

Can Your Business Survive a Natural Disaster? Advance Planning, Proper Insurance are Essential

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NEW YORK, April 13, 2004 - Can your business survive a natural disaster? Many don't. More than 30 percent of businesses never reopen their doors after they've been closed down by a hurricane, tornado, flood or other devastating calamity.

A disaster recovery plan and adequate insurance are keys to getting back to business, say the Insurance Information Institute (I.I.I.) and the Institute for Business & Home Safety (IBHS).

Review your insurance plan

No matter how small or large a business, make sure you have sufficient coverage to pay for the indirect costs of the disaster - the disruption of your business - as well as the cost of repair or rebuilding.

Your insurance plan should consider the following:

- **Understand your policy deductibles and limits.** Speak with your insurance agent or company representative to make sure you know what kind of coverage you have.
- **Have sufficient coverage to pay for the indirect costs of the disaster.** Coverage should include the disruption to your business - as well as the cost of repair or rebuilding.
- **Evaluate your property insurance policy.** Insure any improvements you've made to the property. There may be limitations on what the policy will pay for certain items. If you need higher amounts, discuss this with your agent.
- **Consider flood or earthquake damage.** Typical property insurance policies exclude coverage for flood or earthquake damage. If you're located in a flood zone (check with your local municipality or bank about this), you'll probably have to buy a separate policy from the National Flood Insurance Program (NFIP).
- **Protect yourself against business interruption.** Business interruption insurance covers the profits a business would have earned, based on its own financial records, had the disaster not occurred. It also pays for the operating expenses that continue, such as payroll, even though business activities have come to a temporary halt.
- **Include extra expense insurance.** Extra expense insurance reimburses you for what you spend, over and above your normal operating expenses, to avoid having to shut down during the restoration period.
- **Leave no gaps in your insurance.** Insurance policies should include property insurance, 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.

Develop a Disaster Recovery Plan

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.

Your business plan should consider the following:

- **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, e-mail 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' physical 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 the business 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.

Most business owners are complacent about natural disasters until it happens to them. It's only when the owner has gone through a disaster that a disaster plan, including purchasing the proper insurance, is usually considered.

Business owners who need additional information regarding disaster preparedness can access the I.I.I. Web site at: www.iii.org. You can download a copy of Open for Business: A Disaster Planning Toolkit for the Small Business Owner at: www.ibhs.org/business_protection/ or the Small Business Administration at: www.sba.gov.

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