

RISK ASSESSMENT & BUSINESS CONTINUITY

*Sonya M. Hope, CPCU, ARM
Area Vice President
50 Braintree Hill Office Park
Braintree, MA 02184*

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OVERVIEW

- Business Continuity/Risk Management
- Risk
- Risk Assessment (I.D. Vulnerabilities)
- Managing the Risk
 - Avoidance
 - Mitigation
 - Transfer
 - Disaster/ Crisis Plans
 - Testing/Updating

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WHAT IS BCP? BUSINESS CONTINUITY PLANNING

- “Collection of resources, actions, procedures, and information that is developed, tested, and held in readiness for use in protecting life, assets and reputation and in restoring operations in the event of an emergency, crisis or other disruption of operations”
- AKA:
 - Contingency Planning
 - Crisis/Disaster Planning
 - Business Recovery Planning (BRP)
 - Continuation of Operations Planning (COOP)

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PRIMARY GOALS OF BCP

- *Protection of People/Life Safety*
- *Protection of Assets*
- *Protection of Reputation*
- ***Continued Operations***

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RISK MANAGEMENT v. ENTERPRISE RISK MANAGEMENT

Risk Management: A systematic approach used to identify and evaluate exposures, and minimize and/or eliminate the adverse effects of losses

Enterprise Risk Management: Merging Asset, Operational, Financial, Strategic Regulatory and “Reputational” Risk Management

- The “Holistic” Approach to Risk Management

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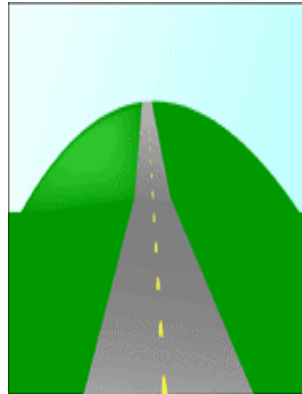
WHY BOTHER?

- To Protect:
 - Life
 - Assets
 - Reputation
 - The Future
- Obligation to Major Stakeholders
- Requirement by Law or Corporate By-Laws?
- Good Business & Good Public Relations

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THE ROAD TO CONTINUITY

- Risk Management
- Establish a Team
- **Risk Assessment**
- Strategize and Form Plans
- Test/Update/Revise
- Continuously Monitor Plans and Exposures



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BUILDING THE CONTINUITY TEAM

- Risk Management Function
 - Get Buy-In of Senior Management
 - Involve Multiple Departments
- Consider Teams:
1. *Life Safety*
 2. *Response and Recovery*
 3. *IT/Computing*
 4. *Communication*

Committed Individuals Familiar with Operations and Risk Management, Loss Control, Insurance or Continuity Experience

