Connecting the disaster dots: The benefits of enhanced collaboration between business continuity and risk management

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ABSTRACT

This paper serves as a guide to how disaster recovery costs after a loss can potentially be reimbursed through the insurance claim process, and highlights how disaster preparation and response are viewed through the lens of risk management and insurance claims recovery. Many organisations have both business continuity and risk management departments that, by and large, work independently. Following a significant business loss, however, such a siloed approach can leave many uncovered costs miscategorised as recoverable or, worse, completely miss an opportunity to recover claimable costs through the insurance claims recovery process. The implementation phase of business continuity processes and plans must include a component that considers how the mitigation spend will be potentially recovered or recouped through the insurance claims process. This key component should be analysed and described in coordination between business continuity and risk management. The goal of more continued cross-functional dialogue among business continuity and risk management professionals is the key to complete financial recovery and insurance claim reimbursement.

Keywords: risk management, business resiliency, insurance claim preparation, business interruption, business continuity

INTRODUCTION

The core function of 'business continuity' is often defined or explained differently by various stakeholders inside the same organisation. Depending on the size of an organisation, if a senior leader or C-suite executive is asked to define the organisation's business continuity or emergency response plan in the event of a major catastrophic business loss or interruption, they will likely relay the broad overall objectives and essence of the response plan. Subsequently, they may point to

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an in-house business continuity expert who would likely explain in greater detail the business continuity planning life cycle and how it is tailored to meet the goal of maintaining continuous operations for the organisation. Absent an in-house business continuity expert, they may instead point to a corporate risk manager whose core responsibility is to mitigate the risks of the business through the utilisation of risk control, and/or insurance transfer techniques. Sometimes they will point to both, but depending on the size and complexity of the organisation, it may be that neither of these paramount functions to protect the organisation from disaster have defined leadership or comprehensive objectives.

The ideal organisation has business continuity, risk management and insurance functions all represented and managed by a knowledgeable leader or group of experienced professionals. Highly qualified leaders operate each department in a cross-functional framework that does not lose sight of the most important reason for their efforts — to maintain continuous operations *and* to ensure the recovery of all reimbursable costs following a significant loss or delay. A clear strategic vision outlining how the organisation will respond to potential perils around these two main areas ensures a comprehensive operational and financial recovery.

For various reasons, most organisations are not following this idyllic model. While there is usually a common understanding of the overall goals and objectives necessary to ensure an expedited recovery and/or resumption of business following a loss, there is normally a disconnect or siloed view of those plans when viewed through the lenses of different departments and experts.

Following such a loss, risk management and insurance employees quickly review what, if any, insurance coverages, deductibles, waiting periods, limits of insurance or sublimits of insurance may be in place to help the organisation recoup its covered financial losses. At the same time, and many times independently, the business continuity function activates immediately and works tirelessly to resume the business operations by any reasonable means necessary. Both are crucial functions. While each of these key departments have independent priorities, jargon and performance objectives, the main goal of mitigating the impact of the disaster is clearly shared between the two.

An organisation facing a loss that can significantly impact its performance trajectory or viability should not make critical and pressure-filled decisions based on whether insurance (if in place) will reimburse it for critical resumption or mitigation spend. This is often the mistake that is made when insurance is in place: waiting for permission, authority or approval before spending money to correct a problem, all while the clock continues to tick. While it is always recommended they be made aware, insurance companies will likely not question any reasonable decision made to mitigate the impact or reduce the impact of the loss as it is important to act swiftly and prudently. As the risk bearer, the insurers also benefit from swift decisions and reasonable mitigation steps to lower the overall financial exposure.

Following a loss, however, there is a gap between business continuity and risk management which often leads to significant financial shortfalls. Both departments must work together at the outset of the disaster event to ensure that each mitigation decision and corresponding cost is *considered* (not as a necessary step prior to approval of the decision, but rather considered if and how each cost may be recoverable), and how each particular step and/or recovery cost may or may not be ultimately presented, audited and collected through the submission of an insurance

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claim. The more common siloed approach leaves many uncovered costs miscategorised or incorrectly deemed recoverable or, even worse, completely fails to identify and submit recoverable costs through the insurance claims recovery process during the period of indemnity.

The implementation phase of business continuity processes and plans must include a component that considerers how the mitigation spend will be potentially recovered or recouped through the insurance claims process. This is especially true as most organisations will usually carry some form of business insurance. This key component should be analysed and described in coordination between business continuity and risk management. This component should also include an action plan to review and analyse all costs related to a recovery at the time they are spent and the availability of methods to recoups such costs fully or in part through the insurance claims process. This key enhancement to a business continuity strategy will add another important layer of protection to an organisation, perhaps the most important tactical item, which is awareness and organisation of recoverable costs during and post-disaster.

