wake of disasters like a flood, fire or widespread power loss.

"Insurance covers certain things but to actually make a difference the companies really need to communicate with a much broader segment of the community than just themselves," McClure said.

McClure is working with Rhode Island businesses through local chambers of commerce and the Independent Insurance Agents of Rhode Island to help promote disaster planning.

Agents in particular, she said, can help make a difference in business recovery after disaster strikes.

“Agents can really be front line advocates and promoters of preparedness and loss reduction and protection of life and property, partly because agents are dealing with policyholders all the time,” she said.

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Richard Padula, executive vice president of GenCorp subsidiary Glover-Padula Insurance, agrees.

Padula said he started working with IBHS in Rhode Island in August, after a chamber of commerce meeting. In the wake of Sept. 11, he said, he and other agents have increased their interest in disaster planning efforts and communicated their concerns to clients.

While awareness of the issue is high, Padula said he’s been trying to get the disaster-planning word out to customers as they renew or purchase new policies.

“I have been trying to let them know insurance coverages are available to them that could help them get back in business sooner and help with their financial loss,” he said.

“A lot of people in Rhode Island say these types of things don’t happen to us, but some of the businesses here have suffered loss of businesses as a result of’ the Sept. 11 terrorist attacks, he said.

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Linda Ruthardt is the longtime Massachusetts Insurance Commissioner, but she’s also a veteran risk manager with 20 years experience working for the Girl Scouts, the Barry Wright Group and others.

Ruthardt said companies often make disaster recovery planning “much harder than it needs to be because they decide they have to do it hazard by hazard.”

“You can do it that way,” she said, “but you’re going to have a very thick book.”

Instead, risk management and disaster recovery planning should amount to a simple task, she said: Playing ‘what if.’

Translated, businesses are better off working to “identify the necessary components to operate” as a business, Ruthardt said, “and then have plans if those components do not exist or are interrupted.”

“Often, a lot of the things you can discount,” she said, “other things you say, ‘wow, that one matters.’ And when you get to ones where that one matters, then you do the risk management process.”

Business owners should then take higher risk practices, evaluate the risk involved and shift those practices toward lower risk behavior. Next, they need to form contingency plans to address disasters that could evolve from the risks, Ruthardt said.

Then and only then, Ruthardt said, should businesses buy insurance to cover potential loss.

Insurance in disaster planning is a last option, she said, meaning companies have reached a point of risk management where “there is nothing you can do that will help or make enough sense or is cost effective” to sufficiently prevent the risk.

Paying insurance premium for flood or fire or other coverage amounts to a cheaper, known loss of money, she said, trading away from an unknown loss potential fueled by uncertainties created by tornado or terrorist or other kinds of risks.

What’s more, risk management/disaster planning can lead to cheaper insurance rates because many companies believe you’re a better risk with a plan in place, Ruthardt said

And the action has other benefits, too, she said.

“Anything you do that also helps prevent disaster where it can be (prevented) not only makes rates lower, it also makes your life better,” she said, because you’re simply prepared.

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Padula said business must ask themselves a number of questions when putting together disaster plans, like who else can sign checks, open office doors, sign payroll checks.

Businesses also need to make sure they have perpetuation plans in place if owners are out of the country and disaster strikes, he said.

In addition, Padula said, companies should make sure they have enough business interruption insurance to pay expenses during disaster recovery but they also need a plan in place that every employee is aware of, he said.

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If nothing else, companies should have some sort of backup system in place to allow recovery after disaster hits, said

Madelyn Flannagan, vice president of education and research for the Independent Insurance Agents of America.

The association offers agents Project MAP (Make A Plan) and Best Practices of Disaster Planning Recovery, a handbook and CD, respectively, that give ideas to help agents guide homeowners, small businesses and their own businesses on how to plan for disasters and recovery.

Among her suggestions: keep backup files in a safe location either in paper copy or on a computer disc.

“This will get you up and running quicker than anything,” she said.

Flannagan also recommended that companies communicate their loss to a carrier, supplier or vendor within 24 hours, she said, to allow for an immediate recovery effort to begin.

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Concord, Mass. agent James offers a number of practical suggestions companies can follow to plan for disaster recovery.

For example, some businesses may rely on parts that take three months to order. Businesses can order extra inventory to be kept off site, find a secondary supplier or insure for the lost income over three months and hope for the best.

Company officials would also be smart to hold drills to practice their disaster plans, she said.

“Do a live drill and come back in the building and itemize what you left behind,” she said. That list, she said, can form a basis of a disaster plan addressing how to replace or preserve items you need to run your company.

Technology can also be a friend in disaster recovery planning, James said.

For example, phone lines can be rerouted and employees can theoretically reach computer networks from other locations.

That way, she said, a company can continue operations even if a disaster has hit.

Customers may never be the wiser, she said.

“Your customers will never know you had a fire if your phones are up ... (and) the records are on computer,” she said.

“Think about how virtual your office is in order to get a really good grip on disaster planning.”

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In the end, the more employees from a company or office are involved in disaster planning the better, Ruthardt said.

“If you can get your employees involved, it makes your company so much stronger because everyone is staying awake,” she said.

A case in point, Ruthardt said, is when the Division of Insurance first moved into its South Station headquarters.

Ruthardt made sure everyone knew where to meet in case of a fire.

And then there was one, and everyone evacuated to the street, right during a public hearing.

Because the staff was prepared, Ruthardt said, they had grabbed their files and “finished their hearings on the pavement because they had their act together.

DOI workers even remembered to close a fire safety door and evacuate employees with mobility problems, Ruthardt said, adding the quick action simply came from being prepared.

“It wasn’t that we had 35-inch (safety) manuals that we thought about.”