

RISK CONTROL

Risk Management Guide



RISK CONTROL

REDUCE RISK. PREVENT LOSS. SAVE LIVES.

Strategy guide for business continuity planning

A FOUR STEP PROCESS: ABC → Go

About this planning guide

This guide discusses the fundamental process and plan components of Travelers' *Strategy Guide for Business Continuity Planning*. The concepts in this guide are based on Travelers Risk Control's four-step continuity planning process, **ABC → Go**. The process is designed to serve as a foundation for helping companies assess and reduce business vulnerability, increase their resilience against loss and improve their ability to continue or resume operations, whether from a natural, man-made or technological event. Whether you are a large or a small company and regardless of the nature of your business or industry, the concepts in this guide are fundamental.

Business continuity is an on-going process to help ensure that the necessary steps are taken to identify the impact of potential losses and maintain viable recovery strategies, recovery plans, and continuity of operations throughout the life of the business. The concepts in this guide are intended to help companies develop this process. Goals include, but are not limited to:

- Ensuring the survival of the organization
- Protecting company assets and mitigating financial loss
- Minimizing the loss of customer business
- Facilitating the resumption of operations
- Improving the ability to salvage damaged equipment and operations
- Providing for the safety of personnel and other stakeholders before, during, and after an event

Experience has shown that organizations that have well thought out contingency plans usually recover successfully. When plans exist and personnel are properly trained, hazards may be contained, reaction times reduced, and coordination improved.

The purpose of this guide is to help companies develop a plan to minimize the financial, human and business operations impact of a natural, man-made or technological event. See also Travelers' *Business Continuity Workbook* for forms and worksheets to aid planning activities.

QUICK LINKS

[Importance of Planning](#)

[Setting the Stage: Program Administration](#)

[Major Steps of Planning](#)

[Step 1: **A**ssessment of Risk](#)

[Step 2: **B**usiness Impact Analysis](#)

[Step 3: **C**ontrols – Prevention & Mitigation](#)

[Step 4: **Go** - Implement, Test and Adjust](#)

[Program Maintenance and Improvements](#)

[Appendix](#)

Strategy guide for business continuity planning

The importance of planning

Each year, the United States sustains a significant number of extreme weather and other disaster-related events, costing American business tens of billions of dollars annually in loss costs. In addition to severe weather, cyber space is a continual risky and costly place for businesses, as cybercrime increases, with the potential to corrupt business data, steal customer information and a company’s intellectual property, and cause significant interruption in operations. A business continuity plan can help a company minimize its financial, human and business operations impact when faced with responding to an event. Yet, several misconceptions exist about event readiness or the need to plan for it. Common misconceptions are included in Table A below.

The planning process can help companies identify, address and be ready for business realities. Business owners routinely create “business” plans to help drive the company’s vision, direction and goals. The plan is critical to the company’s success – ensuring the viability of its products and services, its financial stability and health, and its sustainability and growth. So, too, is a “business

continuity” plan integral to a company’s business plan and critical in the success of a company’s continuity of business operations to help ensure ongoing operational performance in the event of loss.

Planning ahead and being prepared to effectively deal with an event is a key business operations responsibility. The old adage, “It won’t happen here” is no longer viable.

Disasters, whether natural, man-made, or technological in origin, from extreme weather to an explosion or fire, to widespread power outages and computer/data attacks, can occur anywhere.

Experts agree that companies that are proactive in business continuity planning are better prepared to protect lives, prevent damage to company property, and save tens of thousands of dollars otherwise lost if unprepared for an event. An event requires companies to act immediately, know what to do, who to notify and involve in response and recovery. Every employee needs to understand their roles and responsibilities, working together as a team. Types of incidents for which you need to plan are included in Appendix A.

