



Proceedings & Recommendations of the Working Group on Insurance & Resilience

Special Focus: the Voluntary Private Sector Preparedness
Accreditation and Certification Program

Hosted by:
International Center for Enterprise Preparedness (InterCEP)
New York University

DRAFT SUMMARY PROCEEDINGS DOCUMENT

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ABOUT INTERCEP

- The International Center for Enterprise Preparedness (InterCEP) at New York University is the world's first academic research center dedicated to private sector preparedness & resilience.
- The Alfred P. Sloan Foundation has funded InterCEP's research on incentives for business preparedness. The Center is currently addressing the following areas: insurance, rating agency, mitigating legal liability, supply chain management, corporate governance and business reporting.
- InterCEP's research focus is on the linkage of "what" & "why" of private sector preparedness and resilience.
 - What: best practices and standards
 - Why: business & economic motivations to develop greater preparedness and resilience

THE WORKING GROUPS INITIATIVE

The objectives of InterCEP's initiative to organize Working Groups focused on the voluntary business preparedness accreditation and certification program are as follows:

- To identify existing practices and principles in specific topical areas relevant to private sector preparedness;
- In view of these practices and principles, to identify issues, opportunities and potential strategies relevant to the design and implementation of the voluntary business preparedness certification program; and,
- To gather these outputs generated by Working Group participants and communicate them to program stakeholders including where appropriate DHS, and accrediting and certifying bodies.

Building on InterCEP's ongoing research on the business case for preparedness, there are currently five Working Groups, each focused on a particular area of business benefit that could potentially be enhanced by the Private Sector Preparedness (PS-Prep) Certification Program:

- Supply chain resilience
- Legal liability mitigation
- Rationalized business reporting of preparedness
- Insurance acknowledgement
- Rating agency acknowledgement

WORKING GROUP GROUND RULES

- Both online and face-to face forums are facilitated.
- Participants are encouraged to contribute directly to the conversation but should be recognized by the moderator first.
- Back-and-forth discussion is welcomed, especially in clarifying diversity in perspective.
- The forums are recorded to assure that key insights were captured but all comments are not-for-attribution.

EXECUTIVE SUMMARY

Many factors come into play with respect to resilience and insurance. To date, there has been no common definition of "what" defines effective programmatic business preparedness in the insurance industry, or "how to measure it." Furthermore, for an insurance company to individually assess corporate preparedness for each applicant company can be expensive in terms of individual analysis and onsite audits, making it economically unfeasible for insurers to pursue such assessments for the vast majority of policies. Lacking a measurement of general "programmatic preparedness" by insurance companies, there is no common actuarial database that can be used to correlate loss histories with whether or not a firm was "prepared." Thus, the financial acknowledgement of preparedness by insurance companies has been constrained by a lack of data on the impact of programmatic preparedness on loss reduction.

The new certification program presents a number of compelling opportunities. The certification program could provide insurers with a clear definition and verification of programmatic preparedness which could be acknowledged by insurance companies in an easy, check-the-box format (at no incremental cost to the insurance company). This information could inform some short-term acknowledgement by the insurance industry, especially in larger policies and those focused on selected risks business disruption. The PS-Prep certification status could also be captured over time and later correlated with the relative amount of losses of certified versus not certified businesses. The resulting database could allow for the first time an accurate valuing of preparedness with regard to reducing insured losses. Such a correlation could in time justify significant incentives in insurance underwriting (including pricing and terms), as well as enable more informed investment in preparedness by all corporations.

In sum, insurance industry acknowledgement of programmatic preparedness is currently limited, in large part due to the lack of a common and efficient measurement of programmatic preparedness. The PS-Prep Program could aid by providing an easy-to-acknowledge method of confirming that programmatic preparedness is in place in an organization.

