Chairperson's Corner

Disaster Recovery Plan—Do You Have One?

By Sharon Giffen

Sharon Giffen, FSA, FCIA, MAAA, is senior vice president and chief financial officer for Foresters in Toronto. She can be reached at *sgiffen@foresters.com*.

As I write this, I have just returned from the Enterprise Risk Management Symposium, where, between the sessions, we were following the events unfolding in Japan—the massive earthquake and tsunami and threatened nuclear meltdown. Frighteningly, this was close on the heels of a devastating earthquake in Christchurch. Floods in Australia started in 2010, but worsened in 2011; Rio de Janeiro has been suffering under floods and mudslides. Less than three months of 2011 have elapsed.

And this is not the beginning. Thinking about the major news of 2010, we can recall watching in horror as oil poured for weeks from a ruptured wellhead into the Gulf of Mexico, and in amazement at the ash pouring for weeks from a volcano in Iceland. We saw the poor of Haiti lose their meager belongings in yet another earthquake and the suffering in Pakistan and Indonesia amid their floods. In contrast, we also witnessed the euphoric 33 Chilean miners, rescued 69 days after being trapped 2,300 feet underground. We still wonder about the cause of the huge number of mass animal deaths all over the world in the second half of 2010.

I haven't even mentioned yet the political and economic disruptions rising in Libya, Egypt, Bahrain and Greece, and WikiLeaks; any of these could be the event that precipitates a new economic crisis here. Closer to home, health care reform, the Dodd-Frank Act and International Financial Reporting Standards are all changing how we do business.

You are probably wondering, what has all of this to do with our lives as actuaries in smaller insurance companies? I see three lessons for us.

First, our economy is global. Over the past few years, we have seen just how much our economies are interrelated. No country stands alone, and we see economic impacts from such varied events as the rebellion in Libya (price of oil), Chinese inflation (trade imbalance) and the tsunami (stock market jitters). How do we arrange our investments to best weather whatever storm comes along? Each of us has needed to evaluate asset allocation in light of our liabilities to ensure they are managed in sync. Are you appropriately diversified—by sector, by geography, by term and by quality? Have you considered risks of various economic scenarios such as deflation, inflation, recession and normal growth? Diversification and a sound long-term policy that considers various scenarios may not be sufficient to avoid losses in a crisis, but we can mitigate losses to assist in securing the future of our companies.

Second, we should all have good business disruption and disaster recovery plans. Not all disasters are of these epic proportions, but if something hits your business, it can be all-consuming. The simplest and most important element of your plan should be to exchange personal contact information in several forms among relevant staff. A key to early success is just being able to communicate live. Plans should exist for disruptions of many natures, since it will be unknown in advance who will be available to work and what facilities will be operational. Questions to consider: will your data be available, and will ongoing backups be made? Will you be able to process new business? Will you be able to pay your sales force? Are you depending upon the Internet to continue your business? What happens if the disaster is that someone has sabotaged access to the Internet? Does that change your business resumption plan?

Third, let us not lose sight of our core business of taking insurance risk. Whether life, health or property/casualty, do you have an appropriate diversification of risk—by risk, by geography, and by channel? Do you have good catastrophe arrangements in place for the "unthinkable" event? Have you done your due diligence on your reinsurer to be comfortable that they will be there when you need them?

There are many other aspects to risk management that I have not covered. The subject fills many texts and I have not done the subject justice. I encourage each of you to consider what you can do in your company. It does not take sophisticated models, or teams of "quants" to start the process and put in place the early foundation of a risk management program.

In closing, I can only hope fervently that by the time you are reading this, the situation in Japan is under control and the rebuilding will have begun.