Table A

Misconception	Reality
Our people have been with us a long time and will know what to do in the event of a disaster.	When a disaster occurs, it is no longer business as usual. People have to think in terms of what is important to keep the business running. Most employees will take care of their families first, not your business.
We have insurance to cover our losses.	Insurance is a part of your financial protection, but may not fully compensate you for things like loss of customers and market share or setbacks in release of a new product.
We don’t have time to develop a Business Continuity Plan.	Time spent developing and maintaining a Business Continuity Plan is an investment in your company.
Business continuity and disaster recovery planning are the same thing.	Business continuity addresses maintaining the financial viability of an organization when faced with a variety of events no matter how big or small. Business continuity provides steps that can be taken before, during and after an event. Disaster recovery deals with restoring buildings, equipment and processes primarily after an event. Disaster recovery is a part of business continuity planning.

The time to plan for an event is not when a serious incident occurs, but long before, when conditions are normal. Many companies have learned this lesson the hard way. Many never reopen after a major loss.

Proper planning may be the difference between survival and failure of your business. The bottom line is that a Business Continuity Plan is in the best interest of companies, regardless of size or nature of operations.

Setting the stage – program administration

Before starting the planning process, companies should have a foundation for sound program administration. Critical administration components include leadership commitment, a mission statement, program committee or planning team, and a planning schedule and budget.

Establish leadership commitment

Establishing authority for the program committee is a way to demonstrate management's commitment and to

Strategy guide for business continuity planning

promote an atmosphere of cooperation by "authorizing" the program committee to take the steps necessary to develop your plan. Your leadership commitment should include the following:

- Plans, policies, and procedures to develop, implement, and maintain your program
- Resources to support the program
- Support for correction of deficiencies
- Evaluations and reviews to ensure program effectiveness

Execute a mission statement

Have top management such as the plant manager, executive officer or risk manager issue a mission statement to demonstrate your commitment to business continuity planning. Consider including the program committee and program coordinator when developing the statement. The statement should include:

- The purpose of the plan. This is your vision for the plan. Indicate that it will involve the entire organization.
- Roles and responsibilities
- Scope, goals, objectives and methods of evaluation
- Anticipated costs, priorities, timeline and resources needed
- Compliance with any applicable legislation or regulatory requirements
- Records management

Form a business continuity program committee

A program committee or team can help you execute your planning activities. A team approach can help:

- Encourage participation and get more people invested in the process.
- Increase the amount of time and energy participants are able to give.
- Enhance visibility and stature of the planning process.
- Provide for a broad perspective on the issues.

To begin the selection process, determine who will be the program coordinator. The coordinator should be given the authority to develop, implement, administer, evaluate, and maintain your program.

Next, select members from diverse areas or departments within the company for the program committee. These individuals should have the expertise, knowledge, and capability to identify resources from all key functional areas with the company. Give thought to selecting top

performers for this assignment. Obtain input from upper management, line management and labor from functional areas, including:

- Operations, including procurement, warehousing, shipping
- Information Technology
- Human Resources
- Engineering and Maintenance
- Safety, Health and Environmental Affairs
- Security
- Community Relations and Public Affairs
- Sales and Marketing
- Legal
- Finance and Purchasing

The size of the committee will depend on the facility's operations, requirements and resources. Committee members should be appointed in writing by upper management. Their job descriptions should reflect this assignment and be measured as part of the annual performance review.

Establish a planning schedule and program budget

Establish a work schedule and planning milestones. If needed, timelines can be modified as priorities become more clearly defined. What gets tracked or measured will usually get completed.

Develop an initial budget for such things as research, printing, seminars, consulting services and other expenses that may be necessary during the development of the plan. This can be evaluated and modified as any additional needs are determined during plan development.

The strategy guide for business continuity planning continues on the next page.

Strategy guide for business continuity planning

The four major steps in business continuity planning

Travelers Risk Control describes business continuity planning as a continuous process that moves through four major steps:



Step 1 - Assessment of Risk



In the first step, your committee will undertake activities to assess the vulnerability of your facility and rate the potential impact of an event on employees, property, operations and the environment. **See Appendix A** for the types of events that can impact business.

