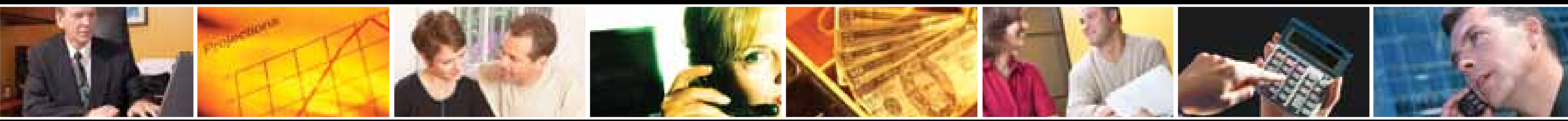
Volume 2, Number 2

Risk Monitor



Inside...

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Does Your Business Have a Disaster Recovery Plan?

Of events with negative financial and commercial impacts, natural disasters such as floods, hurricanes, tornadoes and earthquakes are at the top of the list. In 1907, a massive earthquake in San Francisco touched off a financial panic that nearly turned into a full-scale depression. Hurricane Katrina in 2005 cost an astounding $125 billion dollars in damages. The hurricane shut down nine oil refineries and another thirty oil drilling platforms.

Obviously, natural disasters can wreak havoc on all industries, not just oil and fishing. Small and large businesses are equally afraid of the effects a natural disaster will have upon their balance sheets. The inability to quickly recover from a disaster means certain death for the business. This is why having a disaster recovery plan is so important. The proper plan can help business owners get their operations back on track without permanent losses.

Needs Assessment

To formulate a disaster recovery plan, the business needs to first assess their needs. A qualified insurance agent can go over the books alongside the business owner and clearly state what requires coverage, such as loss of income, continuing operating expenses, or miscellaneous expenses after disaster strikes.

Document Organization

Organization is one of the most critical components to surviving a disaster intact. The right documents all gathered together and secured properly will save hundreds of hours later. Depending on the nature of the business and/or what industry it operates in, off-site backup of critical files may be called for.

Commonly, insurance companies will insure the basic constituents of a business, such as business income. Business interruption insurance will replace lost income as a result of the business being closed for whatever reason as the result of a disaster. This is why having documents organized properly is so important. The claims adjuster would need precise, detailed records of income and expenses in order to properly determine what the profits would have been had the business not closed due to disaster.

While it is next to impossible to determine what the document list should be for all businesses, here are some general documents to keep backups for:

- insurance policy contracts
- information on all of the bank accounts associated with the business
- leases
- income tax return forms for the last three years
- sales records
- inventory lists

It is also wise to make a list of all of the important people the business would have to contact in the event of disaster. This list includes bankers, landlords, accountants, creditors, employees, customers, etc.

Evacuation Plans

Preparing an evacuation plan will aid the business executives and employees by telling them exactly how to proceed during an emergency. When forming the evacuation plan, the business must make sure that all employees have designated assigned roles that they will follow; this will help organize their efforts and keep things under control.

When the Worst Happens

After a disaster occurs, it is important to carefully document the damage extensively. The business must inform their insurance company immediately that a disaster has occurred and that they have incurred damages and/or losses as a result. The busi-

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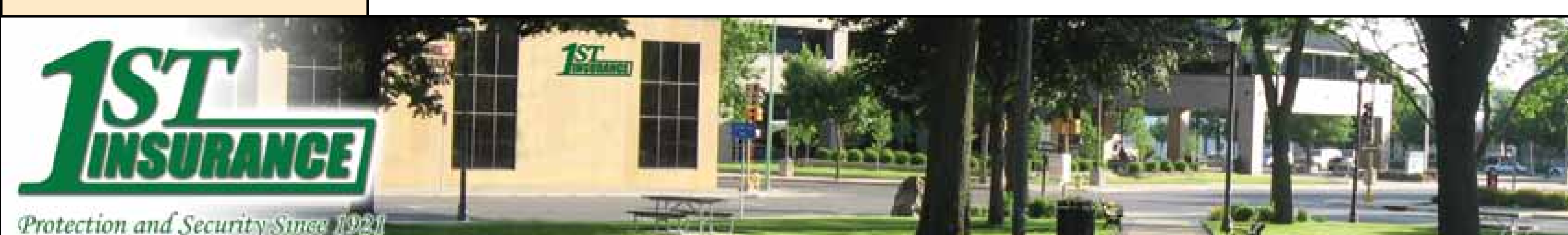

