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PRE-LOSS PLANNING GUIDE

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“Disasters happen”.... and when they do, there are potentially enormous risks to people and structures.

With proper planning, many of the losses inflicted on employees, physical structures, and contents can be avoided. Formulating a disaster plan and taking the necessary preventative measures may mitigate the destructive effects in the event of a catastrophe. Given the unknown element of natural disasters, prevention goes a long way toward protecting lives, saving buildings and redeeming the billions of dollars spent on repairs. There is no doubt that planning ahead can help save both lives and property.

There are two common denominators that apply to the philosophy of disaster planning. 1) No one thought it could or would ever happen to them. 2) Those who planned were repaid countless times over. How? By saving lives, property and in many cases their business.

Recognition and use of your experience level is paramount to the overall success of a continuity program. With that in mind, the goal of this guide is to establish some simple parameters. This guide is intended to provide an overview of some of the basic issues associated with business continuity planning. The content is based on the assumption that all readers have a general working

knowledge and basic technical skills in continuity or contingency planning. Even though actual procedures will be discussed in subsequent text, the materials discussed in this guide will be in generic form.



GOALS

The goals of a business continuity plan or contingency plan include, but are not limited to:

- Ensure employee safety before, during and after an event
- Minimize interruptions to business operations
- Limit the severity of the disruption
- Establish alternative means of operation
- Resume critical operations within a specified time
- Expedite the restoration of services
- Assure customers their interests are protected
- Maintain a positive image of the organization
- Minimize financial loss
- Train personnel and familiarize them with emergency operations
- Establish awareness

Planning for the worst is the best for your business.

Executive Support

The first step in developing a disaster plan is to obtain executive support. Without such support, the resources necessary to accomplish the overall task may never be allocated. When presenting the concept to upper management it will be necessary to share the objectives of implementing the program, but be prepared to discuss the associated budget. In that regard, it is also wise to present the consequential cost of not having a plan in effect.

Planning Committee and Their Responsibilities

This committee should oversee the development and implementation of the plan. For the plan to be successful, membership on the committee must reflect a holistic approach including input from all departments allowing each to share the vision and their concerns from the plan's infancy to implementation to assure proper communication.

• *Committee Chairperson*

Different organizations use different title designations; Business Continuity Planner (BCP), Risk Manager, Recovery Coordinator, etc., but regardless of terminology this individual is the person responsible for overall synchronization of a recovery project or claim. In large corporations there is usually a designated Risk Manager who coordinates the various insurance coverage and acts as a liaison between the disaster victim and the insurance company. As the primary party in the recovery process, the person given this mission must have the autonomy and authority to make decisions of emergency and to assemble services as needed.

• *Executive in Charge*

An Executive in Charge will ultimately be held accountable for the entire enterprise and will be responsible for executing (signing) any documents necessary to expedite the recovery process. An effectively constructed recovery plan includes the delegation of proper authority from this executive to the BCP.

• *Adjuster*

Since the insurance adjuster is managing the resources of third-party organizations, they are obligated to represent the insurer's interest. It is the desire of most claims personnel to provide any assistance to make the claims process go as smoothly as possible. In a professional relationship, the needs of the customer and the insurer need not be adversarial. When constructing the plan, it is advisable to proactively seek the participation of the insurer and their designated claims representative to assure communication and ensure that steps being taken are best practices.

• *Agent/Broker*

In addition to the responsibility of administering the insurance policy, your agent or broker will assist in the claims reporting process. They should also act as a liaison between the disaster victim, insurance carriers and other similar representatives. These professionals have a considerable amount of experience in this capacity and can also prove to be a valuable resource when assembling other vendors such as salvage agents, restoration services, temporary equipment and other similar services. The broker will act as an advocate for the disaster victim and can assist when differences between the insured and the insurer arise.

• *Property Owner*

In situations involving tenant/building owner decisions, the property owner should be included in the planning process to assure authority if and when a disaster should strike. Any decision that includes structure related issues will require their participation in the recovery phase, thus the need for proactive inclusion.

• *Department Leaders/Delegates*

Representatives from operations, support, integrated systems, communications, accounting, records management, personnel, warehouse and distribution and any other pertinent departments must participate and submit the necessary information to complete a Risk Analysis. They must review their function in the organization and determine the potential impact associated with any possible disaster.

• *Purchasing*

In addition to the potential need for replacement of raw stock and materials, there is the very real possibility of outsourcing production or services on an interim or long-term basis. The procurement process should allow for such contingencies as well as proactively seek "disaster recovery" vendor services while in normal business operations rather than attempting to do so during a catastrophic event.