This step also provides an opportunity to assess your current readiness to withstand or respond to an event in terms of the ability to continue operations. Where you identify gaps, you may need to develop or establish additional strategies, including, among others:

- Emergency procedures
- Prevention and mitigation controls
- Agreements with alternate suppliers and vendors
- Agreements with specialized contractors

Step 2 - Business Impact Analysis



Step two involves conducting a business impact analysis. It includes identifying those functions or processes that are necessary for a company to conduct business, which, if interrupted, would disrupt the company's ability to provide its goods and services to its customers.

A company's functions and processes can be described as "critical," "essential," and "complimentary" respectively in degree of importance and in terms of being necessary for continuing business in the event of a disaster. The distinctions between these three categories generally include, among other things, factors such as power, critical equipment, cash flow, and time sensitivity, such as customer-imposed production or service deadlines, and spoilage.

The goal of the business impact analysis is not to plan for the resumption of every operation or function but rather to plan for those that are necessary to maintain an acceptable level of operation. Complete return-to-normal operations will happen over time.

Hierarchy of business needs in an impact analysis

Critical functions

For your business to remain viable and provide its products and services after a disaster, critical functions need to be restored first. Start the critical functions analysis by looking at where the revenue comes from in the company – your product or service, what your customer ultimately pays you to do for them.

Identifying your product or service can help you understand the critical functions of your business. These are similar to the critical functions of sustaining your life in an emergency: shelter, water and food for your body. For the business, the critical functions are what is vital to keeping your customers' needs met and the revenue flowing. These are the functions that must *be restored quickly* to avoid financial harm to the business.

Essential functions

After the critical functions have been identified and assessed, your next priority is to identify and assess your essential functions. These are functions that need to be back in place to help ensure the ongoing health and well-being of your business over the long term. Essential functions typically have a little more flexibility in the amount of time you can take to restore the function and in what order they should be restored.

Strategy guide for business continuity planning

Complimentary functions

Lastly are non-essential or complimentary functions. The complimentary functions are the items that start to return your business to the level of comfort and convenience it had prior to the disaster but are not considered either critical or essential for you to resume some credible level of operation.

See **Appendix B** at the back of this guide for an example of the business impact hierarchy analysis for a typical grocery store.

Once the various functions and processes have been assessed for criticality, the business impact analysis also includes:

- Assessment of current plans addressing the loss of the function or process.
- Determination of alternatives or additional prevention and mitigation strategies/actions
- Prioritization of actions necessary for business resumption

Step 3 - Controls: Prevention and Mitigation



Using information gained in the previous steps, it is now time to develop a full plan of action with detailed information and prevention and mitigation strategies to help you prepare for, respond to, and recover from the aftermath of an event.

Good pre-planning can help reduce and prevent the impact from events to your company.

Prevention and mitigation strategies work together as controls. Prevention efforts can help prevent or reduce *the probability* of occurrence. Mitigation efforts can help reduce *the severity* of the hazards that cannot be prevented.

The goal of prevention strategies is to prevent an incident that threatens life, property, operations, and the environment. Preventive measures should be commensurate with the risk identified.

The goal of your mitigation strategies is to develop and implement measures to limit or control the consequences from an incident that cannot be prevented. You should focus on interim and long-term actions to reduce those vulnerabilities.

Below are three examples of the distinction between these two forms of controls:

Prevention: Install high temperature cut offs to help prevent overheating of an industrial oven.

Mitigation: Install a sprinkler system to help control a fire that started in an industrial oven.

Prevention: Design a building with limited exterior windows to prevent potential wind damage or board up window openings.

Mitigation: Relocate critical equipment, supplies and other items away from windows.

Prevention: Install emergency generators that would provide immediate power in event of a power loss.

Mitigation: Contract service to provide generators within 24 hours of a power loss.

Pre-planning strategies address controls for three stages:

- Those controls and activities that can be put into place long **BEFORE** an event;
- Those controls and activities that take place **DURING** an event, also known as emergency response; and
- Those controls and activities that take place **AFTER** an event, also known as recovery or business resumption.

