Business Continuity Planning for Nonprofits

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Business Continuity Planning for Nonprofits
May 4, 2011
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Nonprofit Risk Management Center
Your Task

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

Consider...

- 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

Guiding Principles

- 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
Guiding Principles

**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

What is Business Continuity Planning?

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

Defining BCP: Our View

- **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.
What’s a Business Continuity Plan?

- “…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

What’s a Business Continuity Plan?

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

What’s Critical?

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

Overview of the BCP Process

Step 1: Launch BCP Project
- Identification
- Business Functions
- Critical Business Functions

Step 2: Review Organizational Context and Business Functions
- Your Mission
- Your Service
- Objectives
- Critical Success Factors

Step 3: Conduct Business Impact Analysis
- Key Resources/Dependencies
- Business Impact of Disruption
- Critical Business Processes

Step 4: Develop Planning and Response Strategies
- Risk Review & Update
- Legal
- Compliance
- Governance
- Management/Board Commitment

Step 5: Develop a Written Business Continuity Plan
- Policies
- Implementation Strategies
- Draft Review, Input Approval, Acceptance

Step 6: Test and Maintain the Business Continuity Plan
- Planning
- Exercises
- Communications
- Stakeholders
- Accountability

Step 7: Inspire a Continuity Culture
- Continuous Improvement
- Awareness Education and Training

What interruption?

- Has already happened…
- Could happen in the future…
- Has happened to another nonprofit…
Does the source of interruption matter?

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

What Type of Interruption?

- Magnitude
  - 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

Step 1: Launch

- Leadership commitment
- BCP Project Team
  - Who else? Why?
- Timetable
- Communication with others
Step 2: Context and Functions Analysis

- 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

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

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Step 4: Develop Planning & Response Strategies

- 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

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?

Step 7: Inspire a Continuity Culture

- Awareness
- Education and training
- Continuous improvement
- Obstacles
Business Impact Analysis

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

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Business Impact Analysis

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?

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

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Estimate the Costs of Failure

- 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?

Prioritizing Service Restoration

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

Mission-Critical Services: Timing

- Peak demand times
  - Time of day
  - Time of week
  - Time of month
  - Time of year
- Special events
  - Fundraising
  - Program or activity
Determine Elements Required for each Service

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

Identify Strategies for Obtaining Recovery Resources

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

Business Impact Analysis Summary

- 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.
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

Implementation Strategies

- Communicate progress to:
  - Paid staff
  - Clients—current and prospective
  - Vendors
  - Suppliers
  - Partners, collaborators (contractual)

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?
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

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

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
**Purchasing Coverage**

- **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

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

- **Separate business interruption policy**

**Coverage Triggers**

- **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
Sample Policy Language

- 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".

Actual Loss

- 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!

Period of Restoration

- 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.
Format – Business Loss Calculation

- 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

Extra Expenses

- 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)

Preparing to File a Claim

- 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)
Preparing to File a Claim

- 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

Understand Your Coverage

- 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

Claims Reporting

- 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.
Claims Reporting

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

Insurance Program Management

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

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
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

2011 Nonprofit Employee Benefits Conference
May 16–17, 2011 – The Salvation Army Conference Center, West Nyack, NY