ADJUSTING TODAY

Adjusters International Disaster Recovery Consulting

EDITOR'S NOTE

Making sure the right insurance program is in place to protect your organization after a disaster may not be enough to survive in today's business world. A vital ingredient to recovery is a comprehensive and well-tested disaster recovery plan.

Given the rise in the number and scope of recent disasters, it has become increasingly important to establish a plan that will allow you to get back in business in the shortest time possible.

This issue of Adjusting Today briefly explains the basics of disaster recovery planning, coupled with interesting facts and statistics about the impact of natural and man-made disasters in the world in which we reside and conduct business.

We hope you will find this material helpful in improving your organization's disaster preparedness.

—Sheila E. Salvatore, Editor

Disaster Recovery Planning: Preparation is Key to Survival

By John W. Marini
Chief Operating Officer & Vice President
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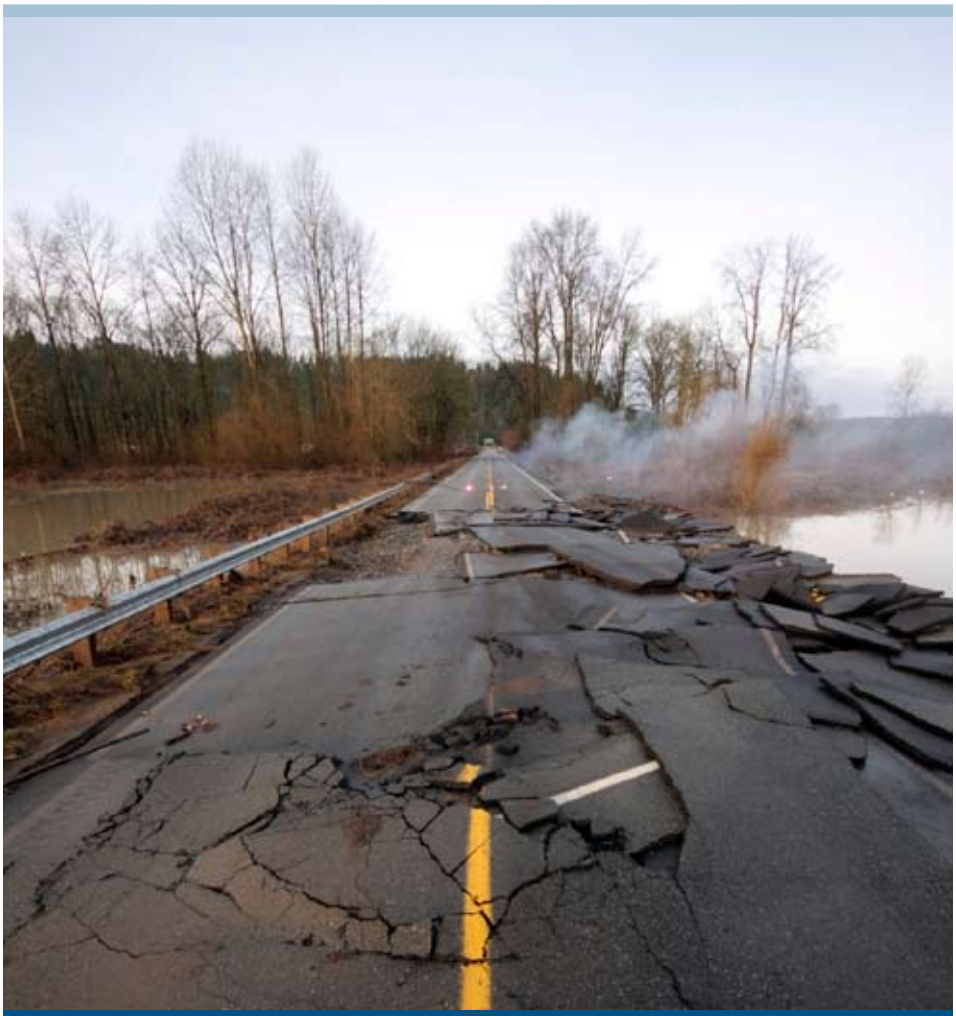
A hotel under construction could not open in time when part of the structure was destroyed by a tornado delaying its completion.

When an off-premises transformer was destroyed, an office complex without backup power became untenable.

