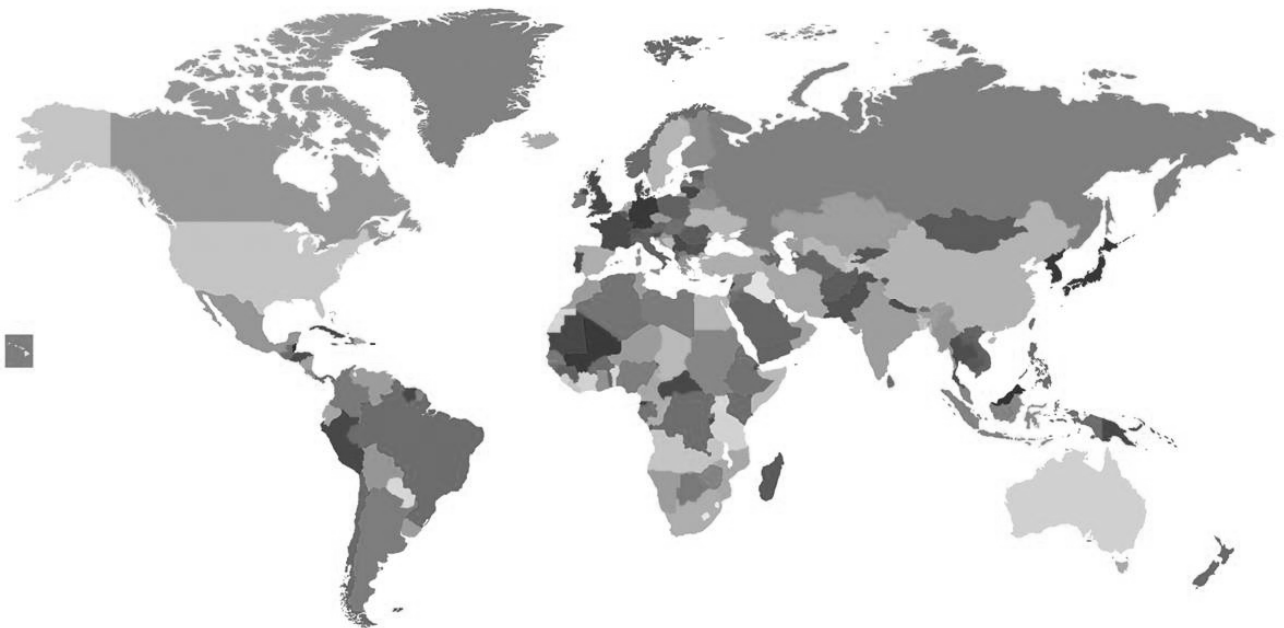


# Insurance & Business Continuity Management

## A Roundtable Discussion Report

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## **Insurance & Business Continuity Management - A Roundtable Discussion**

### **Executive Summary**

The Business Continuity Institute (BCI) initiated this meeting to establish a common understanding between business continuity practitioners and insurers writing cover for Business Interruption (BI) insurance on the benefits of a good BCM programme.

The meeting, held on March 24<sup>th</sup> 2010, featured participants from AIRMIC (Association of Insurance & Risk Managers), AXA, Chartered Institute of Loss Adjusters, BCI, BSI, Marsh and Zurich.

The BCI was keen to establish clarity on five points:

- What is the BCM link to Business Interruption insurance?
- What do insurers look for?
- What difference will a BCM programme make to the insurance terms provided?
- How should a BCM manager connect and communicate with insurance buyers in their organisation?
- What does the BCM manager need to do? (or, why is their plan not being recognised?)

The meeting concluded that BCM could bring benefit in five key areas:

- BCM was seen by insurers as a means to improve the quality of the business they are underwriting and confirmed that BCM helps organisations mitigate impact, recover faster and minimise losses.
- BCM can be used to protect against losses incurred through traditionally non-insurable 'perils' such as supplier insolvency or pandemic influenza.
- BCM can be used to better understand the requirements for BI cover (and potentially lower the amount of cover purchased).
- BCM can help get BI cover where otherwise it would not be available.
- BCM can help to secure optimal terms for cover.

