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Planning for a future disaster can provide immediate benefits today.

Studies show that half of the businesses hit by a significant disaster never fully recover from it. And while the initial reaction of many managers is to see insurance as the total answer, it needs to be seen as just part of an overall plan designed to protect the operating capability of your company. Contemplating how you would “begin again” helps set the right perspective. Our experience has shown that the most effective way any complex organization can protect itself against loss is through a comprehensive risk management program. And a critical component of this program should be the development of a Disaster Plan – a clearly thought through, well written plan that outlines how your corporation would continue if it suffered a catastrophic loss such as fire, wind-storm or other major loss.

A disaster plan at its least is a form of valuable discipline – it forces you to contemplate the “unthinkable.” At its best, it becomes a critical part of your overall corporate risk management plan, plus it enables you to identify “holes” in coverage that need to be quantified and managed.

How to develop a Disaster Plan.

In developing this part of your risk management plan, we recommend that it have two components:

A. Pre-loss Planning and Evaluation

Asset Evaluation. Not only is this the cornerstone of any Disaster Plan, it is also a critical part of your overall Risk Management effort. For some assets, determining current value can be done from invoices and current financial records. The real trick is often defining replacement value, particularly for your significant assets such as real property and/or business personal property. Here you may wish to consider the assistance of a professional insurance appraiser (as opposed to a real estate appraiser) to help identify a realistic replacement cost in light of current and anticipated market conditions.

Replacement Planning. Planning for business continuation and the replacement of critical assets such as buildings or computer systems presents some unique consid-

erations. Replacing existing buildings may be more difficult due to new zoning requirements or building codes that will affect not only cost, but your ability to replace a structure in a reasonable time frame with similar size/capabilities. On the other hand, certain assets such as computers may cost less to replace with equal or enhanced capability, given the tremendous change in technology. These are just a few of the unique considerations that point to the necessity of having a well thought out replacement plan.

Income Protection. Income protection planning is one of the most important parts of this process, and one that is often not evaluated properly. Your cash stream is critical to protecting vital “non-insurable” assets such as your employees, and having funds available to help protect your market position, etc. Make sure you adequately assess your needs.

While income protection insurance can be purchased in different formats, we generally recommend you consider blanket coverage for a set “face” amount. This removes confusing co-insurance consideration, plus provides coverage for “ordinary payroll” expenses to help more effectively retain your employees during reconstruction.

B) Post-loss Recovery Plan

The second part of any effective Disaster Plan is a recovery plan, where you have outlined and prepared for the steps you believe it will take to put your business back on its feet as quickly as possible.

Following a loss, companies traditionally go through five fundamental stages:

Starting over (legal issues, planning for cash flow needs, temporary facilities, retaining key employees, satisfying creditors, demolition of damaged facilities, etc.);

Rebuilding (reconstruction, replacing equipment, rebuilding inventory, spares, building permits, hiring contractors, etc.);

Improving buildings to meet new codes;

Work Recovery (getting work levels back to pre-loss levels, rehiring employees if needed, rebuilding work-in-progress);

Revenue Recovery – recapturing the market (restoring sales to the level they would have been if no loss had occurred).

Determining how long it would take your company to move through these five phases is a critical part of your Disaster Plan, and your overall Risk Management plan. Having a well thought out plan can reduce both the recovery time as well as the insurance dollars needed to finance that time frame.

Taking the first steps...

Obviously, the first step in disaster planning is avoiding the potential of being “under insured” in the event of a serious loss. The second and more critical step is mapping out an approach that will ultimately give the control and confidence that you’ve “planned for the unplanned.” This is probably the single most consistent area where we feel our clients need to plan and prepare more. While it may seem uncomfortable to contemplate the “unthinkable,” planning for the perpetuation of your business in the event of a serious loss is a critical management consideration.

New Services...

In response to the growing complexity of our clients organizations and their risk management needs, we have recently begun providing a range of risk management consulting services, separate from the insurance programs placed, to help our clients deal with this growing need. The development of comprehensive risk management plans, including a disaster plan, are examples of the management services we are now pleased to offer. To us, this is a critical part of making sure our “Professional Client Care” program remains focused and responsive to your needs.

As always, I hope you will feel free to call and discuss any of the issues presented here with us at any time.