RECENT EVENTS

Globally, business interruption continues to be widely considered the most concerning business risk for all organisations regardless of industry, size or departmental function. According to a report from the Federal Emergency Management Agency (FEMA), 40 per cent of businesses in the USA do not reopen following a disaster.[1] Furthermore, another 25 per cent of businesses fail within one year of the event. Regardless of the triggering event, protecting an organisation's business income or ability to conduct business operations in the event of a loss or disruption still is the most concerning risk by both risk managers and business continuity professionals alike. According to the Allianz Risk Barometer, a respected industry survey of global risk managers, business interruption was ranked as the top risk in 2017 — the fifth year in succession — with triggering perils such as natural catastrophes, fires and cyber attacks ranking the highest on the list of events causing the business interruption.[2]

Managing through a significant business disaster or interruption is a high-stress, complex and exhausting process that requires internal coordination and 'sticking to the plan' while at the same time remaining flexible enough to allow for decisive decision making that could mean the difference between the continuation or cessation of the organisation's business. In the race to get businesses up and running after a major loss or disruption, the winners are always those who are best prepared and manage effectively through changing conditions sensibly during the recovery.

Recent hurricanes such as Michael and Florence or the series of 2017 hurricanes informally referred to as 'HIM' (Harvey, Irma and Maria) proved that identifying the appropriate internal and external resources necessary to resume operations and to document a disaster event accordingly — everything from accountants to structural engineers — separates those organisations that are able to bounce back and recover the majority of their spend from those who become overwhelmed with the insurance claims process and end up with major financial shortfalls.

PRE-LOSS INSURANCE RISK ACTIVITIES

Planning for and managing business operational risks is a full-time job for most organisations. It requires data analytics that

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includes understanding internal factors such as loss histories as well as external changing business conditions, both of which need continuous alignment to the current and future state of the organisation. Most organisations pass this responsibility to a risk manager. According to a 2018 survey led by Ohio State University's Fisher College of Business, approximately 70 per cent or respondents reported having a risk management department,[3] up 4 per cent from 2017. Risk managers fulfil many tasks including risk identification, risk control, risk avoidance and risk transfer. For the purposes of the present article, the risk transfer technique assumed is guaranteed cost insurance through a traditional contract or policy with an insurance carrier.

Table 1 highlights a few of the broader, more common risk management approaches to evaluating risk and strategies that can mitigate a potential loss.

When evaluating risk and exposure to a business disaster, more sophisticated risk managers for all different sizes of organisations usually take the following additional steps to ensure preparation for loss.

Risk identification and scenario planning

Identifying the organisation's operational or business risks, practising response plans and determining how insurance policies may or may not respond is the first step in building a response plan. Flexibility in a response plan is essential. It is impossible to predict every potential scenario, and usually it is the item or issue that was not contemplated that will be the major challenge that needs to be addressed following a loss. The ideal approach is therefore to organise a coordinated team comprised of all departments, risk management, business continuity, etc to 'role-play' the event and brainstorm recovery processes and procedures so no matter what the scenario, the team can plan a failure point analysis or work through it and not get caught up in specific issues that may compromise overall recovery.

Table 1: Common risk management approaches to evaluating risk and strategies that can mitigate a potential loss

Strategy	*Description*	*Pros*	*Cons*
Review loss history	Study prior loss experience What worked/what didn't	Ease Based on your data	Focuses only on what happened in the past Can be outdated or misleading
Pre-select insurance adjuster	Interview adjusters and have your selection written into the policy	Relationship pre-loss Understand your risk, business and culture Build trust	None
Disaster vendor review/relationship building	Meet with leading disaster services firms to understand emergency capabilities to support your organisation	Builds pre-loss knowledge 'Face time'/trust Learn about other losses/industry issues	None, if redundancy considered
'Do nothing'	'We haven't had a loss in 20 years' 'There's a reason it's not modelled, so don't worry' about it'	No time spent	Major blind spots

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Valuing business interruption risk

Once risks have been identified, categorised and ranked, it is important to value the risk or exposure to ensure adequate limits of insurance. This is often required by insurers prior to agreeing on the insurance contract. Business interruption insurance is intended to put a business back to where it would have been 'but for the loss'. Too many organisations look at revenue and estimated downtime and simply guess how much coverage is required. Valuing the business interruption risk or exposure involves a specific insurance calculation that fundamentally considers gross earnings or gross profits less non-continuing expenses. It is important to work with professional forensic accountants who can tailor the calculation to fit the specific elements of the organisation. This valuation process should be performed in detail at least every two years. However, many organisations apply arbitrary inflation rates annually during each insurance renewal, potentially leaving some details overlooked and leaving the organisation to be over/under-insured. It is critical to speak to experts or utilise tools that allow the organisation to stress-test or validate how it has been calculating its business interruption exposure more accurately. This will allow the organisation to 'right-size' its risk transfer and corresponding premium spend.