More thought and work is required on this last point and insurers have signalled a willingness to continue the discussion in more detail. Education of risk managers and underwriters on the positive impact of BCM and 'what good BCM looks like' was also highlighted as a key action for the BCI and others to support.

Finally, the BCI would like to thank Marsh for their excellent support in the preparation of the meeting and facilitation of the meeting on the day.

### **Introduction**

The Business Continuity Institute (BCI) and global insurance broker Marsh recently brought together a number of representatives from the BCM community and the insurance industry in order to initiate dialogue around the relationship between client business continuity programmes and business interruption insurance products, pricing and terms of cover.

The roundtable discussion set out to establish a common baseline and understanding with major players from the insurance industry around attitudes towards clients with BCM programmes, and the extent to which such programmes can influence terms of cover for business interruption insurance. The discussion also focused on the role of professional standards in the BCM arena and the extent to which these were formally recognised by insurers.

Participants endeavoured to find ways in which the two sectors could work more effectively together for the mutual benefit of all parties, and considered how enhanced understanding on both sides could facilitate the promotion of the value of BCM and by so doing serve to heighten levels of resilience across the board. By conducting such an open discussion between BC professionals and insurers, attendees were able to gain a clearer picture of what the other party would like to see happen in order to cultivate a more beneficial working relationship.

The following report provides a summary of the key issues which were discussed at the roundtable.

### **Professionalism in BCM**

The discussion opened with a brief introduction to the BCI and an overview of the role which the Institute plays in promoting business continuity best practice and enhancing understanding of the discipline in both the public and private sectors.

Established in 1994, by a small number of like-minded individuals, the Institute set out to facilitate the evolution of business continuity away from that of disaster recovery and onto a broader plain, and to create a clear definition for this emerging discipline. The body also provided a networking opportunity for industry professionals and a means of promoting best practice in BCM.

From its small beginnings, the not-for-profit organisation now boasts a membership of over 5,000 professionals in business continuity and related disciplines, which spans some 90 countries; although approximately 50% of its membership is UK-based. The BCI has a number of autonomous chapters representing the Institute in a number of territories.

Membership to the Institute was initially conducted via a review panel. However, in recent years the BCI has introduced an exam-based membership system, with particular membership grades being dependent upon years of experience in the discipline. The qualifications provided have served to enhance the standing of BCM as a professional discipline.

As part of its endeavours to clearly define the discipline of business continuity, the Institute produced the 'Good Practice Guidelines' in 2002 based upon the general body of knowledge represented by some of its leading members. The Guidelines have now become an industry pillar and in March this year, during Business Continuity Awareness Week, the BCI released a new version of document which takes a major big leap forward in terms of quality and depth of subject matter contained within the material.

### **Defining BCM Best Practice**

The BC representatives were asked to clarify what they considered to be industry best practice in relation to business continuity. They responded by stating that it is important when considering best practice that BCM should not be viewed simply in the context of responding to a major incident. Rather it is about any incident that has the ability to disrupt your operations or prevent you from delivering on your client objectives, whether that be a short-term financial hit or a more long-term reputational issue that will affect your share price.

BC is not a project, but a holistic process – a living discipline which should be an integral part of your organisation's activities and seen as another component in business as usual operations.

The discipline, however, differs somewhat from risk management in that, rather than focusing on the source of the particular incident, it is geared towards addressing the

consequences of that incident. Yet it was emphasised that BC is not just about recovery – it is about enhancing organisational resilience and creating an operational environment in which there is a reduced potential for incidents taking place, and when they do that there are the capabilities in place to facilitate a quick and effective recovery.

In essence, it was concluded, the role of BCM is to help protect the value of the organisation as part of an overall protection strategy. It is to help enhance recovery capabilities, while reducing the potential for losses to occur and reducing the overall exposure to incidents.

### **The Insurer Relationship**

The discussion then turned to the potential for BC when carried out effectively to improve the terms and / or reduce the cost of insurance premiums.

While all parties accepted that the main driver of price in the insurance market is the insurance cycle itself, it was acknowledged that having a robust BC strategy in place means that as an organisation you would be “proportionally better off” in terms of how you are viewed by the insurance industry.

