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BUSINESS RESUMPTION PLANNING CASE STUDY

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ABSTRACT

When catastrophic events occur, the physical damage is often just a small portion of the harm that can affect a business enterprise. Interruption of operations, long-lasting disruption of critical processes, data loss or corruption, are some of the ancillary effects that can accompany a major, destructive event. This case study concerns a company's efforts to mitigate related losses.

1 INTRODUCTION

To mitigate these and other effects, business enterprises often carry indemnification policies with insurance companies. Such policies can help soften the immediate financial harm, but also tend to carry high premiums. As with many types of insurance, premiums are generally sensitive to the magnitude, as well as the probability of catastrophic losses. One way that enterprises can help to lower their premium costs is to maintain a robust, comprehensive plan for coping with the catastrophic event, for re-starting disrupted processes, recovering or replicating lost data and physical assets, and for implementing temporary alternative activities. Because such plans can substantially reduce the duration and extent of business losses, potential indemnification risk for the underwriting entity is proportionally reduced, which naturally reduces the amount of premium costs the covered company must incur.

2 DISCUSSION

Robust business resumption planning can be described in two domains: the plan for actions that will help mitigate the duration of business activity disruption, and provision for backup resources that can be brought into use in an emergency. To do this, one of the first requirements is to identify and describe a most-likely disaster, such as a hurricane, flood, or earthquake. It is then necessary to describe the type of damage and disruption that are most likely to result. Next, a sound plan will identify and describe all practicable measures to provide alternative resources. Finally, the plan must provide detailed, comprehensive lists of activities, sequences, estimated schedules, and timetables for reinstating business activities, in order of their criticality and practicability.

This case study describes one actual example of an enterprise that was facing a large increase in business indemnification premiums, because of inadequate and out-dated planning for catastrophic business disruption. The study then describes the company's response to this discovery, and the financial benefit that resulted from their efforts to develop a realistic, comprehensive plan for mitigating the effects of potential disasters.

3 THE CASE

The company in this example is a large (Fortune 500) enterprise, consisting of product design, large-scale manufacturing, customer support, and other functions necessary for conduct of a complex, corporate operation. Corporate management was informed by the Finance department that their insurance underwriter would impose a multi-million dollar increase in their business continuity premiums, if they did not provide evidence of a major update to their disaster response plans, along with direct actions to provide a variety of backup resources for critical functions and data. The company naturally took this matter seriously, and assigned an inter-organizational team to examine all related issues, and present management with proposals for appropriate risk mitigation actions.

Among the actions the team took, were a careful examination of the insurance carrier's findings, inputs from all departments describing their requirements for advance provisions of resources and schedules, and recommendations/requests for the necessary funding and support. Additionally, the team discovered that they needed to provide all participating organizations with a single, common scenario, including the nature of the disaster, the extent of damage and loss, and a description of limitations on availability of outside assistance. To build this scenario, the company received substantial assistance from the insurance carrier, who used their internal data mining and analytical capabilities, to define the most likely kind of natural disaster to befall the company, and the degree of likely limitation of emergency response capabilities of public authorities. This provided the company with significantly improved capability to apply its own analytical tools, to define necessary preparatory actions, as well as priorities, costs, and schedule time required to affect the implementation. The collection and analysis of such data had not been possible with the data technology available at the time of the original plan. Multiple scenarios were used to describe specific elements of the disruptive event, along with associated costs. These were run multiple times, using various combinations of specific issues and their resulting business losses. Thus, big data and associated big analysis made it possible to provide organizations with a common basis for establishing their own requirements for the updated plan.

4 CONCLUSION

Using the outcomes of the various scenarios, the company was able to select a general, likely catastrophic event, and to optimize the preparations for it. The result was a comprehensive, appropriately structured business resumption plan, that the insurance carrier evaluated as adequate, and the previously indicated increase in premiums was avoided.