

Nonprofit Risk Management Center

## Business Continuity Planning for Nonprofits

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2. DIAL-IN to HEAR the audio portion.

Call: 866-740-1260.

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## We Appreciate Your Feedback

- At the conclusion of today's webinar a brief *ReadyTalk* evaluation form will appear.
- Would you please take a minute to provide feedback on today's program?

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Nonprofit Risk Management Center

## Business Continuity Planning for Nonprofits

May 4, 2011

Melanie Lockwood Herman  
Nonprofit Risk Management Center



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**Your Task**

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- Prepare
- Respond
- Recover
- Any interruption...



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**Consider...**

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- What's happened to you in the past
- Crises that have affected similar nonprofits in your community
- What's never happened, but is still possible
- What could make achieving your mission impossible... or next to impossible

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**Guiding Principles**

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- **Before the Crisis (interruption)**
  - Do what you can, when you can
  - Be flexible
  - Involve a diverse group of people
  - Focus on the most probable crises first



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## Guiding Principles

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- **During the Crisis**
  - Remember that integrity and compassion will serve your nonprofit well in the long-term
  - Do what you can
  - Act with unity
  - Call on others for help
  - Be flexible
  - Document everything



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## What is Business Continuity Planning?

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- Plan
- Interruption
- Control
- Resumption of functions
- Continuity

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## Defining BCP: Our View

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- **BCP:** The plan required to keep your nonprofit running during a period where normal operations are disrupted.
- **Disaster Recovery:** Process of rebuilding after a disaster has passed.
- **Crisis Management:** Managing in the face of an emergency, disaster or catastrophe.

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What's a Business Continuity Plan?

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- “...a collection of procedures and information that is developed, compiled and maintained in **readiness** for use in the event of an emergency or disaster.”

Source: Business Continuity Institute Glossary

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What's a Business Continuity Plan?

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- A plan to prevent **interruption of mission-critical services and make the nonprofit fully functional as swiftly and smoothly as possible.**

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What's Critical?

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- Gaining control
- Survival (may depend on control)
- Relationship to frequency and magnitude

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# BCP Objectives

- Organization survival ("resilience")
- Protection of critical assets
- Modification of consequences to an acceptable level
  - relationship to mitigation in the risk management process
  - must identify mission-critical activities first
- Proactive handling of interruption

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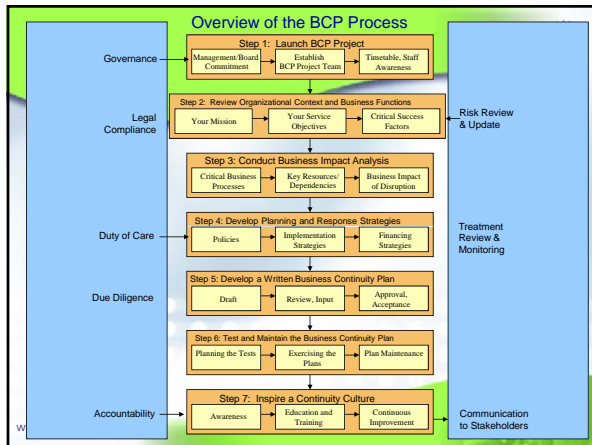
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# What interruption?

- Has already happened...
- Could happen in the future...
- Has happened to another nonprofit...

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Does the source of interruption matter?

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- Why?
- Why not?
- It depends...



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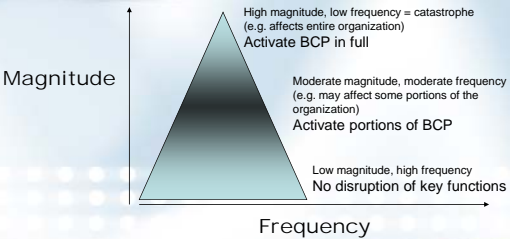
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What Type of Interruption?

