Threats like Hurricane Katrina and the attacks of 9/11 convinced most executives that business continuity planning really should “matter” in terms of managing significant risk to their insurance operations. However, once you have figured out why business continuity and disaster recovery planning matters, it is important to understand that acknowledging the reality of the problem is only part of the solution.

In “Industry IT Spending Profile 2005: Insurance,” Forrester Research analyst Andrew Bartels indicated that “disaster recovery and Sarbanes-Oxley support are top insurance priorities for 2005.” Additionally, the 2005 survey found that 36 percent of the respondents placed “critical priority” on upgrading disaster recovery capabilities. However, according to the most recent version of this report titled “Industry IT Spending Profile 2006: Insurance,” which was released by Forrester Research in April, things have changed. Unfortunately, in 2006 Forrester researchers found that “only half of insurance companies rated business continuity improvements as critically or somewhat important, compared with 73 percent of other financial services firms.”

However, recent articles and industry events like the 2006 IASA Annual Educational Conference & Business Show in Boston, MA, have all highlighted disaster recovery, business continuity and disaster preparedness as topics of crucial importance to an insurance company’s ability to survive and thrive. Why is there such a disparity in these pieces of information? It’s all a matter of timing.

Many insurance industry executives are talking about their disaster recovery, business continuity and disaster preparedness priorities and the systems or plans that they have developed during the last year. The catastrophes of yesterday made business continuity and disaster recovery important enough that many insurers spent considerable sums on these initiatives in the last year. The catastrophes of yesterday made business continuity and disaster recovery important enough that many insurers spent considerable sums on these initiatives in the last year. Therefore, new spending in this area is not seen as important this year as evidenced by the results of the Forrester research.

But just because insurance company executives are not budgeting for extensive expenditures in the area of business continuity and disaster recovery doesn’t mean that disaster preparedness has fallen by the wayside. Now that plans and systems are in place, testing is the next step.

“Insurance companies are determined not to be caught off-guard again,” wrote Deena M. Amato-McCoy in “Ready for the Next Big One” published in the April 17, 2006 issue of InformationWeek. “They’re re-examining IT strategies and operations in anticipation of the fast-approaching hurricane season.”

And it’s not just hurricanes that have insurance industry execs concerned about whether or not their companies are prepared to deal with a crisis. The list of threats confronting today’s insurance businesses includes pandemics like SARS and the avian flu, natural disasters such as hurricanes, tropical storms, earthquakes and tsunamis, and manmade catastrophes brought on by terrorism and war, and those with less insidious origins such as power outages due to overuse and outdated or overloaded equipment. It’s no wonder that insurance professionals are looking to the future and closely examining the solidity and dependability of their IT environments to make certain that they have application availability (for themselves and their customers) at the mere flip of a switch.
The threats still facing insurance businesses and the world at large today make it clear that going through the motions of business continuity planning is simply not enough. Testing your business continuity and disaster recovery plan is absolutely necessary for insurance companies looking to mitigate potential risk by protecting critical business processes from system breakdowns, security breaches and natural or man-made disasters. A fully tested and executable business continuity plan can help an insurance company gain a competitive edge, react quickly to calamities, ensure application availability and simultaneously improve business agility and customer service levels.

Gain a Competitive Edge
Disasters are a double-edged sword. On the dark side, recent catastrophes and disasters have caused insurance companies and policyholders significant downtime and expense. On the bright side, these same catastrophic events are often the impetus for many insurers to refocus on what aspects of their business continuity plan works and which aspects simply do not. At this point it’s a given that most insurance companies have a plan, but without testing the companies involved are still not necessarily prepared for what may lie ahead.

“No matter how many checklists a company makes and distributes, the number of disaster scenarios it considers or even how assiduously it backs up its data, managers can’t be confident in a firm’s ability to recover data if the systems haven’t been tested thoroughly,” wrote Alan Radding in his recent article “Will Your Disaster Recovery Plan Work?” published originally in Storage Magazine.

An insurance company willing to devote the time, money and manpower to completely testing their disaster recovery/business continuity plan can be assured of gaining an edge over competitors who are willing to bet that the next disaster won’t hit them where they live, so to speak.

“It is not enough to have a plan,” said Brian Bernard, director of information technology for U.S. Agencies, a low-cost auto insurer writing business in Alabama, Illinois and Louisiana and located in Baton Rouge, LA. “Testing is crucial. If you do not test, the end result is increased downtime to address issues that never came to light. Testing helps identify side issues that were not considered in the original plan. You cannot think of everything without experiencing it.”

Before Hurricane Katrina, Carlos Mickan, executive vice president and chief financial officer for Pan-American Life Insurance Company, a life insurance company headquartered in New Orleans, LA that specializes in individual life, disability insurance and worksite benefits programs for individuals and businesses in Latin America, would likely have said he was confident of his company’s ability to recover systems and facilities to the point where business could proceed as usual. Unfortunately for Pan-American and others in the Gulf Coast area, the lack of emergency response in the aftermath of the hurricane and the breach of the city’s levees proved that you can never prepare enough for the unplanned and the unexpected.

“What we found out is that you can have the best plan in the world, but it is useless if there is no one there to execute it,” said Mickan in his presentation “A New Normal: Lessons in Disaster Survival and Recovery” at the recent IASA CFO Roundtable in Boston.