- In the short run, in those instances when insurance firms do currently consider preparedness in underwriting, PS-Prep could facilitate and potentially expand this limited acknowledgement of preparedness in insurance underwriting, especially in specific areas of insurance activity (such as large policies and those that focus on business disruption insurance).
 - Insurance firms could inquire about the PS-Prep certification, not as a requirement, but as an input to their overall underwriting process, allowing them to incorporate the consideration of a firm's preparedness without the investment of significant effort to assess the individual firm.
 - Alternatively, individual firms seeking insurance could present the certification as a third-party validated indication of their firm's preparedness (either initially or in ongoing annual policy renewals) and proactively request insurance company acknowledgement (which according to some has resulted in price/terms acknowledgement in some cases).
- In the long run, the PS-Prep certification could provide the methodology to assemble the actuarial data necessary to develop the first industry-wide correlation between programmatic preparedness and lower insurance losses. A validated correlation could provide the rationale to justify a significant quantitative benefit in terms of relatively lower insurance premiums and/or relatively better terms for firms that have preparedness programs.

It is important however to underscore that "insurance" is a complex environment. All insurance companies are different. They differ in size and proprietary approaches. Furthermore, there is a diversity of types of insurance coverage (e.g., property & casualty, business disruption, directors and officers, to name a few) and the underwriting processes take into account a diversity of factors beyond programmatic preparedness (e.g., nature of business, location of facilities, etc.). These considerations must inform any approach to this issue as well as a reliance on market forces to ultimately determine the acknowledgement of business preparedness. Government can play an important catalytic role in

assisting in the creation of this certification tool but it is industry that must apply it in a free market environment.