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Magnitude

Frequency

High magnitude, low frequency = catastrophe (e.g. affects entire organization)  
Activate BCP in full

Moderate magnitude, moderate frequency (e.g. may affect some portions of the organization)  
Activate portions of BCP

Low magnitude, high frequency  
No disruption of key functions

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Step 1: Launch

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- Leadership commitment
- BCP Project Team
  - Who else? Why?
- Timetable
- Communication with others



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**Step 2: Context and Functions Analysis**

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- Organizational context
  - What special issues?
  - What resources?
    - Human?
    - Financial?
    - Others?
  - What constraints?
- Your mission? Your service objectives? Your critical success factors?



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**Step 3: Business Impact Analysis**

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- Business Processes
- Key Resources and Dependencies
- Business Impact of Disruption



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**Step 4: Develop Planning & Response Strategies**

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- Policies
- Implementation strategies
  - Communicate
  - Calculate
    - continuity requirements
    - viability of internal and external solutions/alternatives
    - people in best position to develop continuity plans
- Financing Strategies
  - Insurance
  - Own funds

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## Step 5: Complete Written Business Continuity Plan



- Suggested criteria:
  - Easy to use
  - Easy to understand
  - Easy to update
- Achievable goals, objectives, strategies — “product of reality above idealism”
- Copies kept off-site
- Owned by everyone



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## Step 6: Test and Maintain Plan



- How?
  - Paper walk-through
  - Tabletop exercise
- Who?
- When?
- What consequence?
  - What do we do with results? What changes are necessary?



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## Step 7: Inspire a Continuity Culture



- Awareness
- Education and training
- Continuous improvement
- Obstacles



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**Business Impact Analysis**

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A means of systematically assessing the potential impact resulting from various events or incidents.



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**Business Impact Analysis**

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A method of identifying all the interdependencies between the services an organization offers and the processes and resources necessary to their delivery.



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**Which services are critical to your mission?**

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- Customers
- Income generation
- Contractual obligations
- Reputation
- Legal requirements
- Personnel retention



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**Estimate the Costs of Failure**

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- What are the costs of not delivering the service?
- What are the costs of delivering the service late?
- What is the longest time the service could be left without being delivered?



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**Prioritizing Service Restoration**

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- Which services must be restored first?
- What is the Maximum Acceptable Downtime (MAD) for each service?



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**Mission-Critical Services: Timing**

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- Peak demand times
  - Time of day
  - Time of week
  - Time of month
  - Time of year
- Special events
  - Fundraising
  - Program or activity



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**Determine Elements Required for each Service**

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- Staffing
- Information technology
- Internet
- Facilities
- Communication
- Vital records
- Transportation
- Equipment
- Furnishings
- Supplies
- Vendors
- Other

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**Identify Strategies for Obtaining Recovery Resources**

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- Plan B, C, D
- Cross-training employees
- Vendors outside of area
- Mutual assistance agreements
- Alternate sites
- Records storage and retrieval

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**Business Impact Analysis Summary**

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- Provides a basis for sometimes-difficult decisions.
- Recognizes that services and business functions are not always equal.
- Establishes the minimum requirements for continuing critical functions.

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## Policy Changes??

- Alternative methods of procuring supplies or services
- Alternative measures to distribute payroll and pay vendors
  - payroll vendor?
- Securing office/storage/warehouse/other space in another location or municipality

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## Implementation Strategies

- Communicate progress to:
  - paid staff
  - clients—current and prospective
  - vendors
  - suppliers
  - partners, collaborators (contractual)



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## Implementation Strategies

- Communicate progress to:
  - other organizations with whom your nonprofit collaborates (mutual benefit)
  - community at large, via press releases and media interviews
  - Via website?



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## Calculate

- Continuity requirements—what does your nonprofit require (repair, replace, supplement) with respect to:
  - office space
  - Warehouse/storage space
  - retail space
  - IT
  - telecommunications (phones, fax, pagers, etc.)
  - equipment

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## Risk Financing

Business Interruption/Extra Expense Coverage

**Business interruption insurance protects the policy holder against losses that arise due to a shutdown of a business as a result of a covered event.**

- Loss of net income
- Extra expenses needed to continue
- Due to damage or destruction of insured's property
- Don't assume package policy provides sufficient extra expense coverage



