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ARTICLES: THE 411

Introduction to Contingency Planning

An Overview of the Business Contingency Plan

By Robert M. Swift, CPCU, CIPA, CBCP

Most businesses do not have a fully tested Business Contingency Plan (BCP), jeopardizing assets and employees. Contrary to popular belief, disasters do happen, and they do not always happen to the other person. Organizations need a BCP for regulatory compliance, to safeguard market share and brand reputation, protect assets and employees, maintain cash flow, protect vital records—in other words, for the survival of the company.

Companies do not plan to fail, they fail to plan!

The BCP is an organization's disaster survival document and is a critical component of risk management. Without a plan, businesses do not know what to do when disaster strikes and as a result, lose their customers, suppliers, and employees. They are out of business.

As complex as this issue may first appear, a systematic approach to disaster preparedness will guarantee that the BCP addresses all aspects of the operation of the company. A fully developed and tested contingency plan is essential for a smooth recovery because adequate resources have been identified and are available to carry the organization through their restoration period.

Determining the disaster recovery period directly impacts how much financing a company will need in order to rebuild their business after a disaster. The contingency plan identifies the continuing expenses and lost profit (business income), as well as the extra dollars (extra expenses) that are needed to see the company through the recovery period. This recovery time is measured from the date of the disaster to moving into permanent facilities and resuming operations, or to the time it takes for the organization's revenues to reach their projected level had there been no loss, whichever is later.

about the author

Robert M. Swift, CPCU, CIPA, CBCP

is a business interruption specialist with more than thirty years' experience worldwide in the insurance and risk management field. He has developed the overall disaster recovery strategy for major corporations and written Business Contingency Plans that summarize an organization's risks, their impact, and the appropriate response. Through his company, Business Interruption Consultants, Inc., Swift has instituted a unique, Web-based BI resource, **www.BISimplified.com** that includes a simplified, step-by-step contingency planning section.

Mr. Swift is an accredited instructor for the Institute for Business Continuity Training and is in demand by numerous professional organizations as a frequent public speaker. He is a member of the CPCU Society, the Disaster Recovery Institute, the Risk and Insurance Management Society, the National Society of Insurance Premium Auditors, and a past member of the Insurance Institute of London.

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Without a plan, an organization does not know what to do or where to go after a disaster. Time and resources are wasted trying to recover the business instead of spending that interval creating a more efficient operation. Think of the BCP as an "opportunity document" that allows the organization to scrutinize all phases of the operation and based upon a cost/benefit analysis, use the recovery plans as the impetus to eliminate low margin products, flatten the organization, and increase productivity. The result is to reform the organization into a more efficient operation, competitively ready to do business into the next decade.

The key components of the BCP are developing a strategy, assessing the impact on the organization from various catastrophe scenarios, protecting employees, assigning specific contingency responsibilities to teams with the appropriate expertise, and finally, testing, testing, testing. Organizations must develop a contingency plan that makes the disaster transparent to the marketplace; one that will reduce the recovery time and allow them to stay in business while the property is being restored. After the organization has determined how much income they will lose during the recovery period and how much extra money is needed, then they are able to purchase sufficient business income insurance or secure other financing for the full timeframe of recovery.

The easiest way to develop a Business Contingency Plan is to separate it into its components.

- **THE CONTINGENCY COORDINATOR** who heads the Contingency Planning Committee, is appointed by the chairman or president of the company with the committee consisting of the senior managers responsible for such areas as operations, legal, sales, administration, etc. It is the responsibility of this group to outline the strategic plan and supervise the development and testing of the company's contingency plan. We suggest Internal Audit monitor the plan's overall progress throughout the organization and report to the committee.

- **THE STRATEGIC PLAN** is a general outline of the actions the company would take when a disaster strikes. The Strategic Plan includes response to temporary/permanent, partial/total damage, as well as "hot work" issues when a business continues to operate while repairs are ongoing. Changes to the facilities, operations, and organization are examined to increase efficiencies and profits into the next decade. The plan would include such things as changing the product or service mix, removing middle management to flatten the organization, redesigning the shape of the facility, or reconfiguring departments to achieve a more efficient flow, etc.

- **A RISK ASSESSMENT MATRIX** is created to identify what natural and manmade risks the organization faces and then assign an impact and probability value to each risk, such as high, medium or low. For example, fire is high impact, but low probability, strike is high impact, but medium probability, etc. The result of this analysis allows the organization to prioritize its preparation based on the risks with the highest impact and probability.

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- **A BUSINESS IMPACT ANALYSIS** is completed to identify bottlenecks and the most serious threats to the organization. Functional unit managers are required to complete the Business Impact Analysis for their area. They are also responsible for reducing risk and implementing operating efficiencies, establishing necessary back-ups, and eliminating redundancies. Additionally, they should identify outside resources that could be helpful at the time of a disaster and establish interactivity with these resources.

- **LIFE SAFETY PROCEDURES** should be implemented and practiced to protect employees and visitors. This includes not only evacuation a safe distance from the facility, but also workplace violence lockdown procedures.

- **CONTINGENCY TEAMS** are identified, personnel are assigned, their responsibilities are determined, and appropriate equipment and supplies are provided. Suggested teams are Incident Command Team, Event Management Team, Computer Operations, Support, Personnel, Logistics, etc.

- **FINALLY, THE BCP IS TESTED, TESTED, TESTED.** Remember that the plan must also include the community's response capabilities. When testing, include the emergency management system (police, firefighters, hospital, and ambulance) so they also may rehearse their response plans.

It is imperative that businesses devote the time and resources to develop a well-planned and tested disaster preparedness plan. If the scope of the project feels overwhelming, **www.BISimplified.com** has divided the process into logical, manageable segments that make the undertaking more manageable and less daunting. Armed with a positive attitude, developing a Business Contingency Plan is an outstanding opportunity to be prepared and protected.

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