INSURANCE WORKING GROUP PROCEEDINGS TO DATE KEY POINTS

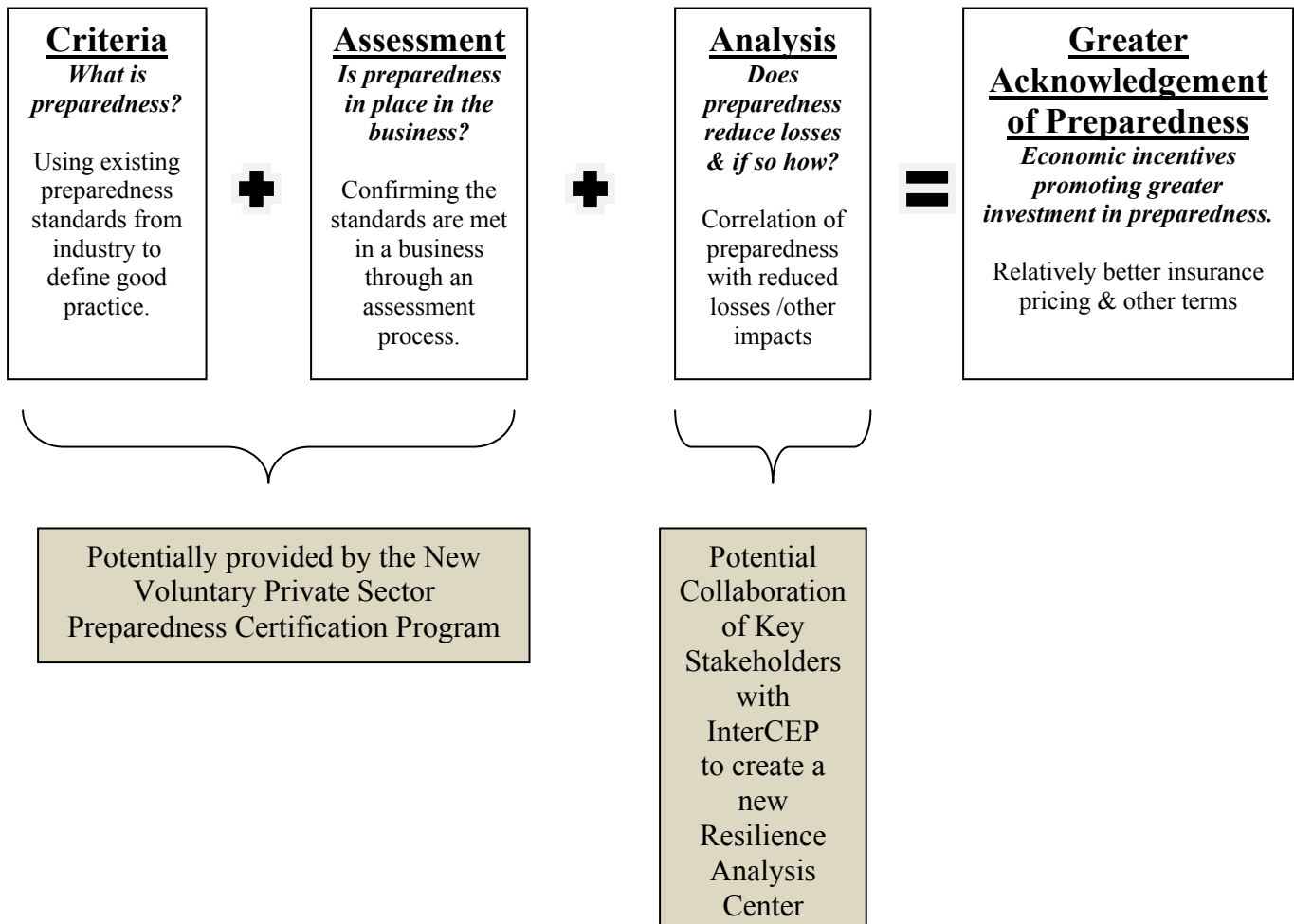
1. Rewarding companies that are prepared for emergencies with relatively better insurance policy terms could promote greater business preparedness and overall societal resilience.
2. While intuitively preparedness efforts by businesses should reduce losses after any emergency, generally there is only limited acknowledgement of programmatic preparedness in insurance underwriting today.
3. The limited acknowledgement of preparedness is due in part to the lack of a common and efficient method of measuring programmatic preparedness. A cost effective manner for the industry to confirm that a company is prepared is needed.
 - To assess preparedness currently, insurance firms have to undertake individual analysis of each company to be insured. To do so, the insurance company needs to develop its own criteria for what effective preparedness is and then undertake a process to check if preparedness is in place in the company seeking insurance. Such an effort can be time intensive both in setting up the initial program as well as implementing it for each insurance applicant.
4. Currently, what limited underwriting consideration there is of programmatic preparedness is generally focused on larger policies which can support some level of individualized inquiries. In these instances, the identification of preparedness programs is considered in underwriting and can impact policy pricing and terms.
 - Some insurance companies indicate that they do inquire about preparedness for larger policies where there are substantial funds at stake and arguably larger margins. Furthermore, instances were reported where a company's acknowledged preparedness status did result in lower premium costs.
 - However, for low cost policies with arguably low margins (such as those issued for many small and medium-sized companies), the cost of individually assessing preparedness could easily exceed the profit margin of the policy.
 - Nonetheless, even for some of the larger policies, substantial assessment efforts might still be considered prohibitive in light of the fact that in the end the firm to be insured may either decline the offer of insurance (after a preparedness inquiry of some sort has been undertaken) or since most policies are written for only a year, the firm to be insured may choose not to renew the policy after the first year.
 - Thus, a trusted third party assessment of preparedness available at no cost to the insurance firm could indeed facilitate consideration of preparedness in insurance underwriting.
5. However, even in those situations where preparedness may be assessed in some regard by an insurance company, the value of that preparedness is only informed by whatever internal data is maintained by that specific insurance company. There are no industry databases or research on preparedness and its effect on insurance losses.
 - Data is in fact collected on an industry-wide basis on insurance losses on individual policies. This is accomplished through standardized reporting.
 - However, since there is no common industry-wide methodology for measuring preparedness there is no data to collect on the preparedness of those companies insured.
 - Thus, insurance loss information is collected but without any indication of whether or not the firm that incurred the loss was "prepared."