A facility damaged by earthquake could not be immediately repaired because of the devastation and shortage of workers.

A shopping mall damaged by Hurricane Katrina could not operate for some time because of the shortage of building materials.



The chances of a full and expedient recovery are greatly improved when a comprehensive disaster recovery plan is in place.

An explosion of a steam boiler in a high-rise building caused civil authorities to close surrounding streets. Occupants of neighboring businesses could not operate for weeks.

A business that leases transponder space on its space satellite is required to cancel its contracts when the satellite malfunctions.

What are the common denominators in these scenarios? First, the disaster was not anticipated. Second, each business had not focused well enough on its disaster planning.

As professional loss consultants, we have assisted thousands of companies and organizations that suffered losses resulting from natural and man-made disasters. Some recover, some do not. Those who anticipate what could happen—and thoroughly plan for it—stand a much better chance of surviving. The chances of a full and expedient recovery are greatly improved when a comprehensive disaster recovery plan is in place. Such a plan should fully integrate insurance, technology, emergency-response and business-recovery components.

Natural Disasters are Becoming More Frequent

The intent of this article is to heighten your awareness of the need for disaster recovery planning. That need is dramatized most clearly by listening to the experts themselves:

- *"One catastrophe modeling company predicts that catastrophe losses will double every decade or so due to growing residential and commercial density and more expensive buildings."* (Insurance Information Institute)
- *"Tornado losses of $1 billion and higher are becoming more frequent."* (A.M. Best, April 2008)
- *"About 5,000 quakes can be felt each year, with some 400 capable of causing damage to the interior of buildings and 20 causing structural damage."* (Insurance Information Institute)

The following examples demonstrate that man-made disasters, too, can have an impact felt far beyond the premises:

- *Faulty soil work to a newly constructed ethanol plant causes physical damage to the plant of*

Fewer than 20 percent of all Americans have a flood insurance policy. A standard homeowners insurance policy will not cover flood-related damages.

$5 million and $3 million in loss of business income.

- *Wildfires in California, deliberately set, caused extensive destruction of property, many injuries and deaths, which also disrupted numerous businesses —with a toll into the millions of dollars.*
- *A bridge collapses because of faulty design, harsh weather and the use of salt over the years, causing deaths, injuries and major disruption to businesses totaling into the millions of dollars.*

How Well are You Prepared?

If a major disaster were to occur, how prepared would your organization be? Test your level of preparedness by answering these questions:

- Do you have a disaster plan in place?
- If you have a plan, when was the last time it was tested? Updated?
- Have you completed a thorough risk assessment?
- Have you thought out all the potential "what if" scenarios?
- How often and thoroughly is your insurance program reviewed and tailored to your specific exposures?
- Do you fully understand your potential legal liabilities?

Test your level of preparedness.

If a major disaster were to occur, how prepared would your organization be?

- Are you in compliance with all regulations?
- Do you have a recovery team with a designated leader in place to respond to a disaster?
- Do you have an adequate business continuity plan in place if your electronic information systems fail?

If your answers to these questions leave you with any degree of uncertainty, you need to improve your preparedness and limit your vulnerability to future disasters. A commitment to developing and regularly updating your disaster recovery plan is vital to a full recovery.

How is a Disaster Recovery Plan Developed?

Because every organization needs a unique plan, the planning process can vary greatly. However, the following brief outline developed by the Federal Emergency Management Agency (FEMA), which is included in their *Emergency Management Guide for Business and Industry*, provides an understanding of the fundamentals. For more detailed information you may wish to obtain a copy of the guide by visiting FEMA's Web site at www.fema.gov.

Step One—
Establish a Planning Team

- Appoint the chief executive or facility manager as leader.

- Obtain input from all functional areas.
- Promote a free flow of ideas.
- Issue a mission statement for the plan.
- Establish a schedule and budget.