“Before” the event – pre-planning activities

A number of activities can be undertaken to pre-plan long before an event to prevent or mitigate the impact of a disaster. Among other things, plan strategies for:

- Physical property such as vehicles, stock, computers, equipment, buildings, records, including alternatives.
- Business administration such as incoming orders and supplies/raw materials, accounts payable and receivable, and shipping.
- Human resources administration such as contact numbers, evacuation plans, communications, and payroll

Examples of items that may need to be completed as part of the pre-planning phase are:

- Installing physical protection systems to mitigate loss, such as automatic sprinklers, hurricane shutters, flood control measures, emergency generators, etc.
- Reducing dependency on single-source suppliers, local vendors, and other bottlenecks in product flow
- Entering into reciprocal agreements with other locations or businesses
- Use of leased business centers or off-site computer server services

Strategy guide for business continuity planning

- Leasing of office equipment, temporary power generators, etc.
- Establishing alternate phone/communications centers
- Establishing alternate or back-up facilities (warehousing, cold storage, etc.)

“During” the event – emergency operations pre-planning

Activities that occur during an incident are called emergency operations. Emergency operations include, but are not limited to:

- Emergency services
- Incident response command center
- Communications for the media and employees
- Customer and vendor notifications
- Building shutdown and evacuation procedures

These activities must be structured so they can be completed quickly and efficiently.

“After” the event – recovery/business resumption pre-planning

The recovery strategy involves the careful documentation of current procedures and the development of special procedures to be put into effect after an event. Your continuity plan should include recovery strategies to maintain critical or time-sensitive functions and processes identified during the business impact analysis.

It will focus on the most critical functions, as identified in the previous steps. For example, you will need to consider how operations are being performed now (by hand, by machine, or by computer). For each method, you should consider alternative methods that may be needed during the recovery period. Manual operations may be the most easily restored, while mechanical operations may be complicated by the loss of power or damage to specially built equipment.

Recovery operations may require outside help. For example, you may decide to contract certain functions to a competitor, or to process information at another company's facility outside of normal business hours. You may even decide not to resume a function for some time, if at all.

Your business impact analysis provides your recovery road map. Concentrate on the critical needs first; others can follow. Recovery pre-planning will encompass will

include considerations around facilities, equipment, telecommunications, records management and people, among other things.

Recovery staff and other employees

Identify personnel needed to participate with the recovery of each critical function. Arrange this list according to the time frame in which each position will be required as you move toward full recovery of operations. Those employees without critical job duties can be utilized to help support recovery in other capacities if properly planned and trained in advance.

Few people are prepared for the sudden and unexpected events that cause destruction of property or loss of life. Employees are a company's most valuable resource. If an organization is to restore operations after an incident, its employees may need support in dealing with shock and stress. Develop a strategy for employee assistance and support for your employees. The importance of this step cannot be over emphasized.

Step 4 - “Go”: Implement, test and adjust



Implementing the plan

Once you have done your assessments and put your prevention and mitigation controls and plan in place, management and the planning committee should approve, communicate and train on your plan so everyone understands the expectations and their roles and responsibilities.

Your plan should identify and provide documentation for the following items:

- Functional roles and responsibilities
- Company departments
- Employee positions
- External agencies (if any)
- Lines of authority
- Process for delegation of authority
- Lines of succession

Implementation should also include:

- Releasing a written mission statement
- Communicating your plan to employees, visitors, contractors and other stakeholders
- Training the committee and your workforce on their

Strategy guide for business continuity planning

roles and responsibilities in the event of an incident

- Making the Plan accessible to employees for their review

Testing and exercises

The importance of a plan reassessment process and drills and education cannot be overstated. It cannot be emphasized enough the need for regular program review, training, education and practice exercises. It is important to test and evaluate the effectiveness of your plan and make any necessary changes and corrective actions. Exercises and testing is how you validate if your plan will work.

Training and drills are key to the success of your Plan's implementation. During an event, things may not always happen the way you expect them to happen. Because of this simple truth, it is important that everyone has the opportunity to participate in a drill to assess their understanding of their respective roles and actually have an opportunity to carry out their responsibilities.