6. Consequently, there has been no systematic correlation established between programmatic preparedness and reduced losses to the business after an incident on an insurance industry basis. Again, this is due to the fact that there is no data maintained by the insurance industry on preparedness which could be correlated with reported losses.
7. Such a demonstrated correlation could greatly advance the acknowledgement and rewarding of preparedness since in large part insurance companies make decisions based on historical evidence, i.e., what factors have been shown to increase or decrease insured losses over time. On a purely actuarial basis, a correlation between business preparedness and reduced losses after incidents would be necessary to justify relatively better policy terms for prepared businesses.
8. To establish a correlation between preparedness and reduced losses after an incident, three key elements are necessary: (a) an agreed upon criteria for “what” effective preparedness is; (b) an efficient method to “confirm that preparedness is in place” in a company; and (c) an ongoing initiative to collect, store and analyze preparedness information based on these criteria in order to determine “if and how preparedness makes a difference in reducing losses.”
9. The voluntary private sector preparedness certification program (PS-Prep) may address the first two needs for identifying a preparedness correlation by (a) providing a set of standard criteria for what is effective preparedness and (b) an assessment/auditing process that confirm the criteria are reflected in policyholder operations, both at no cost to insurance companies.
10. With standard criteria and an assessment process in place through the certification program, information could be captured overtime (on losses and the certification status of companies) and an ongoing capacity to analyze this data could be established to inform the insurance industry and other parties on the impact of preparedness.
11. If preparedness information can be captured utilizing the certification program as an indicator and a significant correlation can be shown between business preparedness and reduced business losses, this could:
 - Inform insurance underwriters and likely result in relatively better insurance terms for prepared businesses;
 - Inform general corporate management on the economic benefits of resilience and the impacts of disruptions; and
 - Inform other stakeholders such as rating agencies on the impact of preparedness.
12. The voluntary business preparedness certification program could provide the insurance industry with a mechanism to shift toward more risk-based pricing and other incentives for companies to become more prepared. Yet, a key theme stressed by many was the importance of maintaining the PS-Prep program as voluntary in nature including its interface with insurance and underwriting.
13. The voluntary and participative nature of the certification program represents an opportunity for the private sector to take the lead in lieu of regulatory activity, and could offer additional competitive advantage opportunities.
14. The insurance environment however is complex and many factors must be taken into consideration to develop effective initiatives to forward preparedness in this industry. These factors are outlined within these proceedings and include such elements as regulatory constraints, competition, and stratified customer base and product line silos.
15. Furthermore, special concerns that members of the insurance industry have expressed during Working Group sessions include:
 - The standards contemplated by the PS-Prep Program must include a focus on mitigation (i.e., steps the business has taken to prevent a loss from occurring) and not solely how to

respond post-event in order to support any potential acknowledgement in the underwriting process.

- There is a concern in the insurance industry that there may be potential for increased liability exposure on the part of insurers resulting from an inappropriate application of a PS-Prep standard.
- There is also a concern in the insurance industry that there could be major cost and resource implications associated with large-scale data collection and analysis necessary to measure the effectiveness and outcomes associated with the implementation of a preparedness standard. (see the relevant section of the Detailed Working Group Discussion Points on page 21 for greater detail on insurance industry concerns).

Critical Long Term Research Focus



DRAFT RECOMMENDATIONS TO DATE

1. Continue to solicit input from insurance stakeholders and develop recommendations to DHS and the PS-Prep accrediting body, ANAB, to assure that the certification program is designed and implemented so that it can serve as an effective indication of preparedness for use by the insurance industry, by ongoing hosting of the Insurance Working Group at InterCEP, including online meetings as necessary.
 - Include special consideration of the differences between small and large businesses in insurance underwriting.
 - Include the lessons from Europe and Asia from selected companies/industries where business preparedness and the concept of risk management as a normal course of business have been firmly established for many years.
2. Work to extend the educational outreach on the PS-Prep Program.
 - Produce a Guidance Document that provides the rationale and strategies for use of the certification program to increase acknowledgement of preparedness, indicating how insurance companies could incorporate it in underwriting and how policy holding companies could present their certification to insurance underwriters. This Guidance Document could also be used to educate senior management on what the certification is, what steps are needed to pursue it, and the business value of preparedness.
 - Work through trade and professional organizations, such as RIMS, to extend education to all their members, including small- and medium-sized businesses, on the benefits of preparedness programs. This should also include organizations dealing with property & casualty insurance and business interruption as well as life and health insurance.
 - Utilize the requirement for personnel continuing education credit courses for many risk related professions to spread information on the PS-Prep program once the standards have been designated and the program is implemented in full through ANAB.
3. In collaboration with key stakeholders evaluate and, if appropriate, develop and implement a strategy and procedure for both collecting and storing preparedness information in the insurance underwriting process so that it can in the future be correlated with loss outcomes. Consider the costs and benefits of such an approach in advance of any development effort.
 - Work to have the preparedness certification status added to the standard electronic insurance application (currently in development) by outreaching to and collaborating with appropriate organizations such as RIMS and the Association for Cooperative Operations Research and Development (ACORD), a nonprofit association that facilitates the development and use of data standards for the insurance industry for the mid-market, and that is currently in the process of designing a new standard insurance application.
 - Work to assure that, once this preparedness information is captured in standard industry processes, it is appropriately stored for later analysis by reaching out to organizations and collaborating with institutions such as the Insurance Services Office (ISO), the organization that provides data, analytics and decision-support services for insurance professionals.
 - Work with larger insurance brokers to explore the possibility of including new underwriting questions in their approach, as many of these organizations do not use the ACORD applications.

