

# Insuring Your Business Against A Catastrophe

A violent windstorm blows the roof off your building.

An explosion in your building knocks out the electricity for five weeks.

An employee drops a lighted cigarette into the trash can before he leaves at night.

Tornadoes, riots, fires, sabotage ...

Could your business survive a major emergency?

Businesses that recover quickly are those that have planned in advance. They know what they need to do as soon as a disaster strikes and, most importantly, they have purchased the right insurance to finance their recovery.

It's also important to develop and maintain an adequate recovery plan to protect yourself against legal liability for the losses that might result from a disaster.

## Here's a 4-point catastrophe recovery strategy

### § **Minimize the risk of damage in advance of an emergency.**

Reduce the chance of fire: Train employees in fire safety, particularly those responsible for storage areas, indoor and outdoor housekeeping and maintenance, and operations where open flames or flammable substances are used; ban smoking or limit it to designated areas; and modernize the electrical system -- a large percentage of nonresidential fires are caused by faulty wiring.

Prevent a small fire from becoming a big one. Make sure you have the appropriate fire extinguishers on hand and in working order. Locate your business in a fire-resistive building -- a structure made of non-combustible materials with fire walls that create barriers to the spread of fire -- and in a building with a fire alarm system connected to the local fire department.

Limit storm-related damage: There's no way to lower the risk of a natural disaster, like a violent windstorm or earthquake, but buildings can be strengthened to reduce the physical damage they cause. Make sure your building conforms to damage-resistance building codes.

### § **Develop a disaster recovery plan.**

Keep duplicate records. If your accounts receivable or other business records are damaged, revenue will be lost and recovery will be slower. Reconstruction of data is difficult, sometimes impossible. To avoid such problems, back up computerized data files monthly and store them off the premises. Keep copies of important records and documents in a bank safe deposit box and make sure they're up-to-date. Compile lists of equipment you own or lease, by type, model and serial number. Under several federal laws, if you fail to maintain accurate business records and to safeguard those records, you may be held liable.

Identify critical business activities and the resources needed to support them: Many businesses can't afford to close down while the premises are being repaired because the people who once depended on their services or products will quickly find a replacement.

Decide what you must do to retain market share. If you need to continue operations, determine what you require to run the business at another location. Which activities would be continued and which employees would be needed to carry out the work? What equipment, machinery, tools and supplies would be required? Are your employees highly skilled? Could you easily rehire workers if you were forced to lay off a part of your workforce?

Find alternative facilities, equipment and supplies, and locate qualified contractors: Plan for the worst possible scenario and do your research before a disaster strikes.

If you're dependent on computers, contact your computer hardware vendor. The vendor may know of a service that provides equipment in the event of a disaster. Some will allow you to test out the emergency plan. If you need other specialized equipment or a special environment, consider a reciprocity agreement -- making arrangements to share facilities with someone in the same business in a different community. Sometimes two businesses can make arrangements to help each other get back into operation in the event of a loss by lending space and equipment or selling part of their merchandise. You should also look into the possibility of leasing equipment and machinery or buying used items.

If your business can be operated from almost any empty office or store, you may not need to make advance arrangements for alternative facilities.

Make lists of firms that can supply equipment, tools and raw materials, and, if you own a store, the merchandise you'll need. The more specialized the item or service, the more important it is to locate a dependable source in advance.

Contractors are in great demand after a widespread disaster. Even if the damage is on a small scale, you'll get back into business faster if you've identified the kinds of services you'll need to renovate your damaged premises and the reliable firms that can provide these services. Don't forget that the site has to be cleaned up -- water and debris removed, for example -- before renovations can begin. Try to get an advance commitment from at least one contractor to respond to your needs.

Set up an emergency response plan and train employees how to carry it out: The first steps that must be taken after a disaster are emergency measures. Knowing what to do when a disaster strikes reduces panic reactions.

Make sure employees know whom to notify about the disaster and what measures to take to preserve life and limit property losses. These should include whom to contact for medical assistance, how to call the fire department and evacuate the building and any special precautions that should be taken before leaving the premises. Different types of disasters may call for different kinds of measures.

Consider the things you may need initially during the emergency. Do you need a back-up source of power? If you're dependent on computers, find out whether a generator can be used to run your computer system. Do you have a back-up communications system? When the electric power is knocked out, telephone lines may still function but electronic phones will not. If you're likely to have cash-flow problems, check into the availability of loans and extensions of credit.