All agreed that the role of the discipline was gaining in importance during the insurance negotiation process. “It is evidence of BCM that can often get the underwriter thinking about providing cover in the first place,” said one insurer. “Without it, you may not get any cover at all.” While it should be noted that the insurance industry is a cyclical market and there are a broad range of factors which impact on premium levels, setting policy limits is a highly complex process and BCM has a role to play in influencing this process.

It was highlighted that there are now increasing numbers of insurance carriers which are requesting evidence of BCM in order for them to continue providing cover. One insurer stated that as far back as 1994, they would not look at a large commercial risk without seeing clear evidence of a business continuity plan which demonstrated that management was actually taking the issue seriously.

In terms of property insurance, assessment of the vulnerability of the business to Business Interruption loss is now a key underwriting factor. As a result, if an organisation is proficient at BCM, this fact could go some way to ensuring that they meet the underwriter’s criteria on this front. This belief was supported by one participant who, with over 25 years of loss adjusting experience and having been involved in major multi-national BI claims, assured those around that table that those companies which have plans in place are in a much stronger position to respond effectively to a business-interruption related incident.

### **Demonstrating BCM Capabilities – the Role of Standards**

The insurers, however, raised concerns that while BC had a clear role to play in the negotiations between insurer and policyholder, there was a huge difference between being able to provide a BC plan and being able to demonstrate successful business continuity capabilities. A concern was raised regarding how you equate quality of BCM with quality of risk and therefore overall price of insurance. As one participant pointed out, BCPs can be a “variable feast”.

Good practice, it was universally acknowledged, was not simply about having a process in place, but having one which is measurable and auditable so that BC best practice can be clearly demonstrated to the underwriter. Such plans should be aligned with business objectives and must be tested and audited on a regular basis to ensure that continuous improvement is maintained.

While insurers were quick to point out that Standards are not the only way of achieving an auditable BC trail, it was generally agreed that processes such as those laid down in the BSI

Standard BS25999 provided a useful framework upon which to build a continuity strategy and an effective means of providing evidence of good practice. Alignment with a recognised standard which has been implemented by certified practitioners, it was acknowledged, serves to demonstrate an active BC programme which could be audited, rather than simply evidence of a plan.

The discussion then focused on the evolution of the British Standard, which can trace its origins back to PAS56. The PAS served as the first foray of the BSI into the business continuity arena in response to what was a precursor to a full formal Standard for the discipline. Following the PAS a technical committee was formed to consider the details of a BC Standard. This resulted in the release of BS25999 – 1: 2006, which provided a Code of Conduct for the discipline and offered guidance for the implementation of a BCMS, which was based on the ‘plan-do-check-act’ framework which is common to most standards. In November 2007, Part 2 of the Standard was released which provided a specification for business continuity management and offered a certification process to allow organisations to assess the BCM capabilities.

The Standard was based upon the BCM lifecycle laid down in the BCI’s Good Practice Guidelines and sought to embed BC good practice through promoting activities based around the ‘plan-do-check-act’ concept – assess critical activities, implement a necessary BC strategy, test the strategy and review on a regular basis to ensure continuous improvement.

The Standard was compiled by experts in BC from both public and private sectors and included national and international best practice. The aim was to produce a Standard which was not country specific and the BSI chose to promote BS25999 worldwide from the offset.

To date, BS25999 is the fastest growing standard ever, having, at the time of the discussion, sold over 5,000 copies. More than 100 certificates have been issued covering at least 500 sites in over 14 countries and more than ten vertical sectors. The Standard has gained greatest traction in those sectors which are not highly regulated, such as manufacturing and retail where certification can be used to demonstrate resilient practices.

It was also acknowledged that simply because a company had not sought alignment or certification under the Standard, this did not mean that their BCM strategy was not fit-for-purpose. The issue of professional competence was considered of greater potential value than adherence to a standard, as evidenced by a number of large companies which had implemented effective BCM strategies that were not based on any particular standard.

