

BUSINESS CONTINUITY PLANNING

MUST-DOS FOR SMALL TO MEDIUM-SIZED BUSINESSES

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Overview

Following the landfall of Hurricane Sandy in 2012, many New Jersey businesses experienced a wide variety of business interruption events (BIE). These BIEs ranged from the temporary loss of power to rationing of gasoline; from transportation and supply chain challenges to physical damage to inventory and structures. In addition to the need to recover from the BIE, many businesses expressed a desire to learn from the events of the days, weeks, and months that followed Sandy and apply those lessons to recover more efficiently from the next BIE. Based on federal, state and local public and private sector roundtable meetings, the desire for a business risk management toolkit for small and medium sized businesses was widely expressed. This toolkit was developed in response to those requests, and summarizes the business continuity planning, disaster recovery, hazard mitigation and risk management information resources available from the Federal Emergency Management Agency, Small Business Administration, Insurance Information Institute, Institute for Home and Business Safety, and many other entities. It is designed as either a stand-alone document or a companion to seven industry cluster-specific summaries also developed as components of the toolkit.

Business Continuity Planning

Business continuity planning refers to the process of creating and maintaining a plan to resume a business' critical processes after a BIE. The resultant plan is called a business continuity plan (BCP). Having a plan in place before a BIE, and practicing the plan, will enable a business to resume critical processes much more swiftly, efficiently and cost-effectively than an improvised response. Failure to plan for a major disaster frequently results

Business Continuity Planning continued

in business failures; however the chances of surviving a disaster double when a company has a BCP in place. Approximately 40 percent of businesses without a BCP fail because they have insufficient funds to cover the expense of extended downtime. Another 25 percent fail within two years as a result

A reliable BCP needs be developed using a systematic, orderly approach. The below steps, when followed and documented, will result in a simple BCP.

1. What are our most critical processes? These are generally processes that are customer-facing, employee-facing or facilitate cash-flow.
2. Who performs these processes? Create an employee call tree.
3. What do they need to perform these processes? Create a list of critical tools, supplies, data sources, etc.
4. Where can the people who perform our critical processes work if our business-as-usual facility is unavailable? Have employees work from home, have in place an agreement with a similar business to reciprocally provide emergency work space, have a list of local realtors who have appropriate space to lease.
5. Practice the plan. Have all involved walk through the steps of the plan in a tabletop exercise. Identify gaps in the plan and fix them. Document fixes. Do this annually and this basic plan will be kept up-to-date and will improve over time.

of lost revenue and cash flow problems.¹ It is not uncommon for the owners and managers of small- and medium- sized business to say that they do not have the time or resources to create a BCP. This is understandable, but short-sighted. We know there will be BIEs in the future: some as catastrophic as Hurricane Sandy, some as routine as snow storms, or rail transportation interruptions. All of these BIEs prevent staff from coming to work, supplies from being delivered, orders from being placed, customers from purchasing your goods or services. A good, straightforward BCP can make every aspect of any BIE, large or small, easier to respond to. A useful comparison for the benefits of a BCP is insurance: it is true that insurance premiums are pure overhead, but if you choose your policy wisely and keep up the premium payments, when a BIE strikes, the insurance, as with a BCP, can help save your business. More information on Business Continuity may be found in the following links:

- [FEMA Preparedness for Businesses](#)
- [SBA Disaster Planning](#)
- [Institute for Business and Home Safety](#)
- [FEMA: Ready.gov](#)
- [Red Cross Ready Rating](#)

¹ IBHS: <http://www.disastersafety.org/>

Hazard Mitigation

Hazard Mitigation is the assessment of the hazards that are most likely to strike a particular business type or location, and the creation of a plan to lessen the effect of those hazards before they strike.² The most common example of hazard mitigation is a fire alarm: the vast majority of all construction is vulnerable to fire, and advance warning of a fire hugely diminishes the risk of loss of life or property. Each business should plan for the hazards they are most likely to face: a florist should not

Hazard mitigation tools and resources are available from [FEMA](#). Information specific to the coastal flood risk in New Jersey and New York can be found [here](#).

undertake activities to mitigate the hazard of a fuel spill and a business in Oklahoma should not undertake activities to mitigate the hazard of a hurricane. Hazard mitigation is distinct from business continuity planning; hazard mitigation activities are undertaken before a BIE to reduce its effect on the business, while BCPs are activated after a BIE to help the business recover from it. Hazard mitigation, being a proactive technique, can result in significant savings: each \$1 invested in mitigation saves at least \$4 in long term BIE repairs and recovery³.