Keep on hand a first-aid kit, a supply of flashlights, batteries, candles and candleholders and matches. Are you likely to need food and water? Businesses in hurricane-prone areas of the country should plan to get cash from the bank if there's a storm warning in case damage to local banks shuts down automatic teller machines. Decide how to secure the premises after the disaster and the building supplies you might need to cover holes in the roof and windows to prevent rain damage.

Write out each step of the plan and assign responsibilities to employees in clear and simple language. If you employ workers whose native language is not English, assign someone to make sure these workers understand what they're required to do. Distribute copies of the plan to each employee.

Practice the procedures set out in the emergency response plan with regular, scheduled drills.

Compile a list of important phone numbers and addresses: Make sure you can get in touch with key people after the disaster. The list should include local and state emergency management agencies (they may also provide help in planning for natural disasters), major clients, contractors, suppliers, realtors, financial institutions, insurance agents and insurance company claim representatives. The list should also include your own employees and company officials. Keep copies off the premises -- at home and at a more remote location in case the disaster is widespread.

Decide on a communications strategy to prevent loss of clients/customers: Whether you decide to wait out the reconstruction period or relocate to temporary premises, current clients and those who use your services or products regularly should know how to get in touch with you, and when and where you expect to reopen for business. Otherwise many will assume that you'll be out of action for a long time.

Among the possibilities to explore, depending on the circumstances, are posting notices outside your premises or elsewhere, contacting clients by phone or by mail, placing a notice in local newspapers and asking your friends and acquaintances in the local business community to help you disseminate the information.

Consider also the role the media may play in a crisis. If your company is likely to be interviewed, have a written plan for dealing with reporters. To improve your media skills in a crisis, watch talk shows and news programs to see how other people handle such situations.

§ **Review your insurance program. Make sure you have sufficient coverage to pay for the indirect costs of the disaster -- the disruption to your business -- as well as the cost of repair or rebuilding.**

For a business, the costs of a disaster can extend beyond the physical damage to the premises, equipment, furniture and other business property. There's the potential loss of income while the premises are unusable. In addition, if you can't afford to close up shop during the repair period, there's the extra expense of keeping the business going at a temporary location. Your disaster recovery strategy should include a detailed review of your insurance policies to ensure there are no gaps in coverage.

Property Insurance: Take a look at your property insurance policy. Is your property -- the building and its contents -- insured for current replacement prices? Don't forget to insure any improvements you've made to the property, such as new storage cabinets and carpets. There may be limitations on what the policy will pay for certain items. If you need higher amounts, discuss this with your agent.

Typical property insurance policies exclude coverage for flood damage. If you're located in a flood zone (check with your local municipality or bank about this), you'll probably have to buy a separate policy from the National Flood Insurance Program.

If your building is damaged beyond repair, you may have to tear it down. In addition, the federal government requires buildings in flood zones that don't conform to flood plain building codes to be torn down if the damage exceeds 50 percent of their market value. Consider purchasing ordinance or law coverage to help pay for the extra costs of tearing down the structure and rebuilding it.

Business Interruption Insurance: After every disaster, some businesses are forced to close their doors because they didn't plan for the costs of a disruption to their operations. Business

interruption insurance compensates for income lost when you have to vacate the premises due to disaster-related damage (you must be covered for the physical damage that caused the disruption).

Like other kinds of insurance, the price is related to the risk of a fire or other disaster damaging the policyholder's premises. For the typical restaurant, for example, the annual premium would be about \$750. For other types of businesses, it could be less.

Business interruption insurance covers the profits a business would have earned, based on its own financial records, had the disaster not occurred. It also pays for the operating expenses that continue, such as payroll, even though business activities have come to a temporary halt. Make sure the policy limits are sufficient to cover your company for more than a few days. After a major disaster, it can take much longer than many people anticipate to get a business back on track.

Extra Expense Insurance: For some businesses, the cost of relocating can be greater than the revenue loss. Extra expense insurance reimburses you for what you spend, over and above your normal operating expenses, to avoid having to shut down during the restoration period. As with business interruption insurance, the price of extra expense insurance varies with the industry and the likelihood of disaster-related damage.

§ **Review on a regular basis all the components of your disaster recovery strategy -- fire safety and emergency preparedness measures, business continuation and building repair plans, and your insurance program. Communicate changes to key employees.**

If you need help in identifying hazards and assessing risk or more information on how to develop a disaster recovery plan, call your insurance company and ask for loss control services.

Source: Insurance Information Institute

<http://www.iii.org/media/publications/brochures/bizcatastrophe/>