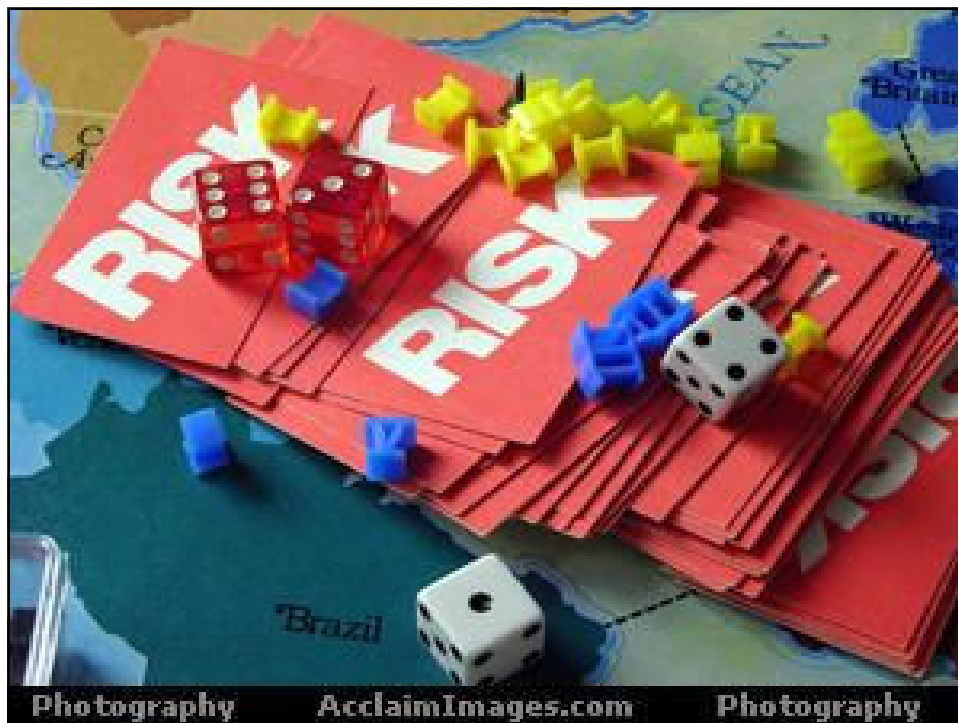


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4-STEP RISK MANAGEMENT PROCESS

- **Identify and Analyze Exposures**
- **Determine Best Methods for Dealing with Exposures**
- **Implement Methodologies**
- **Monitor and Adapt Methodologies**

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WHAT IS RISK?

- **A threat or obstacle that prevents an organization from achieving its objectives**
- **A Hazard**
- **The Future Chance or Probability of Loss**

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CATEGORIES OF RISK

- **Operational – Property, People, Processes**
- **Legal/Regulatory – Knowledge; Compliance**
- **Financial – Currency, Credit, Liquidity**
- **Strategic/Business – Objectives, Economics, Market Conditions**
- **Reputational – Branding, “Good Name”**
- **Environmental (Natural Hazards, Geographic Issues, Neighboring Businesses, Disease, Etc.)**

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WHAT CAN CAUSE AN INTERRUPTION IN BUSINESS?

- **Fire**
- **Strikes, Riots**
- **Transit Accident**
- **Violence**
- **Sexual Harassment/Abuse**
- **Scandal/Reputational Injury**
- **Employee Dishonesty/ Sabotage**
- **Contagious Diseases**
- **Natural Disasters**
- **Computer Viruses**
- **Terrorism**

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WHERE TO FIND & HOW TO IDENTIFY RISK

- **Dept. by Dept. Analysis**
- **Surveys**
 - Physical Inspections
 - Questionnaires
 - Interviews
- **Flow Charts of Critical Operations**
- **Financial Statements**
- **Legal Contracts**
- **Loss History**
- **Experts (in-house/outside)**



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IDENTIFY VULNERABILITIES

- **Local and Federal Authorities**
- **Balance Sheet**
- **Colleagues: Your Own Departments**
- **Counterparts at Other Businesses/Competitors**
- **Crisis Identification/Management Professionals**
- **Identify “Hot-Spots”: Labs, Computer Centers, Loading Docks**
- **Geographic Exposures: Flood, Hurricane, Fire, Airports, Nuclear Power Plants**

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CONTRACTUAL LIABILITY

- **What is Intended Relationship?**
- **Hold Harmless/Indemnification Language**
- **Limitation of Liability Clauses**
- **Insurance Requirements**
 - **What type and how much?**
 - **Certificates: How effective are they?**
 - **Additional Insured Status**

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CONTRACTUAL LIABILITY

RISKS CAN BE SUBSTANTIAL UNLESS ...