Review Insurance Policy

The time to recognize problems is prior to an insurance claim. To avoid the surprises commonly encountered in the aftermath of a catastrophic event, review your policy carefully. Pay particular attention to clauses, exclusions, values and limits, business interruption, depreciation and other similar issues. It is strongly recommended that this step be performed in conjunction with your agent or broker.

Regulating Authorities

In the aftermath of a catastrophic event, such as a fire, a flood or a hurricane, there is a strong likelihood that one or more government agencies will be involved in the emergency response. Your plan needs to incorporate how those government agencies may impact the recovery of your business.

Should a fire occur, you need to be “on the same page” as the local fire department. They will want to know that you have an evacuation plan and that all staff members are familiar with the escape routes and the rally point. Your facility should display the proper placards to notify emergency responders of the potential risks and hazards awaiting inside. Proactive discussions with representatives of the fire department can, not only help you as you assemble your plan, but also provide an avenue of communication to those authorities that may improve cooperation while helping them understand your priorities.

Should an area-wide event occur, it is highly likely that law enforcement will be utilized to bring order and security to the affected region. Municipalities, counties, states and regions each may have a part in the recovery process. Since this varies so drastically from region to region, it is incumbent upon the committee chairperson or their delegate to investigate the policy in their respective district. Gaining access to your facility can be delayed

drastically without the proper identification or credentials. By taking these steps in advance, your professional, yet personal relationship with these agencies may expedite your recovery process.

If you are dealing with a city or municipality, you should know whether it is the Mayor’s office, the police department, the fire marshal or other emergency agency that is the primary contact. If damage is widespread enough to default to county agencies, will it be the sheriff’s department or other civil defense organizations? As the area expands to the state level, the Department of Public Service, the governor and even the National Guard may play a part.

In severely affected regions it is probable that federal government agencies will be in control, such as the Federal Emergency Management Agency (FEMA). When losses involve suspected foul-play such as arson or explosives, the Federal Bureau of Investigation (FBI) and its special arm, the Bureau of Alcohol, Tobacco and Firearms (ATF), will be the controlling authority.

The lesson to be learned from these issues is that when an emergency situation arises or is declared many of the variables involved may be beyond your control. By taking the time to determine who the likely participants will be in that time of crisis can drastically accelerate your access and thus your recovery process.

Capital Asset Inventory

In the perfect world, you already have access to a list describing in detail each piece of equipment and machinery. In the real world, it is more plausible that such an inventory will need to be constructed. When assembling the inventory, the item should be identified by type, manufacturer, age, original cost including freight, installation, peripherals and modifications. It is not necessary to utilize a third-party vendor to complete

a formal list and appraisal; it can be accomplished using internal resources. Often omitted from these inventories are those items which were purchased as general expenses rather than capitalized or whose book value has been amortized and is no longer on the ledger. These items still have value to organizations and to the claims and therefore must be included in the inventory process. The inventory should be updated periodically (at least annually) and recorded via photograph or videotape. All inventory records should be duplicated, and the second set should be kept in a fire-resistant storage facility off campus.



Vital Records

Again, in a perfect world, all vital records and documents would be duplicated and stored safely off site while computer files would be “backed-up” every day. In the real world, documents are kept on-site and exposed to potential peril, while computer files may go weeks before being stored properly.

Problems can and will result if the information on these records must be recreated without an appraisal, inventory or ledger. As a general rule, records managers are some of the most informed and proactive individuals in terms of preparing a contingency plan. As a group they tend to see the value in taking the necessary steps as well as the potential cause and effect of disaster scenarios.

It is estimated that between 5% - 7% of business records exist in their original form. It is important as the process is taking shape to define what really is considered vital to your organization’s recovery process. Determining factors include federal mandate, business needs and customer demands. In many cases the duplicate may be satisfactory, but some issues require the original document because it is not only the information on the record, but the condition of the information itself.

Business Impact Analysis

Working in conjunction with the accounting department, the Business Impact Analysis (BIA) is performed to determine the “real dollar” value of the business or section of the business being out of commission. A function of the BIA is to establish a timeframe for business resumption, which will establish the time line, needed to return the facility to pre-loss condition or the need to use a temporary location. A BIA must consider the interdisciplinary factors of the various departments and establish priorities based on their impact to the business.

Hazard Analysis

Members of the planning committee will be responsible for gathering data necessary to prepare a claim. While the assumption is that they will represent all departments, we cannot assume that they know their responsibilities nor would we assume they are familiar with the sense of urgency required. Once they have been identified, you must give them the appropriate training on the issues related to the tasks they will be assigned.