The drill can help you identify where your plan is effective and where there are opportunities for improvement. What was forgotten? How well did your communications system work? What activity did not take place? What action went wrong? What did not happen the way you had expected it to happen? If it doesn't work during a drill, it is more likely to fail in a real event.

Your drill is intended to give everyone the opportunity to prepare for "the real thing" – to participate in a practice "response" mode, and to make improvements and recommendations for improvement. It is key to the success of your "response mode." Your drill can help you:

- Evaluate the program
- Identify deficiencies
- Validate procedures and plans
- Clarify roles and responsibilities
- Develop recommendations for improvement
- Measure results to goals and objectives
- Improve coordination
- Validate training and education
- Increase awareness
- Identify additional resources needed

Program adjustment and improvement

It is very rare that a business remains static. Something is always changing, whether it is adding new equipment, making renovations, hiring a person with special needs, even moving part of your business operations to another location. Your Plan needs to continually reflect the changes in your people, operations, facility, and location. For this reason, it is critical that you periodically reassess your vulnerabilities and capabilities and be prepared to make necessary changes and improvements to your Plan and response and recovery strategies. By doing this, your Plan actually becomes a part of your business' process for improvement.

A business continuity plan is not a "one-shot" project. It is an integral part of an effective business strategy. A completed plan should be reviewed, tested and updated regularly if it is to be effective when put into action. If business interruption occurs, the ability of your business to survive may be threatened unless you are prepared to respond immediately. Your best defense is a well-prepared and practiced business continuity plan.

For more information, visit our website at travelers.com/riskcontrol, contact your Risk Control consultant or email Ask-Risk-Control@travelers.com.

Strategy guide for business continuity planning

APPENDIX A

Examples of some potential risk events

Natural hazards	Man-made events	Technology caused events
Tornadoes Hurricanes Floods Earthquake Lightning Snow, ice, hail Landslide Wildfire Biological (pandemic flu)	Explosion/fire Transportation accidents Vandalism Terrorism/bomb threats Industrial accidents Financial	Computer systems failures/compromise Electronic data loss/corruption Software or application corruption Ancillary support equipment breakdown Telecommunication/internet disruptions Energy/power/utility failures/outages

APPENDIX B

Example of assessing business impact based on a hierarchy of needs

A grocery store sells its groceries from a single location. The 50,000-sq.-ft. building is brand new. It includes a state-of-the-art climate control system, sprinkler system and alarm systems. All of the inventory control and office equipment is new, including a new computer system.

60 percent of the grocery store's revenue is generated from dry goods sales, 15 percent is from meat sales, 15 percent from produce and 10 percent from refrigerated products. The following is an example of how the critical, essential and complimentary functions for the grocery store in this example might be broken out if the company were to experience a power failure or some other event.

Business impact hierarchy	*Time	Function/operation
<p><i>Critical</i></p> <p>In order to maintain the revenue stream, the company has to have access to emergency power, continue to have clean, dry floor space and have staff to run the operation with a method to receive payment, all while maintaining health standards.</p>	<p>Within first 72 hours after the disaster</p>	<ul style="list-style-type: none"> • Access to their building or a nearby substitute • Electricity and facilities to keep meat, produce and frozen goods from spoiling • Staff for operations • A system to accept and track payment for goods • Electronic connections for credit card payments • Sanitation to remove waste and maintain cleanliness • Climate controls
<p><i>Essential</i></p> <p>These are functions that need to be restored so the company can produce revenue and maintain customer service.</p>	<p>3 days to 1 month after the event</p>	<ul style="list-style-type: none"> ▪ Roads and trucks to move product to the building to replenish stock ▪ Payroll to keep employees working ▪ Computer system to maintain product inventories
<p><i>Complimentary</i></p> <p>These are functions that begin to restore the company back to the pre-disaster status.</p>	<p>1 month to 3 months after the event</p>	<ul style="list-style-type: none"> ▪ Advertising ▪ New office equipment

- The actual time frame depends on the nature of each companies business. It is important to prioritize and know what functions need to be recovered immediately and those that have a longer time line, as illustrated by this example.

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