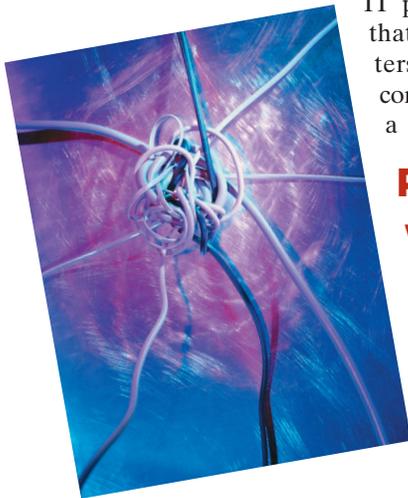


If Disaster Strikes, Can Your Business Rise from the Ashes?

Neal Schmidt

Most people hear “disaster” and think of fires or floods. And while these events can strike any company—including yours—IT professionals know that many other disasters can shut down a company. For example, a power surge can



Planning your insurance coverage wisely can help you prepare for the worst.

destroy the only computer containing critical sales records, a burst water pipe can damage your only set of important R&D records, or a mechanical failure can shut down the quality control machine at the end of your assembly process. Your company can even be affected by a problem at another company—such as a fire at a key supplier’s plant that prevents it from delivering any just-in-time inventory for six months.

Though you might not like to think about it, small losses, let alone large catastrophes, can easily affect your business—possibly shutting you down for

days, weeks, or even for good. Even if you restore buildings and equipment and are ready to resume operations after just a few months, customers will have gone to another supplier. You may also miss the last product development cycle, and key employees could leave to work for competitors.

You can take several steps to prevent many physical losses from occurring and to help you recover quickly and completely, should problems arise. Those that went through Y2K preparations already know about operating alternatives and planning for various what-if scenarios. It would be a good idea to integrate those strategies into business planning on an ongoing basis as a way of continued preparation for any unexpected disaster-related operational snags.

HOW INSURANCE CAN HELP

The insurance company and the insurance coverage options you select can also help—and in more ways than you might imagine. Not all insurance policies are alike. Be wary of anyone who attempts a one-size-fits-all approach to your insurance plan. Such generic policies offer the same type of coverage to any business, be it technology, manufacturing, or retailing. In a crunch, you don’t want to be faced with the need to explain in great detail and at length how your business—and, hence, your

coverage needs—is fundamentally different from others. Nor do you want the added expense of purchasing costly policy extensions that will help address some, but not all, of your special needs. In the event of a loss, you also don’t want to find that your coverage is inadequate.

Solid record keeping can make all the difference when you are selecting coverage limits—especially with the considerable technology investments many companies have made. Keep track of equipment costs, sales, income, expenses, and inventory.

Keep in mind that even the most meticulous records will be of little help if destroyed in a fire, so it’s a good idea to keep duplicate records off-site. Such records will be important when it comes to selecting the right coverage and limits for your business and, specifically, your IT needs. These records will also be your lifeline if you should ever have to file an insurance claim.

While coverage for facility and common equipment will come to mind as primary needs, the technology industry by its nature has several specialized insurance needs that you should be certain to bring to the table.

Keep in mind that insurers base premiums on several variables including

- your loss history;
- location and other exposures;
- type of building construction;

Take Technology Theft Seriously

Technology theft is a significant issue for high-tech firms. Here are some simple steps that can reduce your risk of theft. You should communicate these initiatives to insurance agents and carriers, because they can help with premium reductions.

- Establish and implement a coordinated visitor policy that limits access to certain facilities.
- Apply measures to reduce the theft of ID badges. Don't allow employees to wear badges off-site and don't include job titles or the company name on the IDs.
- Complete a background check on all prospective employees, including temps and security personnel.
- Establish procedures for shredding and removing all company documents.
- Take precautions not to label products leaving your facility. A box marked "Pentium chips" makes an easy target for would-be thieves.
- Create inventory procedures and have dual accountability. Schedule surprise inventories.
- Consider adding security locks to desktops and laptops.
- Implement investigative procedures to analyze theft losses and establish corrective actions.



As another example, consider what would happen if a prototype is damaged in your company's possession. If a covered cause of loss causes the damage and the prototype is a partner company's property, R&D coverage should also cover the cost of replacing the model.

Without proper insurance, the replacement cost and resources needed to re-create this work could break a company.

International coverage

Your company could have facilities or subsidiaries in foreign countries, ship goods overseas, or have workers traveling abroad. Businesses with increased international exposure need coverage that extends to shipped goods, physical facilities, and employee travel, and even automobile coverage that extends to foreign countries. Most standard insurance policies in the US, for example, apply only to the US and Canada.