- Work to support some standardization of root causes of losses, as well as training on how to capture the proper information on a claim in order to allow a more valuable correlation analysis.
 - Conduct a survey of RIMS members, utilizing their benchmarking partner, to develop initial baseline data.
 - Conduct sessions focused on small business owners.
4. Work with leading insurers, industry associations, policyholder corporations and other stakeholders to establish the first long-term research effort to correlate preparedness/resilience with improved post-incident outcomes, potentially creating the most comprehensive economic rationale for investment in preparedness to date. The general purpose of the research would be to develop data 1) to incent the management of those companies insured to invest in preparedness, and 2) to develop data and systematic knowledge of "programmatic preparedness" in the insurance industry, from an actuarial perspective. InterCEP stands ready to assist with this initiative and to collaboratively seek wide involvement in the design and necessary funding of these research efforts.

The types of research suggested by Working Group participants included the following:

- A formal benchmark study of 25 companies, utilizing interviews with open-ended probing questions to obtain detailed information from each, on an anonymous basis, on their preparedness programs. This would be a study of these firms with multiple locations evaluating the best practices of what works and doesn't work in their normal day-to-day operations. It would focus on the totality of the firm, and not just on events arising out of a claim. Potential focuses could include both good and bad outcomes and could address standardization of root causes. This effort could be focused on a vertical industry or multiple industry benchmarks. The anecdotal information generated from this type of story may be of great impact and use to the underwriting community as to what works and what does not work.

The benchmark study could also be utilized as a first step of a two-pronged research approach. The commonalities arising from the descriptive narratives could assist in building a hypothesis which could then be tested with a second phase involving a survey of a larger number of firms.

- A survey of 200 to 250 firms using a questionnaire comprised of 10-12 questions based on a set of generic preparedness criteria (such as those from the Sloan Report) and used to interview companies post-event. This approach could be used to compare those that had a threshold of preparedness (meeting for example 8 of 10 or 12 criteria in place) versus the loss experience of other firms.
- A study focusing primarily on reported insurance claims and addressing such considerations as:
 - Which companies/organizations posted a claim?
 - What was the nature of the event that caused the loss?
 - How long did it take to resume normal operations following the event, and did it exceed the retention and waiting periods under their policy?
 - What were the losses claimed? Paid out?
 - Were there penalties or fines imposed?
 - Who went out of business as a result of the event?
 - Who had a business continuity / emergency management program and who did not?
 - At what level of maturity was their business continuity / emergency management program? (Existing frameworks such as NFPA 1600, ASIS SPC.1-2009 and BS 25999 could provide a high-level structure to the questions being asked).
- Other suggestions included:
 - A study utilizing sources of data from ISO on \$25M+ losses and SEC 10-K disclosure forms.

- A study utilizing sources of data and indices which measure “sustainability” of a firm (including the Dow Jones Sustainability Index, and the international standards SA8000 and AccountAbility1000), which take a global view of an enterprise being sustainable, one activity of which is preparedness.
 - A study considering the work of Edwards Deming (measuring quality) in measuring preparedness.
 - Developing a geospatial mapping application utilizing Google Maps to map locations of certified firms which could be compared pre- and post-event for use in developing public policy and in insurance underwriting.
5. Convene a series of National Roundtables on the Greater Acknowledgement of Preparedness in Insurance in collaboration with key stakeholders to further vet these recommendations, identify additional insights, advance collaboration and build upon the Working Group forums.
- Seek to cooperate with, in particular, RIMS as well as with other industry associations, corporate risk managers and insurance underwriters.
 - Discuss and identify strategies for how to best capture and store information on a company’s preparedness status (e.g., certification) in current insurance industry processes so that it can later be correlated with insured loss information.
 - Identify factors for the design/implementation of the certification program to enable increased acknowledgement of preparedness in insurance.
 - Discuss the development of a matrix which delineates concepts such as business size, focus of preparedness program, and perils as a predicate to further research.