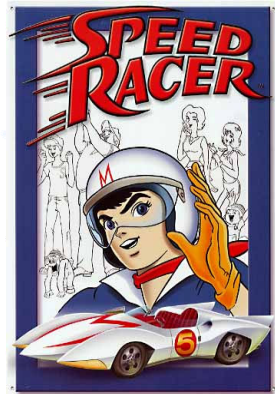
- Clear Definition of Responsibilities and Liabilities
- Both Parties Responsible for Own Acts, Errors, Omissions, and Negligence
- Contractual Liability Exclusions in Insurance Policies are Addressed
- Transfer of Risk is Not Prohibited or Restricted By Law

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AUTOMOBILE LIABILITY

Exposure: Autos Operated on Company Business

- Bodily Injury/Property Damage
- Owned and Non-Owned Autos
- Volunteers
- Vans and Buses
- Non-Employee Passengers
- Negligent Entrustment



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GENERAL LIABILITY

Exposure: Legal Liability to Third Parties

- Bodily Injury
- Property Damage
- Libel, Slander, Defamation of Character



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WORKERS COMPENSATION

Exposure: Occupational Illness/Injuries

- Medical and Indemnity Benefits
- Exclusive Remedy
- Employer's Liability Limit
- Leased Worker & Contractors
- "Managed" Workers Compensation
- Managed Care Liability

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PROFESSIONAL LIABILITY & MANAGEMENT LIABILITY

Exposure: “What Is It You Do and What Can You be Accused Of...?”

- **Errors, Omissions, Wrongful Acts**
- **Directors, Officers and Trustees**
- **Professional Duties/Responsibilities**
- **Management of Employees (“EPL”)**
- **Fiduciary: Employee Benefit Plans**
- **Intellectual Knowledge; Patent Liability; etc..**

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CRIME/EMPLOYEE DISHONESTY

Exposure: Employee Dishonesty , Forgery & Alteration; Computer Fraud and Electronic Funds Transfer

- **Laptops, PDAs**
- **Virtual & Home Offices**
- **Volunteers & Contractors**
- **Proper Controls**
 - Audits
 - Segregation of Duties
- **Security**



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COMPUTER/E-RISK

Exposure: Damage to Computer Property and Software, Interruption of Business, Liability to Third Parties

- **Viruses, Worms, Hacking, Hijacking**
- **Negligent Security**
- **Invasion of Privacy**
 - Identity Fraud/Theft
 - HIPPA
- **Libel, Slander, Sexual Harassment**
- **Intellectual Property Infringement**
 - Website Design
 - Copyright
 - Trademark

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INFORMATION TECHNOLOGY/_VITAL RECORD ISSUES

- **What Are Your Vital Records?**
- **Where Are They Stored?**
- **Are They Backed Up and How?**
- **Frequency of Backups?**
- **What is Included in the Backups?**
- **How Can You Obtain the Backups?**
- **Who is Authorized to Retrieve Them?**
- **How Long Will it Take to Retrieve Them?**
- **Where Will They be Delivered?**
- **How Long Will it Take to Restore Them?**
- **Who Will Restore Them?**

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POLLUTION

Exposure: Clean up Costs, Legal Liability, Regulatory Liability

- **Labs and Clinics**
 - Mercury, chemicals, biohazards
- **Janitorial Services**
- **Mechanical Repair Shops**
 - Fuel Stations and Storage
- **Disposal Issues**
 - Waste Haulers/Contract Issues
- **Air Quality**
- **Historic Exposures**
 - Lead, asbestos, underground tanks, PCBs



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EMPLOYMENT PRACTICES LIABILITY

Exposure: Claims Arising Out of the Management of Employees

- **Discrimination**
- **Wrongful Termination**
- **Failure to Promote**
- **Infliction of Emotional Distress**
- **Breach of Implied Covenant of Good Faith**
- **Sexual Harassment**



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GLOBAL BUSINESS & TRAVEL

Exposures: Business in or Travel to a Foreign Country with Different Political, Legal and Cultural Nuances and Exposures

- **Emergencies/Crises**
- **Political Risk: Kidnappings; Terrorism, Confiscation, Nationalization, Expropriation**
- **Foreign Labor Issues - China**
- **Communication/Tracking**
- **Transportation: Management & Safety**



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SUPPLY CHAIN RISK

- All of the aforementioned – AND:
- BCP of Vendors and Suppliers!
- Sole Source
- Obsolescence
- Supply and Demand



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MERE INTERRUPTION OR CRISIS?