One such task is the *Hazard Analysis* or Risk Analysis. Team members should envision prospective loss scenarios. An effective plan contains a Hazard Analysis that includes a range of possible disasters. And whether they represent natural, technical or human threats. The functional area of the organization should be analyzed to determine the potential impact associated with each disaster scenario and any related “domino effect.” Subjects that should be considered are: Financial Impacts and Exposures; Operations Impacts such as Customer Service, Reduced Quality, Loss of Competitive Advantage; Intangible Impacts such as Public Opinion, Employee Morale and Employee Confidence; Critical Business Functions; Requirements for Business Continuation; and Loss of Customers.

Certain perils are more likely to occur than others when factoring domiciled region, site location, building construction, type of operation, stored materials and other similar contributors. Although it would not be feasible to forecast every prospective loss, it is possible to establish several what-if scenarios.



Using a restoration service

Choosing a Service

Use the pre-loss plan as the opportunity to select a restoration vendor proactively, rather than reactively. When disaster strikes, you will face numerous difficult management decisions. By taking the necessary steps to select the vendor now, the vendor is able to gather information about your facilities that allow them to respond to the specific needs of your situation with a sense of urgency. Ultimately, it will avoid costly delays associated with post-disaster decision-making. Think of it as adding a virtual team of restoration professionals to your staff, without the added overhead.

How to Choose

There are two primary methods of identifying a restoration vendor. First, and most common, is to seek their services in the aftermath of a disaster. This method is used most often because, as alluded to earlier, the customer is not aware that such services exist. Therefore, they give it no forethought. Thus, disaster victims find themselves facing a myriad of decisions when hours count and delays can have a greater effect.

As the property owner, the disaster victim is ultimately responsible for choosing the restoration vendor. If no research has gone into proactively identifying a vendor, the disaster victim typically relies on the advice of the insurance company's claims representative. In doing so, several vendors may be contacted and asked to submit bids (scopes of service). From these bids, decisions are usually made based on economic criteria. The reader should be advised to compare the submitted estimates closely. As a rule of thumb, if the scopes submitted are the same, the cost should be very similar as well. A distorted

range of prices usually is an indicator that either the vendors differ in their opinion of the degree of damage, or one of the estimators has made a calculation error.

The second method of securing a restoration vendor is "pre-selection." Having a member of your organization proactively seek out a restoration vendor is highly recommended in disaster planning. Historically, this step is commonly overlooked when the planning committee develops a business recovery plan. Proactively selecting a restoration vendor prior to a loss can have a dramatic effect on the recovery time as restoration services can begin immediately.

Service Relationships

It is important to re-emphasize a couple of issues. As the property owner, you are responsible for selecting the vendors who will provide the service. While the claims representative is an interested third party, for legal reasons, the agreement must be between the property owner and the service provider.

Therefore, the restoration vendor will initiate an agreement and expect the designated representative of your vendor to sign it, authorizing the vendor to proceed. This agreement is a contract, a covenant if you will, between two parties agreeing to meet their respective obligations. The restoration vendor should state in writing, the services they will provide, how they will perform the tasks, how long it will take and how much it will cost. In return, you agree to compensate them for services rendered.

Ultimately, the vendor is accountable to the customer, the disaster victim, and must follow their direction and submit all reports to them. It is logical to allow communications

between the vendor and the insurance company's claims representative and promote trilateral communication during the process to keep all parties informed. If damage is such that it will require long-term restoration efforts, it is not uncommon for the restoration company to request "progress payments." Each company has their own policies and procedures regarding this matter, and it should be addressed at the beginning of the recovery process.



Using a restoration service

Service Capability Differences

As with all industries, there are vendors with varying capabilities and resources. For those involved with contingency planning, it is more than likely your interest will lie with a company that can provide services on both small and large scales in conjunction with a wide service area. When putting together a recovery plan, the contingency planner must consider a “worst case” scenario.

If a commercial facility is affected, does the vendor being considered have the resources to address the building and all of the contents involved should full-scale contamination occur? Most vendors are staffed and prepared to meet a certain volume of production in a short period of time.

In cases where damage is so severe, or the volume of work that must be produced in a short period of time exceeds vendor resources, a restoration vendor who specializes in large-scale commercial services is the better choice. By comparison, commercial disaster victims historically present different challenges than those encountered in residential cases.

For example, electronics and automated production equipment present different recovery needs and technology than typically found in a home. Therefore, the ideal restoration vendor has the capability to adapt their service to the needs of the client. The ability to complete a large volume of work in a short period of time is important to the disaster victim as well as the interested third-party claims personnel. In choosing the vendor, it is also important to consider their objectives and integrity. A vendor who is willing to inform all parties of the situation as it truly is, rather than pacify with “things you want to hear” is an invaluable asset to the recovery process.

