

# Risktopics

## Business Continuity Planning

"Insurance will cover everything, right?"  
Unfortunately, it will not

### The Need for planning

Crises do happen. Every year in North America, over 4000 companies - that is more than 11 per day - close their doors forever because of an event interrupting the flow of operations and for which management is unprepared to cope. It is estimated that 43% of all businesses struck by a catastrophe never reopen. Any organization in business for a period of time will experience some type of an emergency, from power outage or computer theft to fire or flood.

"Insurance will cover everything, right?". Unfortunately, it will not. Even with the best insurance coverage, there are hidden costs such as loss of customers and loss of reputation. Less obvious costs may include such things as higher cost of borrowing and lower employee morale.

While crises may not always be preventable, their impact can be lessened through the implementation of a business continuity plan. Business continuity planning involves the advance planning and preparation necessary in order to effectively respond to an unexpected event which could have a significantly adverse effect on your

organization. Business continuity planning attempts to avoid surprises; it permits more rational and more effective decisions to be made in advance, in a less hurried and stressful environment. A well-designed plan will reduce the sense of confusion and allow you to resume operations sooner, which often means survival in today's competitive environment.

The following are guidelines that can help you in the development of a business continuity plan. Note that total commitment from senior management must be obtained from the start, otherwise resources necessary to complete the plan may not be available.

### Preparing the plan

#### A. SET UP A SURVIVAL TEAM

A team leader should be appointed. His or her responsibilities and authority should be outlined.

The team leader should be someone with a good knowledge of the organization and operations, and excellent communication skills.

Team members should be selected from various departments so that adequate and sufficient information can be obtained, and because more than one department may be affected by a crisis. Key departments include finance, production, engineering, maintenance, quality assurance,

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## Risk Services

Where standard solutions are the exception.



security/safety, marketing/sales, legal affairs and human resources.

#### B. IDENTIFY AND ASSESS HAZARDS

The Survival Team should establish which buildings, equipment, processes, functions and/or documents are critical to the organization. The Team should then determine what types of events constitute a threat to these elements, as well as the potential consequences for the organization.

Events can be divided into three (3) groups of perils: natural, man-made and economic. A list of such potential perils is attached.

Loss scenarios can now be developed. Each scenario should provide details on the possible event, the most likely consequences and the overall impact on the organization.

For each scenario, one or more solutions for controlling the impact should be developed. For example:

Event: Fire destroys the finished products warehouse.

Consequence: Loss of the warehouse building and its contents. Smoke and water damage to machinery and stock in the manufacturing area.

Overall impact: Plant shut-down for 4 weeks. Debris removal expenses. Reconstruction of warehouse building. Replacement of electronic panels on three machines (due to corrosion from smoke and humidity). Loss of two customers to competitors. Claims from neighbours due to soot damage to their properties. Negative media coverage.

Solutions: Install automatic sprinklers. Install fire doors between plant and warehouse. Sub-divide warehouse into 2 fire areas. Store plans and specifications in a

safe location. Keep a list of recovery and salvage contractors. Designate and train an employee for media relations.

The Zurich Hazard Analysis method can be used for developing scenarios. The ZHA has been successfully used worldwide over the years for many different applications, from automobile to pharmaceutical products manufacturing. It is a systematic approach to hazard identification, loss prevention and loss reduction, and lends itself to be an important tool in total risk management. The ZHA is divided into 3 main parts: the hazard catalog, the risk profile and the risk reduction catalog. The event, the consequences and the overall impact can be described in the hazard catalog. The risk profile is a graphic form where each scenario is assigned a rating in terms of probability and severity. It allows you to determine which events will have the most negative impacts and need to be addressed first. Solutions can be recorded in the risk reduction catalog.

#### Implementing the Plan

The plan can take the form of a written document. Several copies of the paper document should be kept in several, secure locations. The plan could also be an electronic document. Several software packages are available from specialized consulting firms. External sources can prove to be very valuable, but they cannot prepare the entire plan for you. This process must be internally driven.

In the case of an electronic document, printed, up-to-date copies should also be kept in several, secure locations. During an emergency, proper EDP equipment may not be readily available.

A thorough business continuity plan would include:

The plan can take the form of either a written or electronic document



- Policy Statement
- Goal And Scope
- Instructions On How To Use The Plan
- Potential Loss Scenarios
- Actions To Be Taken
- List Of Names And Duties
- Flowcharts Defining Responsibilities
- Details on Post-Disaster Resources
- Buildings/Equipment/Systems Specifications and Plans
- Inventories - By Department
- Endorsement by Senior Management
- Testing
- Commitment from all departments
- Goal and scope proportionate to the exposure
- Proper assessment of potential events
- Adequate updating frequency
- Carefully thought out solutions

#### **Software**

A wide selection of software is available to assist you in creating and implementing a business continuity plan. The **CrisisTool** is available to Zurich policyholders free of charge. The **CrisisTool** is suitable for small and medium size businesses.