The loss of key employees was only one unexpected circumstance that Pan-American had to handle. Others included not being able to obtain satellite phones because the provider was closed on Saturday, lack of electricity that might be used to power wireless technologies like cell phones and laptops, and continued flooding at the company’s headquarters location on Poydras Street. It’s not just the story of Pan-American, it’s the story of every insurance company across America. It’s an “everyman” story. That’s why the facts continue to resonate.

“You may be thinking that it can’t happen to you,” said Mickan in his presentation to a room of over 125 insurance industry CFOs. “but change the hurricane to a pandemic or a dirty bomb, and it could be any company anywhere in the country.”

Testing your plan can bring to light faults and weaknesses in the chain before it becomes critical for your infrastructure to perform in the face of a crises. During testing, it is important for each insurance company to actively assess what the most critical needs of the business are and what they may be in a crisis situation. The answer to the question, “What do we recover first?” could legitimately be different for each and every insurer due to size, location, type of business, employee hierarchy/HR structure and many more variables.

“Credibility is likely the biggest benefit an insurance company can realize from effectively testing their disaster recovery capabilities,” said Rod Travers, senior vice president of technology for The Robert E. Nolan Company, a management consulting firm with offices in Connecticut and Texas. “An insurance company is in the business of managing risk. In today’s world, as we saw after Katrina, people have a very high expectation for companies and for government agencies to be able to function no matter what the severity of the disaster. Policyholders expect their insurance company to be there when they need them. If that doesn’t happen, they will go elsewhere at their earliest convenience. Disaster preparedness translates to credibility and ultimately competitiveness for the long haul.”

Plan your test and test your plan. If you are willing to spend the time and money on testing, the competitive edge can be yours.

React Quickly to Calamities
While testing your disaster recovery/business continuity plan may seem expensive in terms of staff time, potential travel to and from hot sites and other costs associated with activating backup measures, it is very little compared to what you could lose if your company is not able to react quickly to a disaster.

A recent study of 300 data center managers by AFCOM, a leading association for data center professionals in the U.S., found that 28 percent of those surveyed estimate that “a major data center interruption, such as loss of power, security breach or computer virus” would cost their companies $500,000 or more per hour of downtime.
These costs come from some pretty obvious sources, such as decreased productivity and lost revenue, but other more indirect sources can result from not adequately testing your disaster recovery/business continuity plan as well. Some of these indirect results include a loss of customers due to service interruption, penalties from service providers or partners with whom you have SLAs and fines for non-compliance with certain state or federal legislation.

It is true that both the testing and an actual disaster will place a significant burden on an insurance company’s IT department in particular. But in the end, being “disaster ready” with a robust disaster recovery/business continuity plan can help your company make certain that you have application availability and the ability to react on a moment’s notice when a disaster strikes.

“I would say the most important thing is having the essential people chosen to help out in a disaster,” said Bernard. “And keep in mind that it may not be best to always choose system experts over employees who will do whatever it takes to get the job done. Although most times these people are one in the same, other times it pays to secure effort over expertise. Also, you should identify enough essential personnel to accommodate some of them not showing up for whatever reason. Make sure they are aware and willing to be assigned ‘essential’ status.”

When it comes to creation and execution of a business continuity plan, perfection is out of the question. However, testing can catch some of the things that may be missing.

“The specifics of a disaster are unpredictable,” commented Travers. “Therefore, you can never precisely prepare for every possible thing that might go wrong during a disaster. However, testing will allow you to prepare for as many things as may be reasonable so that you will be as prepared as possible to improvise when a disaster strikes and the unexpected unfolds.”

**Testing Ensures Application Availability**

“There are several business drivers for business continuity and compliance solutions,” said Jerry Shammas, director of business continuity and recovery services for AT&T during a presentation at IASA’s recent CIO Roundtable. “These drivers include customer or market trends like the need to do business 24 x 7, the need to comply with regulatory pressures like the Gramm-Leach-Bliley Act and HIPAA, and the need to mitigate enterprise risk. All drive the demand for a highly available infrastructure.”

Shammas maintains that testing is the number one best practice that should be incorporated into the implementation of any business continuity solution. In addition to plan development and implementation, testing can further help an insurer determine what additional steps are necessary to capture overlooked applications requirements, to perfect a management solution, to integrate the solution with the company’s existing platform, and to manage and report on status at any given point in time.

“AT&T works with insurance customers every day who have a business continuity plan, but who don’t exercise their plan on a regular basis,” said Shammas. “Business continuity program management is important and useful to determine what the changing needs of your business are. More so than anyone on the outside, you need to know if your business infrastructure requires a high availability network like the one AT&T offers.”

Most insurance companies today have evaluated their company’s need for continuous application availability, but unfortunately not so many of them have effectively integrated this objective it into their overall disaster recovery/business continuity plans. A high availability solution can provide your company with the ability to react quickly in a catastrophe situation to minimize downtime.

**Conclusion**

As you can see, having a tested and executable disaster recovery/business continuity plan in place can make it easier for you to simultaneously improve business agility and customer service levels. This kind of disaster preparedness can keep your company “up and running” in times of a true crisis and offer you a competitive edge over company’s that don’t see the need for bringing their plan out for a little “exercise” now and again.

The ultimate question, “Are you prepared?” is one that may never have a totally satisfactory answer, because no matter how much you test and how many times you run the simulations, something unexpected will always crop up in a real disaster. But, even if you can never be completely prepared, you can stay one step ahead by planning the test and testing the plan.

For more information contact your AT&T Representative or visit us at www.att.com/business.