DETAILED WORKING GROUP DISCUSSION POINTS TO DATE

InterCEP has identified general themes addressed during the Working Group discussions. This document reflects the proceedings of both the March 18, 2008 and November 20, 2008 online forums, as well as the National Roundtable hosted by InterCEP at NYU’s campus on June 2, 2009. This summary of proceedings has also been augmented by subsequent vetting and communication with Working Group members after each event.

In this summary, these themes are briefly articulated, and then specific issues relevant to each theme are presented.

1. Rewarding companies that are prepared for emergencies with relatively better insurance policy terms could promote greater business preparedness and overall societal resilience.

- The insurance industry could act as a significant catalyst for businesses to undertake preparedness actions.
- In the 9/11 Commission Report, as well as the Intelligence Reform Act of 2004, there were special roles recommended for insurers and credit rating agencies to acknowledge business preparedness and help promote it.
- Although insurance incentives can serve as a catalyst for proactive preparedness activities, these incentives must be coherent with the realities of the proprietary nature of underwriting, the proprietary nature of rating, the proprietary nature of competitive planning and strategy.

- Understanding the wider and often uninsured impact of business disruption is important for business.
 - “You’re probably not going to get enough money to justify doing the [preparedness] program from an insurance benefits standpoint only...[but] it’s one of the slices of the pie that ultimately will get you there where it pays for itself, and there’s a lot of [other] reasons...”
 - To the extent that there is a maximum level of insurance coverage, then the firm is responsible for business interruption costs incurred beyond that maximum level. In addition, non-insured impacts on such elements as reputation are also borne by the firm well into the future.
 - For example, it was also noted that many business interruption policies have an initial deductible period which is not covered by interruption insurance which is often the first 24-72 hours. Thus, businesses in these cases are fully responsible for all disruption costs incurred during the initial period after an emergency.
- Nevertheless, participants acknowledged that the economic incentives controlled by the insurance industry could play an important role in business decision-making when it comes to preparedness activities. This is likely due in part because an insurance benefit may be more clearly identifiable than many other impacts of preparedness which may be more dispersed.
- It was also offered by that property and casualty insurers are actively engaged in promoting business continuity and preparedness planning, both individually and through involvement in the Institute for Business and Home Safety (IBHS), an industry-funded organization with the Open for Business ® program that helps businesses reduce their potential for loss and recover quickly following a disaster.

2. While intuitively preparedness efforts by businesses should reduce losses after any emergency, generally there is only limited acknowledgement of programmatic preparedness in insurance underwriting today.

- Insurance companies will often write policies on the basis of loss experience for general groups of policyholders, for example, by size and type of industry, and make no distinction between companies that have a preparedness program in place and those that do not.
- Underwriting varies between insurance companies and involves a wide spectrum of approaches, ranging from hard actuarial science and data analysis on one end, to more of “gut factor” and feel on the other end.
- Underwriting was noted by one participant as “not a black and white thing” and more of a continuum that varies based on the type and size of the company seeking insurance. Smaller companies are more likely to receive a standardized approach to underwriting due to the small premium involved and the inability of the insurance company to have a high processing cost associated with it, where more individual risk underwriting involving consideration of numerous factors will be undertaken for larger firms.
- Currently, there are some limited efforts to correlate preparedness actions to loss reductions but these are largely focused on property risk and on easily observable physical factors such as fire sprinklers and not more on programmatic preparedness efforts such as developing and exercising a business continuity and emergency management plan.
 - “Current insurance industry practice is to focus on preparedness actions relevant to physical property risk,” offered one participant.
 - Underwriting risk involves having hard data to look at.

- With regard to casualty and liability insurance, there is not currently a great deal of consideration given to preparedness activities undertaken by companies.
- The insurance industry has historically used underwriting criteria that were based on best practices that “bubbled up”. Until now, there has been no way for them to assess or measure preparedness because there had been no standard methodology to do so.

3. The limited acknowledgement of preparedness is due in part to the lack of a common and efficient method of measuring programmatic preparedness. A cost effective manner for the industry to confirm that a company is prepared is needed.