Specificity is important in the risk valuation process. Rather than looking at the entire portfolio of revenue at risk that is susceptible to a business disruption, an organisation should perform analyses of key drivers at the segment level, including location and/or business application. Some critical questions to consider include:

- Are there seasonality issues that would materially affect certain segments of the organisation vs others? Does a potential disaster in January have the same lasting effect as a disaster that occurs in June?
- Can we simply shift lost production to a nearby operation? If so what are the expediating or extra expense estimates to do so and would those costs be covered in an insurance claim?
- Are there bottlenecks that can exacerbate a loss? Can they be avoided?
- What are the contingent exposures should a key supplier have a disaster?
- Which business applications, systems and networks have the greatest impact on our ability to generate revenue or continue our operations at a normal level?

This analysis, if performed in a cross-functional manner between business continuity and risk management, will provide a more specific view of how an event would affect or impair core drivers of business income.

Leveraging the expertise of the insurance broker or agent

Insurance brokers or agents are professionals who are knowledgeable about the organisation's industry and can add valuable insight into customising the right insurance programme to fit its needs.

An insurance broker or agent should review and understand the organisation's current business interruption policy coverage and limitations, including limits and sublimits. They may also discuss how multiple insurance policies overlap and spot, for example, business interruption coverage in separate polices such as property insurance and cyber insurance. Often, an organisation believes they are completely covered from an event only to find later that the policy contains nuances such as sublimits that that reduce the organisation's ability to recoup certain costs. For example, a large hospital

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complex discovered that it had plenty of insurance to cover business income losses after a major fire but was severely limited in how much of its mitigation spend would be recovered under the extra expense sublimit.

Building an expert team to support an insurance claim recovery

One of the most important and, frankly, easiest pre-loss activities is having a network of recovery and claim experts that can support the organisation immediately after a loss. When a business income loss occurs, a claim preparation process must be initiated to fully support and document financial recovery with the organisation's insurers. Having a team of professionals at the ready is crucial. Some teams to consider include restoration companies, claim experts and forensic accountants. It is important to consider priority programmes that guarantee the availability of such vendors the organisation will need after an event. In an area-wide disaster, an organisation does not want to be waiting for crucial recovery resources like fuel to operate generators. While this is normally a swim-lane for the business continuity or emergency response professional, there are many pre-approved vendors that have pre-approved rates with insurers that make the reimbursement process much more efficient. If the business continuity and risk managers are working together, a joint list of qualified vendors can be narrowed down and chosen based not only on their qualifications and adherence to the organisation's expectations but also to their status as an approved vendor with the insurance company. If there is a match, this simple connection can save tens of millions of dollars after a loss happens. An insurer is less likely to challenge the costs, rates or scope of the recovery effort of a vendor that has already worked with them in the past and is approved.

POST-LOSS INSURANCE CLAIM CONSIDERATIONS

As damages are initially investigated, the first hours and days after a loss are critical for setting the tone in the insurance adjustment and claims submission process. The following steps are essential when navigating through the insurance claim process after a major disaster.

Document all damages, delays and impairments

Photographs, video footage and drone footage of the loss from all perspectives are vital for memorialising the damages. At some point, this corroborating evidence will help the organisation settle potential disagreements on items such as scope, quantity and pricing when the costs for the same are usually negotiated at the end of a claim. It is important to include pictures of any identifying information such as serial numbers of damaged equipment.

After the damage has been memorialised, it is important to focus on decisions that get the business up and running as quickly as possible. Sometimes there is confusion on whether to mitigate the loss prior to the first adjuster site inspection. As mentioned previously, while it is not necessary to seek permission from the insurance company or insurance adjuster before acting, it helps to keep them in the loop as the organisation moves forward in mitigating its loss. Often, any decision made by a prudent business person to mitigate a loss is considered favourably by the insurance community.

Document the loss with adequate detail and specificity. Insurers want to reimburse an organisation every cost it is owed in the policy, but it must have adequate layers of data for verification. In the policy agreement, it is the organisation's responsibility to present a claim, and it is the insurer's responsibility to review and adjust it. To do so, provide sufficient detail to substantiate

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the loss and tie each invoice back to a specific area of the policy. Another important component of the claim submission is the inclusion of a narrative or summary explaining the timeline and reasons for each decision that is made and where it is connected to an area of coverage in the insurance policy. Often, organisations miss the need to put a 'story behind the numbers' in a claim submission and it leads to confusion on what occurred. Here is another opportunity where the business continuity professional can offer expertise in detailing the steps taken post-loss. Keep in mind that an average insurance claim can take between 3–12 months to settle, so a detailed narrative recounting all pertinent facts is crucial to memorialise the actions when the time for settlement approaches.

