

Managing Catastrophic Risk

Whether directly or indirectly, we have all experienced a crisis, be it in business or in our personal life. Imagine a catastrophic situation similar to what is happening with the nuclear installations in Japan. Do you think that the government authorities or the nuclear plant operators have shown **diligence in their PREPARATION, or in their REACTIONS to these events?** The answer is almost evident in the questioning...

To confront this situation, it is essential that **the word “prevention” be added to your business’ vocabulary.** An event like this one, and even those of lesser importance, can have significant financial, material and moral consequences. No, this is not an easy task. It is time consuming, will require preparation and an in-depth evaluation of your daily operations. But you will have to do it, if you want your business to be well protected!

This preparation includes:

- 1. Making a thorough evaluation of the factors or events that are the most likely to interfere with your operations,** even risks that seem remote such as your **dependence on a supply chain.** In your activities, are you confronted with known geographical risks such as being located in a flood or earthquake zone? Would an interruption in the supply chain of products cause you a problem and can the products be easily replaced? By what means? Are there particular risk factors to your production equipment or your installations? Your management team must be able to evaluate the impact of each of these risk factors, their potential severity and their importance in your daily operations.
- 2. Promoting sound management of your buildings and equipment.** Do you have a maintenance plan for your equipment and installations insuring that they will work properly in the case of an unfortunate event? For example, will you need a generator in the case of a power failure? If you have one, is it in working order and is it checked periodically? A generator that does not function in an emergency is not very useful to the continuation of your operations! Have you taken into consideration the reliability of your diesel fuel supplier in an emergency? Should you find a backup supplier to avoid an availability problem?
- 3. Establishing a risk management and prevention system based on identifying the sources of the problems before they happen.** Risk management and prevention consist largely in control and financing.
- 4. CREATING A CATASTROPHE PLAN THAT WILL HELP YOU PREPARE FOR THE WORST!** This is

certainly the most important tool that you can prepare in advance and will use in time of crisis. Based on items 1 to 3, you have already identified the risk factors, established priorities and determined action items. **You must now implement procedures, action plans and identify the people who will manage each aspect of your plan.** But this is not all! You must **keep the plan up-to-date on an annual basis to ascertain that it meets your evolving needs.**

5. Transferring a portion of the risk utilizing your insurance program:

- Your **basic insurance policy** will normally protect you for “standard” risks causing loss or damage to the business property. Often these insurance policies will also protect you from certain risks such as flood or earthquake, but the **coverage and terms will be basic and restrictive. Will they be enough to satisfy your needs and at what cost (premium)?**
- You must seriously consider obtaining **coverage for Business Interruption, as well as for Additional Expenses** that would allow you to continue certain operations in spite of an event which damages your installations.
- Supply Chain coverage** could be necessary if your source materials are only available from a limited number of suppliers; and after **analysing your supply chain,** you will certainly have keyed in on various factors that have an impact on their availability such as transportation, credit risk, political risks, etc.
- Interruption of public utility services** (electricity, water and/or natural gas) can also cause you important financial loss.
- If your operations are conducted at **different locations, is there interdependency between them?**

The benefits of sound risk management are important. They lead to the reduction and elimination of losses and claims risks related to your operations, the enhancement of investor confidence and the minimization of cost of risk.

To obtain more information concerning your insurance or risk management requirements, we encourage you to contact your account executive at Vézina, whose knowledge enables them to offer you unsurpassed guidance for the choice of coverage that best meets your company’s situation thereby protecting what counts most to you — the future of your company!