

Earthquakes: Protecting Your Company

Earthquakes, though they are among the most catastrophic natural disasters, are infrequent and unpredictable, so many people choose to ignore the risk. However, not preparing for an earthquake could be a devastating decision in the long run.

In the past 100 years, earthquakes have occurred in 39 states, and about 90 percent of Americans live in areas considered to be seismically active. According to the Earthquake Education Center at Charleston Southern University, there is a 40 to 60 percent chance of a major earthquake occurring in the eastern United States in the next 20 years. The Midwest region of Arkansas, Kentucky, Missouri and Tennessee has a similar probability of a major earthquake in the next 15 years. In addition, increasing urban development in seismically active areas and the vulnerability of older buildings has increased the potential cost associated with earthquake recovery.

Earthquake Hazards

The damage caused by earthquakes can be quite extensive and can take many forms. They can seriously damage buildings and the contents within, along with disrupting gas, electric and telephone services. Equipment, ceilings, partitions, windows and lighting fixtures often shake loose, resulting in a significant danger for building occupants. Beyond the physical damage caused by the earthquake itself, an earthquake can also trigger landslides, avalanches, flash floods, fires and tsunamis. In addition, aftershocks often occur for weeks following the initial earthquake.

What's the implication for your business? Building

damage can result in long- or short-term business interruption. Just as detrimental can be the loss of utilities, which can occur even if your building is relatively intact. In addition, your employees will be unable to work, there will be difficulty getting supplies or materials, you may not be able to pay employees, there may be difficulty delivering products and customers may go elsewhere for goods or services. Without any cash flow during and right after the incident, resuming operations becomes an uphill battle in the aftermath of the quake.

About 90 percent of Americans live in areas considered seismically active. There are many effective precautions your business can take based on your risk factor.

What's Your Risk?

Nearly everyone in the United States is vulnerable to an earthquake, but certain areas carry a much higher risk. California, Oregon and Washington are the highest-risk states, but a dangerous fault also runs through parts of Illinois, Arkansas, Indiana, Kentucky, Mississippi, Missouri and Tennessee. The U.S. Geological Survey website can offer you more specific information of your state's exposure.

If you are located in one of these states, then protecting your company against earthquakes should be a large part

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of your risk management and contingency planning programs. Even if you do not operate in the most at-risk states, you should consider the catastrophic possibilities of an earthquake and protect your company accordingly. There are many effective precautions, ranging from simple and cost-effective to comprehensive and far-reaching, and you can determine just how thoroughly to integrate various measures based on your risk factor.

Beyond geography, there are other areas that could increase or decrease your company's exposure to the effects of an earthquake. Certain factors may limit your company's access to resources, ability to maintain clients, access to credit, opportunity to receive governmental support and overall chance of survival. Such at-risk firms include young companies, small companies, those in highly competitive industries, independent firms and those in any type of financial trouble at the time of the disaster. However, even businesses that fall into these categories can survive and succeed after a natural disaster with the right type of preparation and planning.

Protecting Your Business

More so than other natural disasters, earthquakes occur suddenly and without warning, leaving you little time to prepare. These strategies can be effective for any business and can truly make a big difference in your company's chance for survival.

- Inspect your facility or hire an engineer to do so. Make sure it is up to building codes and that everything is braced and reinforced properly.
- Secure all shelves, cabinets, tall furniture, equipment, machinery and anything that could move or fall. Move large and heavy objects to lower shelves, and never hang heavy items near workspaces.
- Important documents, such as inventory and financial records, insurance forms and documentation of valuables for insurance claims,

should be copied and stored in a secure, off-site area. Otherwise, any claims following a quake could be delayed or denied.

- Identify resources that you may need following a disaster, including local aid groups, banks, utility companies, law enforcement, government aid groups, public works departments and hospitals.

In addition to taking the above steps to safeguard your business, it is important to have a comprehensive business contingency plan in place in order to decrease costly business interruption.

You should identify critical systems, operations, services, supply chains and personnel. Some possible backup measures include mirrored data sites in multiple locations, backup work sites, the ability of employees to work from home and multiple communication alternatives. Any remote backup business site should be as far as possible to avoid the disaster, but close enough for employees to commute. Data and hardware backups should be even farther away, and high-risk businesses should have multiple backup locations.

Educating Employees

Just as important as protecting your business is protecting your employees. Much of this will come from planning and education.

- Establish policies and procedures, including what to do during and after an earthquake. Teach employees to "drop, cover and hold" (drop to the ground under something sturdy and taller than you, cover your head and hold onto the object you're beneath) in the event of an earthquake, and conduct drills so employees are comfortable with the procedure.
- Ensure employees are familiar with all contingency plans and how they fit into those plans.
- Educate employees about possible hazards that an earthquake can cause and train them to handle

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possible scenarios they may face. For instance, they may need to shut off the water, gas or electricity lines.

Insurance Coverage

Depending on your risk factor, earthquake insurance may also be a wise purchase to fully protect your business. Earthquakes are not covered under standard business insurance policies, so you will need to buy either an endorsement to supplement your policy or a separate earthquake policy. These policies will generally cover building and property damages caused by the shaking of an earthquake.

You should also consider business interruption and property insurance policies. Though it may feel like overkill, each of these policies generally covers different aspects of earthquake damage. Read these policies closely and consult an expert to avoid coverage gaps, as some will specifically exclude claims due to earthquakes. You should also know how much time you have to file a claim following the quake since damage is not always immediately apparent.

Most commercial auto policies will cover earthquakes in the comprehensive portion of the policy, and workers' compensation will cover injury to employees at work during an earthquake. However, because earthquakes are such a unique and large-scale risk, many insurers avoid offering coverage or provide scaled-down policies. It is vital that you understand exactly what each of your policies covers—Robert E. Harris Insurance Agency can help ensure that you don't have any coverage gaps. Ideally, you should have enough earthquake coverage to cover all replacement and reconstruction costs for your building and equipment.

The cost of earthquake coverage will depend on your location, the age of your building and the type of structure—ensuring that your building is up to modern codes can help reduce your premiums. Earthquake insurance typically carries a relatively high-percentage deductible that can range from 2 to 20 percent of your

coverage amount. But don't let the cost deter you from purchasing insurance—you should consider all of your risk factors with the cost, taking into account your potential losses if an earthquake occurred and you were uninsured or underinsured.

It is easy to have the attitude of "it will never happen here," but instead, you should consider how a catastrophic event such as an earthquake would affect your business. Will your company be able to survive? Will it ever be the same after? Think carefully about those questions and assess your risks to keep your company safe.

Robert E. Harris Insurance Agency can help you develop risk mitigation strategies, implement preparation measures and discuss your insurance coverage needs.

**RISK
INSIGHTS**