- protection (for example, are you close to water or a fire department);
- occupancy (type of business);
- implementation of loss control measures; and
- number of employees.

Equipment breakdown

As an IT professional, there is much you can do to protect against server crashes—a 24/7 maintenance contract, a server with RAID 5, and a backup server are all excellent safeguards, for example.

A maintenance contract serves an important function. However, it might not meet all of your business needs, because it typically covers routine adjustments and repairs based on normal usage.

Such a contract usually does not cover damage from an accident that is not from normal wear and tear. Insurance coverage can fill that gap and provide coverage for damage from an outside source, such as a power surge. The insurance contract

may also cover the damage from improper environmental conditions (such as damage to your server from inadequate temperature controls) or loss from a fire. Finally, the insurance contract can cover the loss of business income that you sustain because of the equipment breakdown.

Many insurers exclude coverage for equipment breakdown, another problem that can significantly impede your business operations. If planned properly, your maintenance contract and your insurance coverage should work in tandem.

Research and development

Like it or not, information loss is all too familiar. R&D coverage reimburses costs to research, replace, or restore lost information. For example, R&D coverage should pay for costs to restore files lost when water damage knocks out your server. In fact, this type of insurance should even pay for the overtime it takes staffers to replace those files.

Staff retention

Finding and employing qualified personnel is a key issue for the technology industry, and you don't want to lose them in a crisis.

When developing an insurance policy, be sure to build in coverage for payroll expenses for critical staff (such as a CIO, Webmaster, and software developers) in the event of a catastrophe that prevents your business from operating.

Reward coverage

RAM chips, CPUs, hard drives, and laptops are all high-profile black-market theft items—and these types of thefts, unfortunately, may be an inside job.

Reward coverage provides a fixed-fee award for tips that lead to the arrest and conviction of any individual responsible for theft of these and other technology products.

Some carriers will include this as part of your basic policy for no additional fee.

Performance valuation

If you are using a 300-MHz Pentium II PC that has 64 Mbytes of RAM, a 4-Gbyte hard drive, and Windows 95, it's probably getting the job done. But if that machine were damaged, destroyed, or stolen, you would want to replace it with a newer, faster PC. However, a standard insurance policy will replace lost or damaged property with property that is an exact duplicate.

On the other hand, you could obtain *performance valuation* coverage, which will replace damaged property with new property that serves the same function and possibly does even more. With performance valuation, although the system just described is no longer "standard," your insurer will replace these items with a new computer and software that serve the same function—most likely a 600-MHz Pentium III with 128 Mbytes of RAM, a 10-Gbyte hard drive, and Windows 98.

Coinsurance

Most insurance policies have a clause that requires you to obtain coverage equal to at least 80 percent of the value of your insurable assets. If you don't insure to that level, you may suffer a coinsurance penalty, even on small losses. Such policies essentially encourage insurance buyers to purchase an adequate amount of insurance by penalizing them for purchasing an inadequate amount of coverage.

The problem with this situation for many tech companies, however, is that inventory and its value can fluctuate wildly. You don't want to incur a penalty for inadequate limits, but you also don't want to buy more insurance than you really need. It is essential to consult your agent. A good agent will sit down with you on a regular basis to review records and work out the type of policy and coverage limits that best meet your busi-

ness needs. He can also recommend an insurer who may waive any coinsurance conditions.

Transit

Make sure your coverage leaves your facility with your product. High-tech items can be easily damaged or destroyed, or simply "disappear"

Nearly 61 percent of all businesses that experience a catastrophe such as a fire close within two years, according to the Association of Records Managers. In part, this is due to businesses selecting woefully inadequate insurance policies.

while in transit. When you subcontract to other vendors who work with your product off-site, your policy should extend to those locations. Know your limits—if you're moving a million dollars worth of chips, don't have \$100,000 worth of coverage.

Errors and omissions

Most mistakes will be caught and corrected before they leave the facility, but if they aren't it may have definite and significant monetary ramifications. For example, say your company uses inventory management software that malfunctions and fails a third party, causing it financial loss from an inability to fill orders because of an inventory shortage. Errors and omissions coverage can protect you from these situations.

Loss control services

Also ask an insurance agent about the loss control services that the insurance company provides. Having experienced professionals assist you in loss prevention and disaster recovery can make your job much easier.

Although most people hear about disaster planning time and again, it's only when disaster hits that they fully recognize how important it is to be prepared. Your agent can help you find the right insurance company so you can start preparing today.

It's a given that finding time to develop an alternate operating plan is difficult. And insurance may not be the most exciting thing you will ever discuss. But a short-term investment can reap long-term payoffs. Ultimately, you will gain the peace of mind of knowing that your policy adequately reflects the types of losses and expenses you would face should the unthinkable happen. ■

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