For more information on Business Continuity Planning or for assistance during the development of your plan, please contact your local Zurich Canada Risk Services Representative or send an Email to the address: [riskservices@zurich.com](mailto:riskservices@zurich.com)

The plan should be updated regularly to adapt to changing conditions

#### **Updating the Plan**

The plan should be updated regularly to adapt to changing conditions. You should decide on the proper frequency of review of the plan. It should be possible to use different update frequencies for different parts of the plan.

#### **Testing the Plan**

An untested business continuity plan is likely to fail when needed for real. Running a simulation is essential as it will reveal deficiencies, evaluate the adequacy of proposed actions and enhance communication levels.

### **Keys to Successful Business Continuity Planning**

#### **LIST OF POTENTIAL PERILS**

##### A. NATURAL

Flood	Hail
Water Damage	Earthquake
Tornado	Drought
Structural Collapse	Windstorm
Erosion	Subsidence
Extreme Cold Weather	Blizzard
Lightning	Landslide

Depending on your operations, the following perils may also pose a serious threat:

Corrosion	Vermin
Fungi	Rust
Weeds	Humidity
Mildew	Static Electricity

**B. ECONOMIC**

Strikes	Embargoes
Inflation	War
Recession	Lawsuits
Changes in Consumer Taste	
Loss of Key Suppliers	
Loss of Key Customers	
Raw Material Shortage	
Loss of Key Employees	
Technological Advances	
Price Fluctuations	
Obsolescence	
Change in Regulations	
Expropriation	
Currency Fluctuations	
Interest Rates Fluctuations	

**C. MAN-MADE**

Arson	Human Error
Defective Product	Fire
Contamination	Product Tamper
Explosion	Theft
Libel/Slander	Smoke
Fraud	Restricted Access
Dust	Forgery
Car/Truck Accident	Gas Leak
Embezzlement	Vehicle Impact
Power Outage	Hold-up
Loss of Cargo	
Electrical Overload	Derailment
Loss of Valuable Papers	Machinery Sabotage
Breakdown	
Negligence	Vandalism
Telephone breakdown	Leak
Unsafe Behaviour	Extortion
Equipment Failure	Pollution
Bodily Injury/Death	Kidnapping
Industrial Espionage	Spill
Bomb Threats	Riot
Loss of Computer Data	Terrorism

Potential perils can be Natural, Economic or Man-made

**CHECK LIST**

Have you missed anything? The Business Continuity Plan should be reviewed to make sure every critical aspect of the organization has been properly covered. One or more "NO" in the following check list means "back to the drawing board".

	YES	NO
<b>A. GENERAL</b>		
Plan updated on a regular basis (at least semi-annually)	<input type="checkbox"/>	<input type="checkbox"/>
Plan communicated to all employees	<input type="checkbox"/>	<input type="checkbox"/>
Several printed copies of the plan are maintained in different locations, including off-site	<input type="checkbox"/>	<input type="checkbox"/>
<b>B. BUILDINGS</b>		
Up-to-date building plans, showing water and gas mains, electrical cables	<input type="checkbox"/>	<input type="checkbox"/>
Temporary facilities have been pre-arranged	<input type="checkbox"/>	<input type="checkbox"/>
<b>C. EQUIPMENT</b>		
Details of equipment specification, model numbers and ratings	<input type="checkbox"/>	<input type="checkbox"/>
Critical equipment backed up or available within hours	<input type="checkbox"/>	<input type="checkbox"/>
Spare parts on hand	<input type="checkbox"/>	<input type="checkbox"/>
<b>D. COMPUTER EQUIPMENT</b>		
Crucial computer files back-ups stored off-site	<input type="checkbox"/>	<input type="checkbox"/>
Computer security procedure established (passwords, viruses, tampering)	<input type="checkbox"/>	<input type="checkbox"/>
<b>E. TELECOMMUNICATION EQUIPMENT</b>		
Back-up equipment to make and receive calls (cell phones, re-routing by phone company or stand-by generators)	<input type="checkbox"/>	<input type="checkbox"/>

Have you missed anything?  
One or more 'NO' in the check list means "back to the drawing board" !!

F. EMERGENCY EQUIPMENT	YES	NO
Emergency material available (spill absorbents, flashlights, Cell phones, tools, plastic sheeting, blankets, first aid kits, etc.)	<input type="checkbox"/>	<input type="checkbox"/>
<b>G. MEDIA RELATIONS</b>		
Prepared statements can be communicated	<input type="checkbox"/>	<input type="checkbox"/>
<b>H. EXTERNAL RESOURCES</b>		
Phone numbers of emergency organizations (police, fire department, ambulance, hospital)	<input type="checkbox"/>	<input type="checkbox"/>
Names and phone numbers of contractors (plumbing, heating, electrical, etc.), including 24-hour telephone numbers	<input type="checkbox"/>	<input type="checkbox"/>
Name and phone number of insurer, broker, advisors, suppliers, salvage firms, liquid waste removal firms	<input type="checkbox"/>	<input type="checkbox"/>

**Working In partnership with our Customers to prevent and control the impact of Losses.**

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