Concerns were, however, raised by a number of insurers regarding the issue of scope in the context of certification to the Standard. When a company states that it has been certified to BS25999, is it the whole company or just its back office activities? The advice given was to contact the BSI who would be able to confirm the scope of the certification process.

### **An International Dimension**

The Standard, it is hoped, will have a major role to play in influencing an international business continuity standard. The BSI, participants were informed, is working closely with the International Standards Organisation (ISO) on ISO22301 - Societal Security Preparedness and Continuity Management Systems - to make this goal a reality, and BS25999 has contributed greatly to this process.

In terms of the ISO’s business continuity standard, while the process is well underway, one should not expect to see the finalised standard in the public domain until the end of 2011 at the earliest.

All of the insurers agreed that if an internationally recognised standard could be achieved this step would go a long way towards having a positive effect on the impact of BC on

insurance negotiations. In fact, they called upon BC professionals who adopted such a standard to demand recognition for their efforts, particularly if the standard is adopted across the board. Such a standard would create a global benchmark which was seen as a vital component, particularly where insurers are dealing with large organisations which have operations in multiple domiciles.

This part of the discussion concluded with insurers being put on the spot, as BC participants called on them to back up their talk of companies being “potentially better off” from an insurance perspective where clear evidence of BC best practice was ably demonstrated by alignment/certification to a globally-recognised standard. “The relationship between certification and the opportunities it provides for reducing premiums has long been discussed, but we need to put some meat on the bones of this argument.” Insurers were urged to help by clarifying just how much of an impact it could have.

### **The Role of Business Interruption Insurance**

The focus of the discussion was then extended to the role which Business Interruption (BI) insurance plays in the context of business continuity strategies and overall resilience. Previously BI insurance was referred to as ‘loss of profit’ insurance – which one insurer believed was a much better description of the cover as it provides for consequential loss arising from a physical loss at the premises of the organisation resulting from an insured peril. The aim of the cover is to protect the company’s cash flow and not the physical asset itself.

In terms of the basics of BI cover, it was accepted that these principles have changed little since it was introduced in 1939. Where there have been enhancements is in relation to the scope of the cover, as policies have expanded in order to meet the challenges of the wider range of risks that insureds are exposed to. For example, new elements have included: denial of access; non-damage contingent coverage; bomb threats; and supplier extension, which covers the organisation in the event of a fall in revenue as a result of a supplier experiencing incident which they have insured against, such as fire or flood. This last point, it was stated, illustrates how the reach of BI policies now extends beyond the insured’s premises and out to those of their suppliers.

It is a requirement of BI cover, it was explained, that companies are able to demonstrate that the event has resulted in a loss of revenue and a rise in the cost of continuing to operate through increased expenditure as a result of the event. This, the insurers concurred, is where BCM can play a vital role, as the BC plan should include details of costings for transferring operations to an alternate site in the event of an incident at the original premises, for example.

### **BCM and BI – a Perfect Fit**

One insurer highlighted the fact that during negotiations most carriers will want to see clear evidence of the fact that the company seeking the BI cover is managing its potential loss exposures effectively and taking the necessary mitigation steps. This is where the BC plan can play a valuable role in demonstrating that the organisation has implemented measures to limit any possible risks. The underwriter will also expect to see evidence of processes in place to ensure that the business can return to full operation as quickly as possible after the event.

However, before approaching the insurer it is imperative that “you know what it is that you want to insure”, added another insurer. There are some companies which have a massive turnover where it is simply not possible to insure the total gross profit. “This is where you need to use your BIA to work out how much cover you actually need.” If the organisation

from the outset has a clear idea of what BI cover it needs then the task for the insurer of precisely meeting their coverage demands becomes a lot easier, and the result will be a much better insurance fit for the insured.

The example was given that you may have a company which believes that it is necessary to have its entire operation fully covered, yet in the event of an incident there may be limited loss of profit because the majority of its staff is capable of working from home. It was acknowledged by both insurers and BC representatives that it is therefore imperative for an organisation to analyse the potential consequences of the mitigation actions which it implements in order to effectively calculate how much BI insurance it actually needs – and this, they agreed, should be carried out well in advance of approaching the insurer to discuss coverage. As one speaker put it, “Your insurance should only be there to cover the additional costs that you will need to get back to business as usual.”

