

Crises can come in many forms; an emergency that happens suddenly, a disruption to the routine of the organization, or something that hurts a company's competitive position and demands immediate attention can be called a crisis.

Emergencies can take many forms:

- physical perils, such as fires, floods, or earthquakes;
- work accidents;
- loss of essential supplies and utilities, such as electricity;
- walk outs or other labour problems; or deliberate acts of terrorism or sabotage.

Sometimes there is advanced warning, while other emergencies are unexpected. Emergencies also vary in degree and level of impact.

Contingency planning is essential for successfully minimizing any adverse effects on a business and its operations. Being unprepared can cause a business to experience significant loss of assets or human life, or to experience business interruptions. Also, being prepared for "expected" emergencies will make a business better suited to deal with unexpected or unforeseeable ones.

## Thinking Ahead

If the building where you operate was destroyed, do you know:

- What you would do first?
- Where your records are?
- Who you would call?
- How to deal with your customers?

Every year many fully insured commercial operations fail to survive a total loss. While you may have full insurance, maybe even business interruption coverage, by the time your business is re-built, your customer base may have moved on.

## Importance of a Contingency Plan

Nobody wants a disaster, but the business which has planned for one (put its plan in writing) and organized itself for automatic action after the event, will have a greater chance of survival and a successful return to business.

All companies will experience a crisis at some time and history shows that action in emergencies is seldom effective unless planned in advance. The longer it takes to react effectively, the greater potential for loss. Companies unfamiliar with proper crisis management procedures may even worsen an already unfavourable situation.

Several other external factors can influence a business' decision:

- There is the potential for damaging media attention and loss of public good will. The longer an event is in the public eye, the more likely the public will be influenced by it. Make no mistake: a business will be measured on how well it responds and on the preventative measures it has taken prior to the event.
- There is potential legal liability. Employers have the duty to provide a safe work environment. A business may be liable for third party claims from damage to neighbouring properties, etc.
- While the financial cost of property damage and business interruption can be offset with adequate insurance coverage, what will offset non-economic business opportunity costs? Loss of market share to replacement goods because of excessive delays in returning a product to market can be devastating. No product or service is indispensable or irreplaceable – if one company can provide it, others can too.



# Contingency Planning

## Developing a Contingency Plan

A plan identifies: tasks, resources, contacts, and assets required to minimize the impact of an emergency on a business. The complexity of the plan is normally dictated by the size of the business.

### Starting your Plan

Identify potential risks to your business. These may include events like: fire, explosion, flood, earthquake, storm, burglary/theft, pollution, building collapse, computer failure, product recall, etc.

### Initial assessment

Rate the events identified based on likelihood and extent of impact. Deal with the highest risk event first. Anticipate the worst possible scenario - in the event of a less serious occurrence, implementation of all tasks may not be necessary.

When considering each possible event:

- always consider the worst case, as it's easier to scale back business activities than to expand them during a crisis
- estimate the length of time to restore the business
- consider any seasonal issues
- determine if other business/property owners could be affected

Keep in mind obtaining supplies and equipment may be affected due to delays in transportation. As well, if it is a widespread occurrence (a flood, for example), this could delay assistance and impact the availability of materials, or equipment. With pre-arranged agreements in place, you will likely improve your position over others.

### Business interruption impact

Try to answer the following questions:

- How loyal is your customer base?
- Can you absorb a short interruption? How long?
- Must you remain open at all costs?
- How will the interruption affect your competitive advantage? What does it take to keep your competitors from "stealing" your customers?

The answers to these questions will help to identify how critical the situation will be and what the time frame is for recovery. It will help to prioritize where to start with contingency plan development. Relocating at a temporary location may be necessary to keep your customers and fulfil contractual obligations. Or, if customer commitments and loyalty are such that a short delay can be tolerated to rebuild the operation, this may not be necessary.

### After the initial assessment

By now it should become apparent what loss events should be addressed first and how much time you have to get back in business.

## Plan Development

Identify all resources you will need to conduct business. This includes, but is not limited to:

- process equipment,
- buildings,
- a quick supply of raw materials, and
- computers and phones.

## Maintaining operations

One extremely important item to consider is maintaining operations on a temporary basis until the new facility is ready for occupancy. Such operations will require leasing some facilities on a short term basis, using other owned locations on an overtime basis, or arranging to use the facility of another firm during its normal “down” period. Since new equipment may not be available for delivery immediately (for unique, one of a kind, or foreign manufactured equipment, for example), arrangements will have to be made to lease or purchase used equipment. This should be well thought out before the need arises.