Step Two—
Analyze Capabilities and Hazards

- Review internal plans and policies—evacuation plan, fire protection plan, hazardous materials, etc.
- Meet with outside groups—government agencies, community organizations, emergency management office, utilities, etc.
- Identify codes and regulations —environmental, fire, seismic, safety codes, etc.
- Identify critical products, services and operations.
- Identify internal resources and capabilities—personnel, equipment, facilities, organizational, backup systems.
- Identify external resources—emergency medical services, local and state police, contractors, etc. (formal agreements may be necessary).
- Review insurance.
- Conduct a vulnerability analysis:
  - Within facility
  - Within community
  - Historical—earthquakes, hurricanes, tornadoes
  - Geographic—proximity to flood plains, airports
  - Technological—process or system failure
  - Human error (largest cause of workplace emergencies)

Step Three—
Establish the Plan

- Detail emergency response procedures.

Step Four—
Implement the Plan

- Integrate into company operations.
- Conduct training.
- Evaluate and modify the plan.

Post-Disaster Considerations

- Direction and control—the emergency management group is to be led by the emergency director, who is in charge of all aspects.
- Life safety—first priority.
- Property protection—essential to restoring operations.
- Community outreach—your relationship with the community will influence your ability to protect personnel and property, and return to normal.
- Recovery and restoration—to keep people employed and the organization running.
- Administration and logistics—maintain complete and accurate records.

You can hope that your business or organization never suffers a disaster that would interrupt or threaten its prosperity. But you can be sure that if disaster does strike, a full and timely recovery will depend on your ability to deal with the unexpected.

I hope that I have stimulated your thinking about how to be better prepared by encouraging you to give careful consideration to the importance of organized disaster planning.

You are encouraged to consider all areas, especially those unique to your organization. However, regardless of your organization's individual needs, technology will likely play a major role in your plan development and recovery effort. Therefore, it is also important that you make a business continuity plan (BCP) dealing with technology issues a focal point of your overall strategy.

The following chart provides some Web sites that may be referred to for information to enhance any disaster planning program.

DISASTER PLANNING WEB SITES

EARTHQUAKE
U.S. Geological Survey
http://earthquake.usgs.gov/regional/neic
National Earthquake Information Center
http://neic.usgs.gov/neis/eqlists/eqstats.html

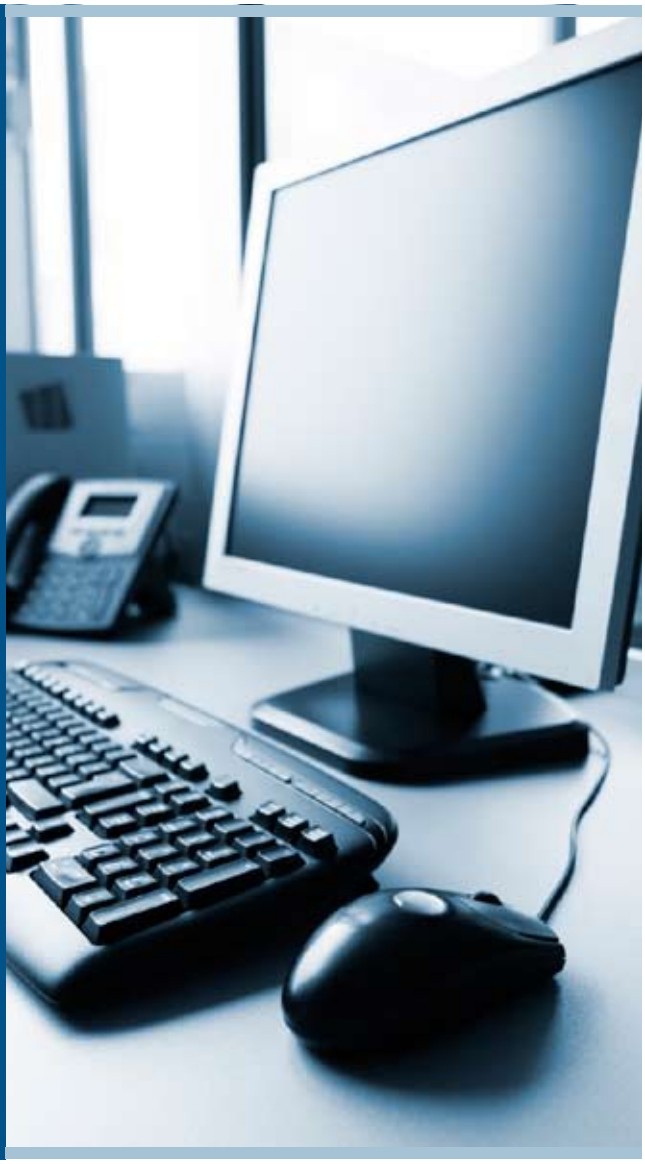
FLOOD
Federal Emergency Management Agency
www.fema.gov
U.S. Geological Survey
www.usgs.gov

