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Business Continuity Management and Insurance, or "why do we need DR, we're insured aren't we?"

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I would like to think that I am as qualified as many to see the relationship between the process of business continuity management and the insurance programmes that are put together for a commercial organisation. Having spent most of my working life as manager of commercial insurance businesses in different parts of the world, I emerged as business recovery manager for the group. With poor timing however, it was just a few months before the St Mary Axe bomb destroyed our dealing room and sundry head office and client services departments of some 500 people! A great focus for the real, practical and business issues in recovery planning and that incident was just the start of others to follow!

Eventually, as a Divisional Director responsible for operational risk world-wide, I was the professional worrier of the group. One of the responsibilities was to purchase the group's own insurance programme, another to ensure effective business continuity. At risk were many, many hundreds of millions of pounds worth of assets, cash flows in billions, some 3,500 cars and some 20,000 staff in many countries. The insurance programme embraced of course the liabilities and the professional indemnities that go with such a package.

You could call me, I guess, a poacher turned gamekeeper, or is it gamekeeper turned poacher ... ?

So how does a company's insurance programme and business continuity management meet? Do they meet at all? Let us talk first about insurance, its value and its limitations.

A good insurance programme will adequately finance the replacement of assets whether that be damaged property, or an expensive judgement that went the wrong way.

Loss of profits or increased cost of working insurances will reimburse revenue losses incurred as a result of reduced business activity within a pre-defined period of time following the loss. This "period of indemnity", combined with the sum insured, are the backbones of consequential loss protection. However whilst the insurer can bring experience in getting businesses back on its feet, it can only mitigate the destruction that has already occurred.

Taste is a particularly good metaphor if actually you are in the taste business; confectionery, hotels, restaurants, pubs, cigarettes, supermarkets, cars, fashions, pharmaceuticals etc. It takes decades build up a following. You therefore can be looking at decades to rebuild it. What value then of a six months, two-year or even a five-year indemnity period on your increased cost of working cover?

These indemnity periods under increased cost of working or loss of profits covers are as crucial as the sum insured. The protection of the cover will, of course, cease at the end of that pre-agreed period. Still ahead may be the potentially major cost to relocate back into a permanent building. Naturally, in a disaster a business may wish to increase expenditure above the norm to protect its distribution or customer base. Generally speaking the insurer would, unless negotiated beforehand, expect that expenditure to be economic as far as the claim is concerned; i.e. the extra spend needs to show its return within the policy indemnity period.

This article is not designed to rubbish the commercial insurance industry. Insurance is of course vital - often another key to the very survival of a business. I have been working at the sharp end of that industry long enough to see countless times the real value of insurance to businesses in troubled circumstances; and real help towards those businesses and jobs surviving.

If businesses still have their client database, business controls, brand value, financial controls, market place, employees, and especially if it can keep its customers, then with the lifeline of insurance, it can eventually put the experience behind them. But what happens if the business does not have these things anymore, even if it is missing just a crucial one?

Continuity planning is about these things and the management of the incident itself. What happens if the press is mismanaged after a disaster and they do a hatchet job on the company's reputation? What happens if crucial records (paper or computer) of its client base are lost? What happens if the business is not able to contact clients to reassure them (assuming he has something to reassure them with) in those crucial few hours after a disaster? What happens if options are not ready quick enough and customers start to acquire a taste for competitors' products? In some businesses this critical period can be as short as hours only.

In reality therefore insurance does have its limitations. This is no more so where you have successfully allowed that fire or bomb or flood etc. to totally and permanently destroy your real business (not just your building) and before the insurance claims department can even get help to you.

Business survival is therefore not only about insurance, but crucially and additionally about taking the time to anticipate what incidents can do to the legs that support the business itself. It is not only a matter for assets and short-term cash flow. If in this process, other, real, business exposures are identified that are unacceptable; then there is a need to do something about them before the incident, not after.

Risk management cannot possibly design out all potential for risk or potential damage (quite different things) to your business, but a more realistic objective is to ensure survival by identifying first what it is that could bring your business to its knees. Time and resources worrying about "bad days" can cause the plot to be lost and thus make the task unachievable. Managers are paid to have the occasional bad day!