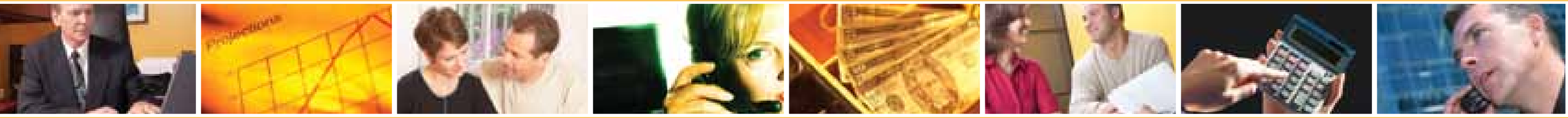

Don’t Forget Insurance for Your Organization’s Cyber Risks

The federal Internet Crime Complaint Center received over 330,000 complaints in 2009, and more than a third of them ended up in the hands of law enforcement. The damages from those referred to the authorities totaled more than a half billion dollars. The Government Accountability Office estimated that cyber crime cost U.S. organizations $67.2 billion in 2005; that number has likely increased since then. With so much of business today done electronically, organizations of all types are highly vulnerable to theft and corruption of their data. It is important for them to identify their loss exposures, possible loss scenarios, and prepare for them. Some of the questions they should ask include:

What types of property are vulnerable? The organization should consider property it owns, leases, or property of others it has in its custody. Some examples:

- Money, both the organization’s own funds and those it holds as a fiduciary for someone else
- Customer or member lists containing personally identifiable information, account numbers, cell phone numbers, and other non-public information
- Personnel records
- Medical insurance records
- Bank account information
- Confidential memos and spreadsheets
- E-mail
- Software stored on web servers

Different types of property will be susceptible to various threats, such as embezzlement, extortion, viruses, and theft.

What loss scenarios could occur? The organization needs to prepare for events such as:

- A fire destroys large portions of the computer network, including the servers. Operations cease until the servers can be replaced and reloaded with data.
- A computer virus infects a workstation. The user of that computer unknowingly spreads it to everyone in his workgroup, crippling the department during one of the year’s peak periods.
- The accounting department discovers a pattern of irregular small funds transfers to an account no one has ever heard of. The transfers, which have been occurring for almost three months, were small enough to avoid attracting attention. They total more than $10,000.
- A vendor’s employee strikes up a casual conversation at a worker’s cubicle and stays long enough to memorize the worker’s computer password, written on a post-it note stuck to her monitor. Two weeks later, technology staff discover that an offsite computer has accessed the human resources database and viewed Social Security numbers, driver’s license numbers, and other personal information.

In addition to taking steps to prevent these things from happening, the organization should consider buying a cyber insurance policy. Several insurance companies now offer this coverage; while no standard policy exists yet, the policies share some common features. They usually cover property or data damage or destruction, data protection and recovery, loss of income when a business must suspend operations due to data loss, extra expenses necessary to maintain operations following a data event, data theft, and extortion. However, each company may define these coverages differently, so reviewing the terms and conditions of a particular policy is crucial. Choosing an appropriate amount of insurance is difficult because there is no easy way to measure the exposure in advance. Consultation with the organization’s technology department, insurance agent and insurance company may be helpful. Finally, all policies will carry a deductible; the organization should select a deductible level that it can afford to pay and that will provide it with a meaningful discount on the premium. Once management has a thorough understanding of the coverages various policies provide in relation to the organization’s exposures, it can fairly compare the costs of the policies and make an informed choice.

Computer networks are a necessary part of any organization’s environment today. Loss prevention and reduction techniques, coupled with sound insurance protection at a reasonable cost, will enable an organization to get through a cyber loss event.

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ness owners are responsible for the safety and well-being of all of their employees before, during and after the disaster. If the building where the business has been located has been damaged, get the building inspected.

The business owners must survey the damage carefully. Photograph and videotape all damaged areas everywhere, whether inside or outside the building. If necessary, they can make initial repairs to prevent even greater damage, such as boarding up windows and holes in the ceilings and walls. Once the adjuster and local authorities approve the claims application, than repair work can begin.

Who Rates Insurance Companies–Finding the Best

It's no longer enough to choose an insurance company simply because they offer what appears to be the best coverage or lowest rates. You also have to know the financial security of the company especially in these challenging economic times when even the largest companies might be teetering on the edge of insolvency.

Additionally, you want to know something about the company's track record when it comes to paying claims and overall customer satisfaction. Not all insurance companies are the same and you should take a hard look at your prospective insurer before handing over a big premium check.

How can you find this information? Well, it's easier than you think because there are several major companies that rate insurance companies. Each offers a detailed rating service and most of these services are free.

