

# Steps for developing a small business disaster recovery plan

## Business Insurance

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Businesses that are forced to close down following a disaster run the risk of never being able to open their doors again. While there's no way to lower the risk of a natural disaster like a hurricane, there are critical measures that can be taken to protect your company's bottom line from nature's fury. A disaster plan and adequate insurance are keys to recovery.

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No matter how small or large a business, a business impact analysis should be developed to

identify what an operation must do to protect itself in the face of a natural disaster. Large corporations often hire risk managers to handle this task and some companies hire consultants with expertise in disaster planning and recovery to assist them with their plans. But small businesses can do the analysis and planning on their own.

## Key elements of a business recovery plan

- **Set up an emergency response plan and train employees how to carry it out.** Make sure employees know whom to notify about the disaster and what measures to take to preserve life and limit property losses.
- **Write out each step of the plan and assign responsibilities to employees in clear and simple language.** Practice the procedures set out in the emergency response plan with regular, scheduled drills.
- **Compile a list of important phone numbers and addresses.** Make sure you can get in touch with key people after the disaster. The list should include local and state emergency management agencies, major clients, contractors, suppliers, realtors, financial institutions, insurance agents and insurance company claim representatives.
- **Decide on a communications strategy to prevent loss of customers.** Post notices outside your premises; contact clients by phone, email or regular mail; place a notice in local newspapers.
- **Consider the things you may need initially during the emergency.** Do you need a back-up source of power? Do you have a back-up communications system?
- **Human resources.** Protect employees and customers from injury on the premises. Consider the possible impact a disaster will have on your employees' ability to return to work and how customers can return to your shop or receive goods or services.
- **Physical resources.** Inspect your business' plant(s) and assess the impact a disaster would have on facilities. Make sure your plans conform to local building code requirements.
- **Business community.** Even if your business escapes a disaster, there is still a risk that it could suffer significant losses due to the inability of suppliers to deliver goods or services or a reduction in customers. Businesses should communicate with their suppliers and markets (especially if they are selling to a business as a supplier) about their disaster preparedness and recovery plans, so that everyone is prepared.
- **Protect your building.** If you own the structure that houses your business, integrate disaster protection for the building as well as the contents into your plan. Consider the financial impact if your business shuts down as a result of a disaster. What would be the impact for a day, a week or an entire revenue period?

- **Keep duplicate records.** Back-up computerized data files regularly and store them off-premises. Keep copies of important records and documents in a safe deposit box and make sure they're up-to-date.
- **Identify critical business activities and the resources needed to support them.** If you cannot afford to shut down your operations, even temporarily, determine what you require to run the business at another location.
- **Find alternative facilities, equipment and supplies, and locate qualified contractors.** Consider a reciprocity agreement with another business. Try to get an advance commitment from at least one contractor to respond to your needs.
- **Protect computer systems and data.** Data storage firms offer offsite backups of computer data that can be updated regularly via high-speed modem or through the Internet.

## Review your insurance plan

Make sure you have sufficient coverage to pay for the indirect costs of the disaster—the disruption to your business—as well as the cost of repair or rebuilding. Most policies do not cover flood or earthquake damage and you may need to buy separate insurance for these perils. Be sure you understand your policy deductibles and limits.

New additions or improvements should also be reflected in your policy. This includes construction improvement to a property and the addition of new equipment.

For a business, the costs of a disaster can extend beyond the physical damage to the premises, equipment, furniture and other business property. There's the potential loss of income while the premises are unusable. Your disaster recovery should include a detailed review of your insurance policies to ensure there are no gaps in coverage. Your policy should include business interruption insurance and extra expense insurance. Even if your basic policy covers expenses and loss of net business income, it may not cover income interruptions due to damage that occurs away from your premises, such as to your key customer or supplier or to your utility company. You can generally buy this additional coverage and add it to your existing policy.

## Basic commercial insurance to consider

- **Building coverage** provides coverage up to the insured value of the building if it is destroyed or damaged by wind/hail, or another covered cause of loss. This policy does not cover damage caused by a flood or storm surge nor does it cover losses due to earth movement, such as a landslide or earthquake, unless added by endorsement.
- **Business personal property** provides coverage for contents and business inventory damaged or destroyed by wind/hail, or another covered cause of loss.

- **Tenants improvements and betterments** provides coverage for fixtures, alterations, installations, or additions made as part of the building that the insured occupies but does not own, which are acquired and made at the insured's expense.
- **Additional property coverage** provides for items such as fences, pools or awnings at the insured location. Coverage limits vary by type of additional property.
- **Business income** provides coverage for lost revenue and normal operating expenses if the place of business becomes uninhabitable after a loss during the time repairs are being made.
- **Extra expense** provides coverage for the extra expenses incurred, such as temporary relocation or leasing of business equipment, to avoid or minimize the suspension of operations during the time that repairs are being completed to the normal place of business.
- **Ordinance or law** provides coverage to rebuild or repair the building in compliance with the most recent local building codes.

## Additional resources

- [\*Open for Business: A Disaster Planning Toolkit for the Small Business Owner\*](#) at the Insurance Institute for Business & Home Safety
- [Small Business Administration](#)

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