- Analyze Your Exposures: Risk Mapping & Quantification
 - Preparedness
 - Tolerance for Down-time
 - Timing
 - Magnitude of Current & Future Losses
 - Recovery Time (Internal/External Factors)
 - Reputational Issues

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SAMPLE RISK MAP

F r e q u e n c y	H i g h	6						
		5			Contractual Liability	Employment Practices	Sole Source Supplier Interruption	
	M e d i u m	4			Auto Liability	Global Exposures	Discrimination	
		3		Employee Dishonesty	Workers Comp Injuries	Contractual Liability	Environmental/Hazardous Waste	Sexual Harassment
	L o w	2		General Liability/Slip & Fall Injuries		Cyber Risk		
		1				Property Losses	Professional Liability	
			Severity					
		1	2	3	4	5	6	
		Low		Medium		High		

Annual Evaluation
 Periodic Attention

Immediate Attention
 Immediate Action

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THE COST OF BUSINESS INTERRUPTION & CRISES

- Lives
- Property
- Enrollment
- Key Employees
- Grants/Funding
- Liability Lawsuits
- Expensive Claims
- “Reputational” Damage
- The Future



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ESTIMATED LOSSES FROM 2005 HURRICANES

Institution	Physical Damages	Lost Tuition Revenue	Faculty & Staff Costs(annual)	Total
LOUISIANA:				
Delgado CC	\$132,116,576	NA	NA	\$146,241,576
Dillard U.	\$14,125,000	NA	\$26,000,000	\$333,900,000
Louisiana Tech	\$25,900,000	\$2,800,000	NA	\$20,988,750
Loyola/New Orleans	\$4,000,000	\$33,997,000	\$64,992,000	\$102,989,000
Southern University	\$350,000,000	\$9,000,000	\$19,700,000	\$378,700,000
Tulane University	\$125,000,000	\$60,000,000	\$304,750,236	\$489,750,236
Univ. of New Orleans	\$103,620,000	\$50,000,000	\$75,600,000	\$229,220,000
Xavier University	\$30,000,000	\$25,000,000	\$36,000,000	\$91,000,000
MISSISSIPPI:				
Jackson State U.	\$1,200,000	\$3,700,000	\$1,200,000	\$6,100,000
Univ. Southern Miss.	\$250,000,000	\$30,000,000	NA	\$280,000,000
Pearl River CC	\$50,000,000	\$300,000	NA	\$50,300,000

Sources: Inside Higher Ed Colleges and higher education associations; Association of Jesuit Colleges & Universities

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WHAT TO DO ABOUT RISK?

- Avoid
- Prevent
- Transfer
 - Insurance Contract
 - Legal Contract
- Segregate/Duplicate
- Mitigate



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TRANSFERRING THE RISK

Insurance Program

- Evaluate for Adequate Limits
- Exclusions (Flood, Earthquake, Environmental, Terrorism)
- Business Interruption Issues
 - *Limits*
 - *Extra Expense*
 - *Civil Authority*
 - *Ordinary Payroll (keep valued employees)*
 - *Period of Indemnity*
 - *Contingent Business Interruption*

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INSURANCE TRANSFER

What is Really Covered?

- Check Declarations Page(s)
- Review Definitions
- Identify Exclusions
- Examine Endorsements
- Know How Losses Will be Valued
- Be Aware of Reporting Requirements

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SEGREGATE/DUPLICATE

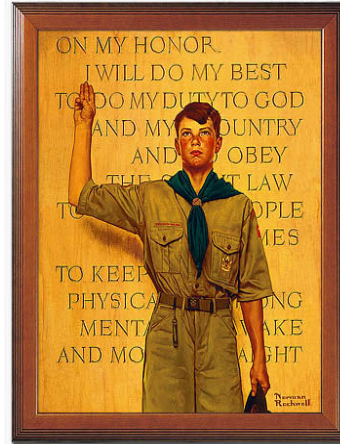
- **Don't put all your eggs in one basket**
- **Back-Up Arrangements (IT & Physical Site)**
- **Dual Sourcing**
- **Alternative Arrangements**



