

Having Your Insurance Pay for Your Disaster Recovery

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Planning for disaster recovery is one of those topics that business owners agree is a good idea, but often worry where they will get the money to pay for it. One of the advantages of formalizing your disaster recovery plan is that it allows you to design your insurance program to provide the funds needed for your disaster recovery. Purchasing Property Insurance to protect your buildings and business property is only half of the protection a business needs in the event of a disaster. Consider these examples:

The property manager for a mid-sized building suffered a fire that damaged two floors, including the elevator shaft. He was forced to shut down the building for three months while it was being repaired. The property manager received over \$2 million for the loss of rents.

On December 11, 1995, a fire in Methuen, Mass., destroyed the Malden Textile Mills. Much to the astonishment of its workers, the president of Malden Mills promised to keep his 3,000 employees on the company payroll for 30 days while the mill was being rebuilt. Was the president filled with Christmas goodwill towards his employees or did the company just have a well-designed disaster recovery insurance program?

The building of a long term care provider was damaged in a fire, and the organization had to evacuate all of its patients and rent bed space from other facilities. The long term care provider received over \$1.5 million for this extra expense to continue its operations.

A well-designed disaster recovery insurance program can provide the necessary funding for these scenarios through the following coverage provisions:

1. Business Income Insurance – Property Insurance will help you rebuild your damaged property, but it will not protect the lifeblood of your organization. In the event of a disaster, how will you replace the cash flow from your discontinued operations? In addition, many expenses, such as mortgage payments and real estate taxes, will continue even after a disaster. Business Income insurance can be used to fund the income that is lost and the expenses that continue after the disaster. Completing a business income worksheet with your insurance broker is an essential component of a disaster recovery plan, and for pennies on the dollar provides a cost-effective way to fund this exposure.
2. Payroll for Your Employees – If your operations are temporarily shut down, how will you continue to fund the payroll for your employees? Do your employees have a specialized skill that makes them difficult to replace, or is it costly to retrain new employees? Retaining your employees may be a key component of your disaster recovery plan, and a well-designed insurance program can be used to pay this expense.
3. Extra Expense – Most organizations cannot discontinue their operations in the event of a disaster. They must find a way to quickly get up and running at another location. Renting alternative space and equipment means additional costs. Detailing these extra expenses in a disaster recovery plan provides the opportunity to purchase insurance coverage instead of trying to obtain an emergency line of credit.

Developing a written disaster recovery plan is a good business strategy. However, many organizations fail to integrate the needs outlined in their disaster recovery plan with the potential funding from their insurance program. Designing your plan is step one, but don't forget step two – meet with your insurance broker to design your disaster recovery funding plan.

The type of business you operate will dictate the type of exposures you will have and the shape of your policy coverages. For example, a manufacturing operation will have different exposures than a petroleum distributor, who will have to prepare for the possibility of damaged underground oil tanks and the resulting environmental implications. Your insurance broker should be able to assist you in conducting an exposure analysis of your property, operations and supply chain risks. This is often referred to as “enterprise risk management.”

Investing the time to complete a thorough disaster recovery plan for your organization is worth the effort. As Ben Franklin said, “An ounce of prevention is worth a pound of cure.” However, even the best-designed plan will not succeed without the necessary funding. Therefore, be sure to work with your insurance broker to design the most appropriate disaster recovery funding plan for *your business*.

About the Author

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As a Vice President of the Technical Development Department, Marty is an Insurance Coverage Expert and is responsible for coordinating the training and development of new employees in a 3-year-long training program, Client Education and internal Quality Assurance. He is a member of the Graham Company's Practice Group for both Construction and Mergers & Acquisitions. In addition, Marty has been a speaker for the Insurance Society of Philadelphia and the Chubb Producer Development School. He has been with The Graham Company for over 20 years.

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