With ownership at senior level and a process in place you can begin to ask, in a structured way such questions as:

Is there information, on paper or on a database, which could cause you to lose one of the above cornerstones to the business? If so, is it on single copy? Do you have key machinery that would take so long to replace that your customers would not then exist anyway? What else do you need that, if not there anymore, would cause your businesses to be silent just too long? The very first step is for business directors, (using facilities managers to support them, not to take the responsibility from them) to set out to begin to recognise crucial exposures and own up to them. Tools are now available to structure such work.

Knowing the risks and evaluating them the business impact analysis - can bring surprises. Protection or duplication can be cheap and easy if thought through beforehand. It can be cheaper still if the agenda of a new project or development demands an understanding of risk and continuity before the launch.

So many businesses have grasped the opportunities available in technology for service opportunities and cost savings. In doing so they have created single points of failure that we could not even envisage just a few years ago. The tens of thousands of skilled staff within a business just do not exist any more and even some of the skills themselves have been taken away by ever embracing computer software.

Whilst we have created desperately dangerous, single, catastrophic points of failure in our businesses, the technology conversely has brought effective opportunities for continuity risk management and the wholesale duplication of data. It has also brought opportunities within our businesses, and with the support of a continuity industry, to enable us to duplicate, and replace, this equipment, information and software within very tight timetables - even simultaneously if needed.

At this point I would like to return again to the world of insurance. I have talked about the need to have a business critical understanding of potential destructive exposures. In doing so, some risks traditionally insured may be found to be commercially acceptable and conversely, new, potentially destructive, currently uninsured risks may be discovered. Certainly a clearer and more realistic view should be emerging as to just how long it could take, the cost, and what is needed, to get back into business.

This knowledge can be priceless when reviewing your insurance needs with the broker, insurer or captive.

There is even a further benefit. Security and risk protection costs money. The best spend and other use of resources are where they match exactly the business critical exposures. I need to say that this is one arena where you and your insurers may have differing views; particularly if there are material damage insurances and no business interruption covers. In these circumstances the insured will wish to focus protections where there is greatest potential for damage to the process. The insurers may wish to focus spend on where the highest, insured, values are at risk. Sounds like a case for negotiation!

Business recovery planners are no doubt beginning to ask when on earth I am going to get round to the recovery plans themselves. The reason that I have approached this article in this way is that I do believe that continuity risk management is not just a matter for a recovery plan but an integrated process of risk understanding, evaluation and management; best then followed by crisis and recovery planning.

With an understanding of the exposures, not only can insurance expenditure be fine-tuned, but also Business Continuity Management grounds rules can emerge: The strategies and the business ownership that will drive and empower the business continuity risk and response management.

The emergency response organisation and the urgent resources needed by those teams. This is the bit that puts heads back on chickens. Public relations and the effective management of any media demands are a vital part of this jigsaw. A further ingredient is to ensure that you share information with the emergency and other statutory authorities. It is much easier on the nerves to argue through any differences before, and not during, a disaster!

Relevant staff prepared and aware of their roles and responsibilities. This may include a need to inform all staff, not just the emergency teams, of do's, don'ts, and from where guidance will come. Documented (and up to date!) plans.

Exercises, not only the crisis response team call out and the facilities readiness; but also the effectiveness of the risk acceptance and risk management decisions that were taken. Much can be achieved in a desk-top exercise without destroying a part of the business to see if your plan works!

The ingredients of recovery plan documents are now familiar and it would be beyond the purpose of this article to go into detail. I would like however to make reference to the fact that the plan doesn't only need the bag of jigsaw pieces that may be useful, but a clear crisis management authority and management structure. This and its priorities can be very different indeed from normal working circumstances. Hence the comment of 'heads on chickens' above.

In summary therefore I believe that a business needs both an effective insurance programme and the process of business continuity planning. Both are individually valuable but it is important to understand clearly both the value and the limitations of each; and see where one can add value to the other.

The real common denominator however is a business director driven, careful analysis of, not only the risk of an incident, but exactly how that incident could affect the real business itself and the props on which it depends.

Only then, I suggest, can there be confidence that there will be a business left to manage, alongside the insurance advisors, through the disaster. Only then, can the Directors make good use of insurance claims moneys in keeping going a business that did stay alive throughout whatever it was that fate threw - and may even turn a disaster into a business opportunity. I have seen this happen!

Above all I believe this is not just a matter to be driven by Turnbull and other regulations. It is simply just good business!

I wish you well and I wish you continuity, whether you are reading this in peaceful or in 'interesting' times.

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