Steps in Dealing with a Restoration Vendor

You will want to select a vendor whom you can trust, who provides quality service, who provides value and who can respond to your needs. Here are some guidelines to accomplish the task.

- Select the type of vendor that suits your organization. If you have one location or a few locations that are in relatively close proximity, then a local vendor may meet your criteria. However, if you have multiple properties in various locations across the country, you will probably be best served to utilize a national vendor who has the resources to meet that obligation.
- Decision Factors. You will want to select a restoration vendor who, not only has the staff and equipment, but also the technical experience necessary to meet the production needs. Restoration knowledge is a given, but seek to determine if they have the experience necessary to deal with a commercial loss that may be large enough to equal a restoration vendor’s annual production. The differences between a residential loss and large commercial loss cannot be encapsulated in the space available here. Needless to say experience in that arena is a necessity. In addition to quick response, offered twenty-four hours a day, look for a vendor that values its personnel (and yours) enough to have a written health and safety plan.
- Things you should know. In addition to references, it is logical for you to want to know some basic information about the restoration vendor. Look closely at the references provided and try to ascertain if they include customers with similar profiles to yours. The experience of the company is important, but also inquire about the experience of the individual performing the assessment. Pertinent information should include response time, any service guarantees and the scope of services offered.



PLANNING CHECKLIST



| ITEM | DATE | RESPONSIBLE PARTY |
|---------------------------------|------|-------------------|
| Obtained Executive Support | | |
| Planning Committee Assembled | | |
| Insurance Policy Review | | |
| Regulating Authority Contacted | | |
| Municipal | | |
| County | | |
| State | | |
| Federal | | |
| Capital Asset Inventory | | |
| Vital Records Established | | |
| Business Impact Analysis | | |
| Hazard Analysis | | |
| Loss Classification Established | | |
| Plan Written | | |
| Practiced | | |
| Maintained | | |

POTENTIAL CLAIMS ITEMS



Consult with your accountant regarding potential claim items. They may include the following:

| | |
|---------------------------------|---------------------------|
| Advertising | Legal Fees |
| Bad debts | Licenses |
| Bonuses | Other Taxes |
| Claim preparation expense | Overtime |
| Commissions | Postage |
| Consulting Fees | Payroll Tax |
| Corporate Charges | Rent |
| Depreciation | Repairs/Maintenance |
| Discounts | Sales Department |
| Dues and subscriptions | Supplies |
| Engineering services | Telephone |
| Experimental expenses | Tooling |
| General administration expenses | Travel |
| Insurance and benefit cost | Unemployment compensation |
| Interest | Utilities |
| Labor | Worker's Compensation |

EMERGENCY CONTACTS



| VENDOR TYPE | CONTRACTOR/VENDOR | BUSINESS PHONE | AFTER HOURS PHONE |
|---|------------------------------|--------------------------------------|--------------------------------------|
| Architect | | | |
| Carpenter | | | |
| Computer Service | | | |
| Data Recovery Service | | | |
| Electrician | | | |
| Disaster Restoration & Reconstruction Partner | SERVICEMASTER RESTORE | 866 RECOVER (866-732-6837) | 866 RECOVER (866-732-6837) |
| Fork Lift Service/Rental | | | |
| Freight Service | | | |
| Freezer Space | | | |
| Hardware | | | |
| Janitorial Supplies | | | |
| Locksmith | | | |
| Pest Control | | | |
| Plumber | | | |
| Rental Space - Temporary | | | |
| Rental Space - Storage | | | |
| Rental Space - Work Overflow | | | |
| Specialty Item | | | |
| Telephone | | | |
| Truck, Refrigerated | | | |

HAZARD ANALYSIS



The planning committee should develop a range of prospective loss scenarios.

| POSSIBLE DISASTERS | NATURAL THREAT | TECHNICAL THREAT | HUMAN THREAT |
|--------------------|----------------|------------------|--------------|
| Earthquake | | | |
| Landslide | | | |
| Tsunami | | | |
| Tornado | | | |
| Hurricane | | | |
| Flood | | | |
| Storm | | | |
| Rural Fire | | | |
| Urban Fire | | | |
| Chemical Spill | | | |
| Power Failure | | | |

The planning committee should review potential impacts associated with each disaster scenario such as:

| | |
|------------------------------------|---------------------|
| Critical Business Functions | Intangible Impacts |
| Business Continuation Requirements | Public Opinion |
| Financial Impact | Investor Confidence |
| Financial Exposure | Employee Morale |
| Operational Impact | Employee Confidence |
| Customer Service | |
| Quality | |
| Competitive Advantage | |