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## Net Result / Goal

- The goal is to make the organization “whole” should a covered event occur (excluding deductibles, waiting periods, etc.)
  - Conceptually: your financial statements should report the same financial results as they would if the covered event had not occurred

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**Purchasing Coverage**

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- **Commercial Property Policy**
  - Most commercial property policies **include** business interruption coverage within the body of the policy or as an endorsement
    - **Commercial Property Insurance – pay to rebuild your physical property**
    - **Business Interruption – pay for lost income**

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**Purchasing Coverage**

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- **Business Owner's policy**
  - Tailored for small business owners (Property, liability, & business interruption)
- **Separate business interruption policy**

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**Coverage Triggers**

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- **What must occur for coverage:**
  - Physical damage
  - Described Property
  - By Insured Peril
    - **Examples – Fire, lightning, windstorm, hail, weight of snow, ice, or sleet, water damage, vandalism, riot or civil commotion, vehicles, aircraft (Flood generally excluded)**
  - Causing an interruption of operations

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Sample Policy Language

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- We will pay for the **actual loss** of Business Income you sustain due to the necessary suspension of your “operations” during the “period of restoration”.

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Actual Loss

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- Coverage is based on the **actual loss incurred**
  - Claims must be reduced for discontinued expenses
  - Careful analysis and review of fixed versus variable expenses
  - Other key – assumption that the policyholder will avoid or mitigate its losses
- **Faulty Assumption – Insurance pays for lost profits during the period of restoration less any actual profit or loss.**
- Coverage is based on **actual loss sustained!**

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Period of Restoration

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- **Window of time which the business income loss is measured**
- **“Period of Restoration”**: means the period of time that:
  - Begins with the date of direct physical loss or damage caused by or resulting from any Covered Cause of Loss at the described premises; and
  - Ends of the date when the property at the described premises **should** be repaired, rebuilt or replaced with reasonable speed and similar quality.

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Format – Business Loss Calculation

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- Two methods:
  - “Top Down” Approach
    - **Lost REVENUES less discontinued expenses**
  - “Bottom Up” Approach
    - **Net Income plus continuing expenses**
  - Both methods should yield the same results

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Extra Expenses

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- Extra Expense means expense incurred:
  - **To avoid or minimize the suspension of business and to continue “operations” (extra)**
    - At described premises or
    - Replacement premises or at temporary locations
  - **To minimize the suspension of business, if you cannot continue “operations” (extra)**
  - **To repair or replace any property (expediting expense)**

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Preparing to File a Claim

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- Description of your operations
- Description of services (and products, if applicable) offered
- Strategic (“business”) Plan
- Form 990s (3 – 5 years)
- Payroll records (2 years)
- Income Data (3 – 5 years)

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**Preparing to File a Claim** Nonprofit Risk Management Center

- Annual Budgets (2 years)
- Forecast for current year
- Monthly Statements of Activities
  - Historical (3-5 years)
  - Current year to date
- Audited Financial Statements (3 – 5 years)
- Industry trade data, geographical data

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**Understand Your Coverage** Nonprofit Risk Management Center

- Review your current policy
  - What type of events are covered
  - How does the policy define business income interruption
  - What event(s) must occur to trigger the policy
  - Time periods – how much time must pass to start coverage, how long is coverage provided

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**Claims Reporting** Nonprofit Risk Management Center

- Make emergency repairs and keep receipts.
- Criminal acts? Contact the police.
- Prepare an inventory of damaged, lost or destroyed property.
- Consider related claims (P&C).
- Do not repair or destroy.

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## Claims Reporting

- Collaborate with your insurance professional.
- Provide prompt notice.



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## Insurance Program Management

- Engage trusted, competent insurance professional.
- Read your policies.
- Ask questions; demand answers.
- Ask others.

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## Barriers

- Interest level and attention span
- Keeping the BCP up to date
- Individual reaction to crisis - skill set to work in adverse conditions
- Small staff - only certain people know certain things
- Family commitments vs. organizational commitments

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## More barriers

- Coming up with time, staff and other resources to develop the plan
- Individual and collective reaction to stress - consider psychological response to 9/11
- Chaotic environment surrounding a business interruption scenario

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Thank You!



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