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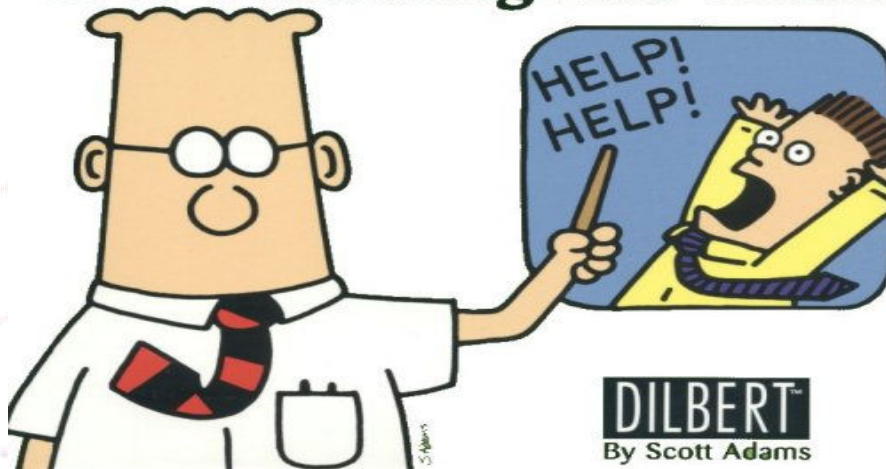
MITIGATE POTENTIAL LOSSES

- Be Prepared!
 - Have Comprehensive Plans in Place
- **“THE DAY OF THE PROM IS NOT WHEN YOU TAKE DANCE LESSONS!” - Snoopy**
- Control of Losses
 - Facilities
 - Security
 - Property and Physical
 - Background Checks
- Awareness and Education



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Our Disaster Recovery Plan Goes Something Like This...



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BASIC OUTLINE OF A DISASTER OR CRISIS PLAN

- **Introduction: Necessity and Scope, Who is Included, and Range of Events Contemplated**
- **Crisis Management Defined: Details of the Roles and Responsibilities of All Key Individuals**
- **Procedures: Process to Alert all Parties; Incident/Damage Assessment; Notification of Employees, Public & Media;**
- **Location and procedures to be followed to activate the command center**
- **See Sample in Handout**

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LIFE SAFETY

- **Evacuation Plans**
 - *Training/Communications*
 - *Where are the Exits?*
 - *How will Visitors and the Disabled be Evacuated?*
 - *Practice Drills /Evaluate Results*
 - *Coordinate with Local Authorities*
 - *Special Emphasis on Residential and Public Assembly Buildings (Gyms, Stadiums, Hospitals, Etc.)*

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FACILITIES & HOUSING ISSUES

- Develop Plan to Handle Displaced Employees
- Plan for Backup Power Sources
- Reciprocal Agreements With Nearby Institutions and Third Party Providers
- Maintain Inventory of Facilities That Are Available for Space for Key Departments.
- Coordinate Interim Housing and Catering Functions

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COMMUNICATION KEYS

- Designate a Small Group of Experienced Individuals as Spokespersons
- Establish one Point of Contact with Public and Media
- Prepare Generic Releases in ADVANCE
- Use Services of Crisis Communication Experts and Professionals

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COMMUNICATION

- Develop Specific Call-in Line and Website (Including Hot Site Back-Up) for Updates.
- Key Employees Involved in Recovery Should Have Hard Copies of Plans Off-Site
- Separate Call-in Line or Website for Employees to Report Status
- Telephone Tree

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TEST YOUR BCP OFTEN!

- Identifies Actual and Potential Holes in the Plan
- Utilize:
 - Table Top Tests
 - Full Scale Drills
- Document Results
- Learn From Failures (Yours and Others)
- Use Professionals



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