HURRICANE
Federal Emergency Management Agency
www.fema.gov
National Climatic Data Center
www.ncdc.noaa.gov/oa/ncdc.html

TORNADO
National Weather Service
www.nws.noaa.gov
Tornado Alley Information
www.oar.noaa.gov/spotlite/archive/spot_climatology.html

VOLCANO
U.S. Geological Survey
http://volcanoes.usgs.gov
www.volcanos.com
www.volcanoes.com

WILDFIRES
National Interagency Fire Center
www.nifc.gov
National Center for Public Policy Research
www.nationalcenter.org



Facts and Figures

The following are some important and interesting facts and figures having to do with 2008 catastrophe losses:

- Although there were fewer "loss-producing" events in 2008 than in the previous year, the impact of natural disasters was higher.
- More than 220,000 people died in events like cyclones, earthquakes and flooding, the most since 2004, the year of the Asian tsunami.
- Overall global losses totaled about $200 billion, with uninsured losses totaling $45 billion, about 50 percent more than in 2007.
- 2008 was the third most expensive year on record, after 1995, when the Kobe earthquake struck Japan; and 2005, the year of Hurricane Katrina in the United States.
- The most expensive single event in 2008 was Hurricane Ike, which brought $30 billion in losses. It was one of five major hurricanes in the North Atlantic that year, which saw a total of 16 tropical storms.
- The World Meteorological Organization (WMO) figures show that 2008 was the 10th warmest year since reliable records began, meaning that the 10 warmest years on record all occurred in the past 12 years.

Source: Munich Re, as reported by BBC News, December 29, 2008.

You can be sure that if disaster does strike, a full and timely recovery will depend on your ability to deal with the unexpected.

THE 10 MOST COSTLY CATASTROPHES, UNITED STATES [1]

			Insured Losses in ($) Millions	
Rank	Date	Peril	Dollars When Occurred	In 2007 Dollars [2]
1	Aug. 2005	Hurricane Katrina	$41,100	$43,625
2	Aug. 1992	Hurricane Andrew	15,500	22,902
3	Sept. 2001	World Trade Center, Pentagon Terrorists Attacks	18,779	21,981
4	Jan. 1994	Northridge, CA Earthquake	12,500	17,485
5	Oct. 2005	Hurricane Wilma	10,300	10,933
6	Sept. 2008	Hurricane Ike	10,655	10,655 [3]
7	Aug. 2004	Hurricane Charley	7,475	8,203
8	Sept. 2004	Hurricane Ivan	7,110	7,803
9	Sept. 1989	Hurricane Hugo	4,195	7,013
10	Sept. 2005	Hurricane Rita	5,627	5,973

(1) Property coverage only. Does not include flood damage covered by the federally administered National Flood Insurance Program.
(2) Adjusted to 2007 dollars by the Insurance Information Institute.
(3) Estimated. Expressed in 2008 dollars.

Source: Insurance Services Office Property Claim Services Unit; Insurance Information Institute

- Disaster losses along the coast of the United States are likely to escalate in the coming years, in part because of huge increases in development. It is predicted that catastrophe losses will double every decade or so due to growing residential and commercial density and the cost of rebuilding expensive properties.

- The year 2008 brought one of the deadliest U.S. tornado seasons in more than a decade. The average annual number of tornado-related deaths nationally for the 10 year-period 1997-2006, was 62. Yet more than 120 people died in U.S. tornadoes in 2008. Typically about 1,000 tornadoes occur annually, however, at least 1,600 struck the United States in 2008 during the first nine months alone, according to the National Weather Service. The number of tornadoes was on track to rival the record set in 2004, when more than 1,800 twisters were reported.

- Fewer than 20 percent of all Americans have a flood insurance policy, even though 73 percent of those surveyed nationally this year by the Insurance Information Institute said they are aware that a standard homeowners insurance policy will not cover them for flood-related damages.

Source: Insurance Information Institute

A commitment to developing and regularly updating your disaster recovery plan is vital to a full recovery.

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