The rating system for each of these rating companies is based on a letter grade system such as "AAA", through "NR." However, you should note that there are both subtle and significant differences in the letter grade system. A "C" rating might mean an average score for one rating company but might also suggest the insurance company is experiencing significant financial challenges with a different insurance rating company. Make sure you fully understand the rating system for each of the companies before jumping to an erroneous conclusion.

Some rating companies only rate the top 200 insurers, while others offer more comprehensive data.

Here is a brief summary of the major companies which rate insurance companies.

1. A.M. Best – www.ambest.com

This rating agency is the only one which specializes in banking and insurance companies, reinsurers and covers the total insurance market spectrum including international markets such as the U.K and Canada. Also offers a comprehensive article base and in depth commentary.

2. Fitch Inc. – www.fitchratings.com

Provides a global rating service on insurance products through combining both local and international expertise on contemporary insurance issues and trends. Also offers a monthly newsletter dealing with specific insurance issues called "Insurance Insights."

3. Moody's Investor Services – www.moodys.com

You have to register to log in with this company before you can access their info. Covers title insurers, life, mortgage and property and casualty. Mainly focused on the financial health and outlook of insurance companies and overall realm of the financial market.

4. Standard & Poor's – www.standardpoor.com

Must be a subscriber. Offers international rating services on property and casualty, life, annuities, health, title, mortgage, bond and reinsurance. Rating services include link market solutions and both the derivative product and financial subsidiaries.

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feel is necessary. Frequent exclusions in these types of policies include the loss of cash or securities, losses resulting from employee dishonesty, boiler explosion, and forgery. Read your policy closely, and talk with your insurance agent to ensure you have the necessary coverage for your business.

- Know under what circumstances your business interruption insurance is applicable. Business interruption insurance is designed to cover the loss of income incurred if normal business operations are disrupted or halted by damage to property. Businesses most affected by this kind of loss include manufacturing, wholesale, and retail stores.

Basic business interruption insurance doesn't cover additional expenses, losses beyond actual loss of income that you may incur. For example, if your office burns to ground, you may need to rent substitute space (perhaps at a greater cost), buy or rent computer & other business equipment, install phone lines, set up security measures, etc. These kinds of expenses generally fall under extra expense insurance.

- Understand how your co-insurance clause works. Co-insurance clauses can lead to penalties if you are not adequately insured at the time of a loss. Suppose you own a building that is valued at $1 million. If you have a co-insurance value of 80%, that means you must insure the building for at least 80% of its value, or $800,000, in order to collect on any loss in full. If you only insure the building for $400,000 — half of the required co-insurance amount–then you can only collect on half of any loss. So if you had a loss of $10,000, and had only insured the building for $400,000, then you could only collect $5000—half of the total loss amount.

If you cannot get the clause waived by your insurer, make certain that you have bought an adequate amount of insurance to cover the value of your property. That way, you will not experience any co-insurance penalties at the time of a loss.

Seven Tips to Get the Most from Your Business Insurance

Securing proper insurance for your business can mean the difference between survival and failure in times of financial loss. However, in spite of its importance, many small business owners still don't know all they should when it comes to insuring their company.

Consider the following tips:

- Keep business records updated, duplicated, and organized—and keep them that way. Maintain detailed records of all business transactions, not just for your insurance policies. In the unfortunate circumstance that you should have to file a claim to recover losses due to a business interruption (especially a claim for loss of income or extra expenses incurred due to business interruption), the faster you can get detailed information into the hands of your insurer, the faster you'll get your claim paid. Finally, make sure you store copies of your records at an alternate location.
- Know the current valuation of your property and its replacement cost. Insurers reimburse for loss in one of two ways: replacement cost valuation, which is the cost to replace property at current market value, or depreciated settlement, which is the cost to replace property minus depreciation. When available, you should choose a policy that reimburses by replacement cost value.
- Be aware of any policy waiting period that applies to business income loss. Any losses incurred during the waiting period will not be covered. Many businesses suffer their greatest income loss and expenses during the first hours and days following a disaster. Instead of a waiting period, consider a policy with a known dollar deductible. You won' t be covered for the first losses up to the stated dollar amount, but you will be covered for any loss over the deductible.

- Look for a policy with an extended period of indemnity following a business income loss. Some policies only cover losses incurred up to the point that you can reopen your doors. Without an extended period of indemnity clause of say 60 or 90 days, you cannot make claims for losses you continue to incur even after reopening.
- Know what coverages your policy doesn't include. Review the exclusions and limitations of your policy and add in what you

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