Insurance

When purchasing business insurance it is important to obtain the right amount, and the right product for the risks faced by each business. Ensuring that a company is neither

over insured nor underinsured is critical. Coverage should be chosen with input from management, legal counsel, and the insurance provider.⁴

Business Interruption Insurance

Business interruption insurance compensates for the business income lost following a disruption. This form of insurance is also commonly overlooked by businesses. This oversight is the result of a combination of factors, but most often is because business

owners expect their property insurance will cover ALL losses, when almost all only cover physical damage losses. Business interruption insurance coverage typically does not activate for a specified time period after an event occurs. The time period will be listed in the policy and

² <http://www.fema.gov/what-mitigation/federal-insurance-mitigation-administration>

³ <http://www.gpo.gov/fdsys/pkg/PLAW-111publ351/html/PLAW-111publ351.htm>

⁴ Insurance Information Institute, www.iii.org

Business Interruption Insurance continued

is generally not retroactive to the first day of disruption.⁵ It should also be noted that business interruption insurance will generally not be covered by perils that are not also covered under the general business policy. For example if wind is not a covered peril, any business interruption caused by wind will not be covered. Most often business interruption insurance is triggered when physical damage

occurs that ceases operations, when physical damage to other property blocks access to the business, or government action restricts access to the business. Check with the insurance provider for ways to get specific perils covered by insurance. Even if the business does purchase business interruption coverage, it is important to have access to sufficient funds to ensure cash flow after the BIE.

Insurance Package Policies

New Jersey businesses can purchase bundled coverage, like the Business Owner Policy (BOP), or the Commercial Package Policy (CPP). Both the BOP and CPP combine Liability, Property, and Business Interruption Insurance. Some contain additional coverage designed specifically for individual companies. The BOP usually targets small and medium-sized businesses. The CPP has more flexibility to tailor insurance coverage to the specific needs of a mid-sized to large business or a business that may encounter greater hazards.

Commercial Property Insurance

Commercial property insurance will provide coverage for any building owned or leased, including improvements and permanent fixtures and equipment, business property on premises and personal property of others in the 'care, custody or control' of the company. Companies may also need to add coverage for goods in transit and buildings under construction.

National Flood Insurance Program

The National Flood Insurance Program (NFIP)⁶ was created by Congress in response to increasing costs of floods, primarily due to disasters. At the time NFIP was enacted, flood insurance was not readily available or affordable through the private insurance market. NFIP was recently changed. On July 6, 2012, President Obama signed the Biggert-Waters

Flood Insurance Reform Act of 2012⁷ extending the National Flood Insurance Program through September 30, 2017. The act instituted many changes, and a thorough review is recommended for any business considering flood insurance. The program and changes can be found via this link: [National Flood Insurance Program and Reforms](#).

⁵ http://www.insureuonline.org/smallbusiness/topic_bus_prop_liability.htm#tips_prop

⁶ <http://www.fema.gov/national-flood-insurance-program>

⁷ <http://www.fema.gov/flood-insurance-reform-act-2012>

National Flood Insurance Program continued

Examples of the changes in the new Act include:

- Subsidies on properties with repeated losses, which many properties suffer, will be phased out
- It will be easier to apply for the FEMA buyout program
- The legislation caps annual premium increases at 20 percent, a 10-percent raise over the previous cap
- Coverage is now available for multifamily properties, which were excluded under the old program⁸

Two additional links to information on NFIP are:

- [National Flood Insurance Program](#)
- [Building Higher](#)

General Questions to Insurance Coverage for Businesses

The following are generally applicable questions that should be asked in an annual insurance policy review:

1. Which perils are or are not covered under the current policy?
2. What insurance regulation changes are coming in the next year?
3. What increases in coverage should be considered?
4. What is the provider's biggest concern with current insurance coverage?
5. Are there any additional options?
6. Are there any incentives or benefits available to businesses that have undertaken mitigation or continuity activities?

⁸ <http://www.insurancejournal.com/news/national/2012/07/31/257675.htm>