It is therefore important that the BC manager works closely with the underwriter to realise the cost benefits of the work which they have carried out at the insurance purchasing level. The aim should be to establish which elements of the operation are deemed critical from a BI risk perspective. The underwriter wants not only to see the plans, but also evidence of the fact that what is on paper has actually been embedded into the processes within the organisation so that they can be confident not only in the plans themselves but also in the capabilities of the people who have implemented them. One other insurer stated that they were also interested in seeing where that person sat within the organisation and how much strategic influence they had, as this gives an indication of how seriously the organisation takes BCM. Often BC managers are fighting for recognition within an organisation but their low-standing means that even with the best laid plans they struggle to get the organisation to move in the right direction. One participant went so far as to say that it is possible to gain a sense of the quality of the management within an organisation based on the quality of their BC strategy and how they manage risk at the top table, based on the working assumption that quality of management makes the key difference in getting order out of chaos.

This line of discussion raised the question – “How often do you as an insurer actually get to meet the BC practitioner within the organisations you deal with?” While some acknowledged that with their larger corporate clients they would expect to meet with the Risk manager as part of the negotiation, concerns were raised about the overall involvement of the BC manager in the insurance buying process. All accepted the fact that if companies are to reap the benefits of their BCM strategies through reduced overall insurance spend then it was imperative that their continuity professionals play a central role in the buying process.

At this point in the discussion a rallying cry was issued to both BC managers and Risk managers. Insurers called upon them to be more proactive in promoting the benefits of their efforts to enhance resilience, not only within their organisation but also to their insurers; rather than simply expecting their work to be acknowledged and reduced premium rates to follow. By doing so, they will enhance the potential for achieving the financial benefits which their efforts deserve

### **The Value of the BIA**

All parties concurred that a comprehensive, well-executed business impact analysis (BIA) was essential if an organisation is to gain a full understanding of what cover it needs to purchase. As one speaker put it, an organisation can fight hard to have its premium rates reduced, and particularly in a softening market such efforts may bear fruit, but it can probably make much greater savings if it simply reviews its insurance coverage in the

context of its BIA and reduces the amount of insurance it buys based on the findings. He added that just because you reduce your insurance this does not mean that you are not properly insured, but what it can mean is that you have the right insurance where you need it.

What this process also enables the BC manager to do is demonstrate irrefutable evidence of the fact that BCM has enabled the company to save money. By reviewing all of your existing policies through the lens of your BIA, it may well be possible to make major reductions in your overall insurance outgoings.

The BIA could also play an extremely important role in the context of contentious claims. As was acknowledged, insurers are often accused of being adversarial in settlement scenarios when it comes to determining the nature and the quantum of the loss. This posed the question – “Can we use the BIA to determine a formula for settlement in advance of the incident?” If the underwriter and the organisation concerned can establish a formula which is based on the findings of the BIA then this could be used to determine what the overall loss might be following an incident. This could be carried out in a much shorter time period than is normal practice following an incident and as a result a swifter settlement could be reached without having to wait up to 24 months as can be the case in some complex scenarios.

As one participant pointed out, this delay in reaching a settlement does not have to take place if there is sufficient work done in advance between the insurer and the insured. He added that in his experience the best managed claims are those in which the BCPs have worked effectively and as a result the losses have been contained.

While it may not be possible to know exactly what kind of physical event might cause the interruption to the operations of the business, by using the BIA the company in conjunction with its insurer can set about planning how the BI policy might respond. The work conducted by the BC staff should enable them to establish an understanding of how much financial support the company may require in the first month, the second month, the third month etc after the incident.

It was confirmed by one insurance representative that their organisation is already working with some of its clients to achieve just this outcome. They are attempting to ‘pre-plan’ claims so that both parties have in place a pre-agreed claims route which can be followed in the event of an incident thereby reducing the potential time taken to reach settlement.