Maintaining operations, even on a limited basis, may be absolutely necessary to remain viable while construction of the replacement facility is underway.

- An inventory of available facilities and equipment should be maintained and updated regularly.
- Discussions with suppliers are also vital. If arrangements cannot be made to obtain a quick emergency shipment of supplies, then temporary facilities may not be feasible.
- Identify who will be in charge. Succession should also be considered in the event of travel, health issues, or the potential of a fatality as a result of the crisis or loss. Depending upon the situation, continuation of the business may be critical to dependants, the community, or others.

The successor(s) must be aware of the plan and its contents and should also be part of the planning process, including updates. The successors must have legal authority to act on behalf of the organization in identified situations.

## Assigning tasks

Develop and assign recovery tasks to trusted individuals/employees. Consider the sequence tasks must be completed in and assign realistic timelines for completion.

Remember the business owner will likely be very involved with financial matters.

The extent of involvement by others will vary with the complexity of the business/operation. Again, individuals must be aware of their responsibilities and how to accomplish the tasks assigned. Some of these tasks may even be accomplished by contractors, but planning discussions are required.

## Financial issues to consider

- Recover/duplicate records of orders, sales, accounts receivable, etc.
  - Being able to access updated and accurate financial records

is critical. Today most records are in electronic format; maintaining frequently updated off-site backups is a good approach. Vital hard copy records should be stored off-site.

- Complete and updated inventories of buildings, contents, stock, and any mobile equipment including their values is recommended.
- Notification of insurance carrier and claim processing.
  - Confirm the procedures for reporting a claim with your insurance broker. Include the reporting telephone numbers and times, policy numbers, and contact names.
- Possible short term financing due to loss of sales.
  - Having access to a line of credit may help overcome temporary cash shortfalls resulting from missed sales.

## Managing records

Papers and records can be divided into three main categories:

- 1) Corporate existence – these would include articles of incorporation, minutes of the Board of Directors and its major committees, plans for management succession, secret formulas or processes and whatever else may be considered by the board or general counsel as essential for the continuance of the organization.
- 2) Financial and legal – records like:
  - deeds,
  - leases,
  - contracts,
  - union agreements,
  - insurance policies,
  - financial statements,
  - sales and production records,
  - personnel files,
  - payroll data, and
  - organizational manuals.Either the original of these documents or a copy should be stored off premises.
- 3) Operating – could include production schedules, inventory data, marketing plans, formulas, blueprints, general ledgers, purchasing specifications, vendor lists, and data processing specifications. These are working documents and must be kept on site. As they are usually in a constant state of flux, weekly or monthly summaries should be maintained offsite.

## Communication

Communication plans should be prepared to notify affected parties; this may include:

- employees
- news media
- service providers
- suppliers
- sub contractors
- general public
- legal counsel
- key customers
- government agencies

Employees will obviously be concerned in the event of the destruction of the business. They will want to know such things as:

- Will the business re-open?

- If so, how long will it take to rebuild?
- When it re-opens, will I have my job?
- What do I do in the meantime?
- What about my benefits?

Customers must be informed immediately about the disaster. This is especially important for non local customers who may not be aware of the situation. They need to be informed about the status of their orders, when they can expect delivery and when the business will be rebuilt. The customer is susceptible to rumors, some of which could be started by your competitors.

Suppliers also need to be advised immediately. They need specific instructions regarding shipments of goods on order. They will also need information on long range plans and how they are to be paid for any outstanding orders. This also applies to service providers and subcontractors – especially if temporary operations are to be established.

The key is to communicate factual data right away. Delays or gaps in the information delivered will result in rumors, which can be damaging.

## Plan Testing and Maintenance

Once the plan has been developed and put to paper:

- Test it.
- Make necessary changes.
- Review annually, or after a major change in the business.

Testing, even if it is nothing more than a table top exercise requiring phone calls to be made or back-up records activated will show weaknesses in the plan. More detailed testing is preferred if possible. Any needed changes identified should be promptly incorporated into the plan.

A good contingency plan will include mandatory reviews of the plan. Annual reviews are a minimum, but any time significant changes are made to the business (employees, management, suppliers, etc.) this should be promptly reflected in the plan.

## More Information

Nobody wants a disaster or catastrophe, but the firm who has planned for one, put its plan into writing and organized itself for automatic action after the event, will have a far greater chance of survival and a successful return to business than the firm without a plan.

*For more information, please visit [www.intactprevention.com](http://www.intactprevention.com)*

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