The insurance policy requirements for a claim

After a loss, the appropriate contact in the organisation, usually the risk manager, should immediately connect with the designated insurance broker or agent to understand which coverage is in place, sublimits for specific area of coverage and what is not covered at all.

Some additional common requirements or conditions of insurance policies include:

- Promptly reporting the loss and event to an agent/insurer/adjuster;
- Protecting undamaged property;
- Replacing destroyed items/repair damaged items with 'due diligence and dispatch';
- Utilising alternative facilities to maintain operations, inventory or other means; and
- Mitigating the loss to the greatest extent possible.

The business continuity professional should be made aware of the specific conditions of the organisation's insurance coverage and should build them into their strategic continuity plans. Ideally, the business continuity and risk management departments have gone through this process before a loss occurs. If not, it is highly important for all stakeholders involved in the organisation's recovery to become quickly educated on what is eligible to collect through the insurance policy following a loss. Read the organisation's insurance policies and assess all the loss costs through the policies and procedures defined by each coverage category and segregate accordingly.

The insurance policy should be used as the roadmap for both the risk manager and business continuity professional as to how costs are classified and potentially collected as part of the recovery. It is important to instil leadership early in the loss quantification, verification and segregation processes by understanding fully what is or what is not covered and how the costs should be presented. It is not advised to analyse the loss separately for each area of recovery. A comprehensive, team-based approach for a claim submission is recommended.

The earlier the assessment can be made, the better. Assessment of potential insurance that may be available is critical to help the organisation identify early in the recovery process how to segregate the loss-related expenditures in conjunction with the insurance policy terms. Understanding with specificity what insurance coverage exists, including exclusions, deductibles, limits and sublimits, is crucial. Uninsured portions of a loss need to be clearly segregated and determined for eligibility through other means, such as federal aid.

Survey the damage with an insurance adjuster

A critical step in the insurance claim process is the first site visit by the

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insurance adjuster to view the damages sustained. When a date is set for the insurance adjuster to view the damages, every effort should be made for the risk manager and business continuity expert to be there in person, rather than leaving the local facility staff to handle this crucial initial inspection. Being there with both risk management and business continuity perspectives helps clarify the recovery plan steps, objectives and planned costs at the outset. It also sets the tone for a working relationship for the entire adjustment process. This is especially important during an area-wide disaster where insurance adjusters are typically spread thin and have limited time to spend on any one organisation's loss. Be prepared to walk the adjuster through the loss and focus the discussion on the organisation's business operations. Explain the planned recovery efforts and timeline to fully document and present the loss.

Provide a rough order of magnitude for the insurance claim

As the insurance adjuster begins to review the parameters of the loss, he or she will look to recommend a loss reserve to the insurer(s) for internal compliance and accounting purposes. A loss reserve is what the insurer believes their maximum liability on a claim to be, so it is important to ensure the adjuster sees the full potential or worst-case scenario with the goal of the greatest accuracy as possible in the early days following an incident.

The risk manager and business continuity professional should work together to prepare an initial summary identifying all areas of the loss with associated estimated costs. The risk manager can help explain the areas of coverage while the business continuity professional can explain the implementation of the same. For potential claimable items that are too early to quantify in the immediate aftermath of a loss such as business interruption, include the item as 'to be determined' (TBD). This will help the insurance adjuster consider the worst-case scenario including potential future claim items as he or she sets the loss reserve.

An effective insurance claim presentation aligned with the proper policy coverage area can become a tool for cash flow during the recovery of a loss. While the average insurance claim takes 3–12 months to settle in full, interim payments can be requested and processed along the way for documented and undisputed costs. The insurance adjuster can release funds as items are agreed to and supported. As the organisation proves damages through the adjustment process, it is advisable to request partial payments from the insurance adjuster. This will help the organisation maintain cash flow during the recovery process.

CONCLUSION

One thing is certain: there will be another devastating disaster that will affect an organisation and test that organisation's business continuity, emergency planning and risk management plans.

Organisations that have these disciplines in-house should nurture a broad recovery process to include the nuances of the insurance coverage and how recovery costs will be presented during the insurance adjustment process. Any type of organisation should ensure it has an experienced external team of claim preparers, insurance brokers and legal counsel to increase the likelihood of collecting all costs available through the insurance policy.

Well-thought-out, cross-functional process and strategy between business continuity and risk management are essential to communicate, quantify and present a loss effectively and thereby achieve comprehensive financial recovery.

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