



Earthquakes: Protecting Your Company

Earthquakes, though they are among the most potentially catastrophic natural disasters, are infrequent and unpredictable, causing many people to ignore the risk and assume it won't happen to them. However, not preparing your business for an earthquake could be a devastating decision in the long run. You may not think an earthquake is remotely possible, let alone likely, in your area, but the statistics say something different. 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, according to the Insurance Information Institute. In addition, increasing urban development in seismically active areas and the vulnerability of older buildings has increased the potential cost of any near-future U.S. earthquakes. Thus, it is now more important than ever to take steps to protect your business from the catastrophic possibilities of an earthquake.

Preparing Your Business for an Earthquake

Earthquake Hazards

The damage caused by an earthquake 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 occupants of the building. 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? Obviously, building damage can result in business interruption, potentially for a considerable amount of time while repairs are made. Just as detrimental can be the loss of utilities, because those may be out in an entire area even if your building is relatively intact. As you know, being forced to close due to a disaster will result in countless problems, including employees being unable to work, difficulty getting supplies or materials, an inability to pay employees, difficulty delivering products, customers going elsewhere for goods or services, and much more. Without any cash flow during and right after the incident, resuming operations becomes that much more difficult. Plus, it can even cause you to lose employees and/or clients, making

recovery even more of an uphill battle in the aftermath of the quake.

What's Your Risk?

As mentioned above, nearly everyone in the United States is vulnerable to an earthquake, but certain areas carry a much higher risk. Experience and research tell us that California, Oregon and Washington are the highest risk states for earthquakes. However, a dangerous fault also runs through parts of Illinois, Arkansas, Indiana, Kentucky, Mississippi, Missouri and Tennessee, exposing all of those states to significant risk as well. The [U.S. Geological Survey Web site](#) 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 dominant theme in your risk management program. 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 that can be taken, 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 perceived 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 (as opposed to a chain or franchise), and those in any type of financial trouble at the time of the disaster. However, these are only risk factors – even businesses that fall into any of the above categories can survive and succeed after a natural disaster, with the right type of preparation and planning.

Preparation – Protecting Your Business

More so than other natural disasters, earthquakes occur suddenly and without warning, leaving you little time to prepare. Thus, it is vital that you plan ahead so that your business is as equipped as possible to handle a potential earthquake. Many of these strategies can be effective for any business, whether big or small, at-risk or not, 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 where people work.
- 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.
- Brainstorm potential hazards in your geographic location, potential impacts on all parts of your business and what you are equipped to handle. Try to plan for and address as many possible hazards as you can.
- Identify resources that you may need following a disaster, including local aid groups, banks, utility companies, law enforcement, government aid groups, public works departments, hospitals, etc.

Preparing for any disaster takes a lot of planning. For a more comprehensive guide to preparing your business, visit www.fema.gov/business/guide/section3g.shtm.

In addition to taking the above steps to safeguard your business, it is important to have a continuity plan in place in order to decrease costly business interruption. Businesses not located in a particularly high risk area may choose to take only moderate steps to back up their operations, but anyone located in one of the highest risk states should seriously consider implementing a comprehensive business continuity plan.

You should identify critical systems, operations, services, supply chains and personnel. These are the areas that will make or break your business, and thus the most important to have a contingency plan for. 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 not so far that people won't travel there. Data and hardware backups should be even farther away, and multiple backup locations may be wise. Though much of this may seem redundant to you now, it will be well worth it if a disaster strikes your business and you are able to maintain critical operations. Plus, some of these techniques can bring immediate value, such as employees having accessible work from home options and using backup data centers for load-balancing.

Preparation – 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. Their instinct may be to run, but the smartest option is 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). Conduct drills so employees are comfortable with the procedure.
- Familiarize them with all contingency plans and how they fit into those plans. Share with them the aid resources you've identified, along with any other risk safeguards you've put into place.
- Educate employees about possible hazards that an earthquake can cause and train them to handle possible scenarios they may face. For instance, they may need to shut off the water, gas or electricity lines.

Earthquake Insurance Coverage

Earthquake insurance may also be a wise purchase in order to protect your business. The earthquake insurance market can be a little tricky, however, so it is important to consult with your broker to be sure you are covered as completely as possible.

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'll also want business interruption and property insurance policies. Though it may feel like overkill, generally each of these policies will cover different aspects of earthquake damage. Be very careful to read these policies closely to avoid coverage gaps, as some will 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.

Regarding other types of coverage, 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.

Because earthquakes are such a unique and large risk, many insurers avoid offering coverage or provide scaled-down policies, so it is vital that you understand exactly what each of your policies covers and does not cover. Your broker can help ensure that you don't have any coverage gaps between your policies. Ideally, you should have enough earthquake coverage to cover all replacement and reconstruction costs for your building and equipment.

Unfortunately, earthquake insurance can be quite pricey. The cost will depend on 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.

EHL Insurance can help you develop risk mitigation strategies, implement preparation measures and discuss your insurance coverage needs. Contact us today at 1.800.929.1669.



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