However, it was noted that in practical terms there is often a limit to the amount of time which the underwriter can commit to such a process and furthermore that in the event of a claim there may be a disconnect between the original underwriter and those actually handling the claim. Although one participant added that, in their opinion, a claims person would be delighted to learn that such pre-event conversations had taken place, particularly if the outcomes were clearly documented in the insurance policy.

### **The Complexity of the Supply Chain**

It was argued that if the organisation in question was seeking a greater level of commitment from its insurers then the underwriter needed to have full access to not only their BC plans, but all evidence of BCM, whether that be through on-site visits or reviewing the results of recent exercises which have been conducted. Such access will allow the insurer to gain a clearer picture of how and where the value chain might break.

However, establishing a clear picture of the value chain is becoming increasingly difficult given the ever more complex nature of supply chains and the rise in the potential for disruption from events outside the scope of the business interruption insurance policy. A

recent World Economic Forum report was cited which highlights the increasing risks posed by over-optimisation of the supply chain.

As one participant highlighted, the value of the BI policy is limited to those events classified as BI insured perils. The potential for disruption to the supply chain resulting from an uninsured event is on the rise. For example, a call centre in India may be affected by a strike or become insolvent, neither of which events would likely be covered by a BI policy. The old adage of “no risk at any cost” that prevailed among companies in the past, he added, has been replaced by “lowest cost at any risk”, and such an approach is serving to ramp up the number of potential exposures as supply chains become over-optimised in the drive to reduce cost.

This development places the onus squarely on the BC manager and the Risk manager to better define those potential risks so that the coverage options can be extended to meet them. The role of the BIA in identifying those critical components was seen by all as key in this process.

Underwriters need to be made more aware of where these risks lie within the organisation. It was acknowledged that if a company can clearly illustrate to the insurer those risks which it wishes to remove from its balance sheet then the market will endeavour to find a way of achieving that. As was mentioned earlier in the discussion, one of the areas in which BI insurance is evolving is in relation to the scope of the cover provided. Efforts are being made to ensure that BI can be advanced in order to accommodate the increased levels of complexity which companies are now facing.

As the insurers acknowledged interdependency risk is a very difficult one to tackle in the context of BI insurance. This does not just relate to the supplier, but also to other external factors such as general market conditions. That is why any thorough evaluation by an underwriter should consider not only the protection procedures which are in place, but also the approach of management and the environment in which the organisation operates in before coming up with a proposition.

### **A Process of Education**

While all were in agreement that both parties would benefit greatly from a closer working relationship, for this heightened interaction between insurers and BC professional to bear fruit, it was accepted that there needed to be a process of education undertaken on both sides. This two-way stream of communication must ensure that BC practitioners are fully aware of the role which BI insurance plays, what it covers and what it does not cover. On the other side, it must help insurers to increase their understanding of the role of business continuity in achieving organisational resilience, and at a more granular level educate them on the value provided by having a BCI qualification and the role which standards such as BS25999 play.

Opportunities exist for the BC profession and the insurance industry to work in tandem to create an environment which is beneficial to both parties. Closer interaction will generate a better understanding of requirements on both sides, with BC practitioners becoming more aware of exactly what insurers need from them, and in return underwriters being better positioned to tailor more effective and targeted BI policies. Furthermore, by establishing closer bonds at an early stage in the process and using this heightened understanding to create a pre-event formula for claims settlement, both sides will again benefit from a more efficient claims management process that will go a long way to removing any entrenched beliefs that insurers are adversarial when a claim arises.

In essence, one insurer concluded, what every insurance carrier is striving to do is to drive up the quality of their portfolio compared to the market average. By working more closely with those individuals charged with implementing effective business continuity and risk management strategies there is a much greater chance that insurers will see a much better 'return on their investment'. "We as insurers see ourselves as stakeholders in your business – the risk is being transferred to us and as a result we want to ensure that you are resilient" In fact, one participant said, one could say that business continuity exists to service the requirements of the insurance market!

**End of Report.**

### **About the Business Continuity Institute**

The Business Continuity Institute (BCI) was founded in 1994 and leads on the development of best practice in Business Continuity Management. The BCI also contributes to relevant legislation and standards. It has over 5,000 members in 90 countries, active in an estimated 2,500 organisations in private, public and third sectors.

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