- To assess preparedness currently, insurance firms have to undertake individual analysis of each company to be insured. To do so, the insurance company needs to develop its own criteria for what effective preparedness is and then undertake a process to check if preparedness is in place in the company seeking insurance. Such an effort can be time intensive both in setting up the initial program as well as implementing it for each insurance applicant.
- There was a concern expressed regarding an increased liability exposure for insurers if a business had inappropriately implemented what would be ultimately viewed as a de facto standard. If the insurance company did not independently verify through an audit that a business had successfully complied with the standard, the business could assert that the insurer had a duty to do so, and as a result of not doing so, there was harm caused to the business.
- Insurance companies do not necessarily want to be the ones that define preparedness and send out people to conduct the audits – typically including interviews, document reviews, observations and the generation of a narrative report – to figure out whether an entity is prepared.

4. Currently, what limited underwriting consideration there is of programmatic preparedness is generally focused on larger policies which can support some level of individualized inquiries. In these instances, the identification of preparedness programs is considered in underwriting and can impact policy pricing and terms.

- Some insurance companies indicate that they do inquire regarding preparedness for larger policies where there are substantial funds at stake and arguably larger profit margins. Furthermore, instances were reported where a company’s preparedness status did result in lower premium costs.
- It was also offered that in some cases the status of a firm’s preparedness may not so much influence premium pricing and terms as much as determine whether or not the insurance company is interested in offering a policy at all.
- A variety of instances were cited of insurance companies seeking preparedness information in underwriting currently. In those areas where insurance companies do already focus somewhat on preparedness, PS-Prep Program may increase this activity, e.g., property and casualty insurance.
 - Insurance representatives did suggest that insurers may want to take definitive efforts voluntarily in response to the certification and that some insurers are currently involved in efforts with policyholders on business continuity plans and similar efforts and the certification effort might widen this activity.
 - Some businesses are already presenting their business continuity programs to underwriters including reference to their worker concentrations in particular geographic locations.
 - It was offered by one participant that some larger companies definitely have extensive discussions with their global insurance companies in order to educate them on the risk mitigating and business continuity strategies in place at their company which they believe will ultimately minimize the impact and cost of a business disruption event. This is an important

part of the "underwriting" information presented to the insurance companies. They feel that this active effort on their part coupled with resulting good loss experience results in substantially lower property insurance rates on an ongoing basis.

- Other firms are beginning to see underwriters asking questions about worker concentrations and then subsequently asking questions about business continuity programs, emergency management activities, efforts to plan for how to care for employees if something would happen particularly at these concentrated areas.
 - If such efforts could be systematized in conjunction with the certification program, it would be easier for underwriters and those insured as well.
- However, for low cost policies with arguably low profit margins (such as those issued for many small and medium-sized companies), the cost of individually assessing preparedness could easily exceed the profit margin of the policy.
 - Nonetheless, even for some of the larger policies, substantial assessment efforts might still be considered prohibitive in light of the fact that in the end the firm to be insured may either decline the offer of insurance (after a preparedness inquiry of some sort has been undertaken) or since most policies are written for only a year, the firm to be insured may choose not to renew the policy after the first year.
 - Thus, a trusted third party assessment of preparedness available at no cost to the insurance firm could indeed facilitate consideration of preparedness in insurance underwriting.
 - Relative to the size of a particular policy premium, there may be a significant cost to undertaking individual evaluations of preparedness programs by insurers, especially since a customer could terminate a policy the next year. According to one participant, only if a particular policy represents "a lot of money at risk" then they will "go out and look at those businesses...and make the determinations whether to underwrite it or not." Thus, business preparedness may be considered in such cases not in determining policy pricing and terms but rather in determining whether or not the business should be issued a policy at all.
 - Since insurance companies do not have a mechanism to collect and correlate information, prudent actions taken by businesses may not generally be rewarded by insurers.
 - One participant suggested that if anything has been driving people into the alternative risk marketplace, it is not that they cannot get insurance for being reckless, but because they cannot get the economic value out of traditional insurance when they try to be prudent by developing robust preparedness programs.
 - With the PS-Prep Program in place, policyholder companies may take individual and/or collective action to proactively request acknowledgement of preparedness efforts by insurers.
 - Another possibility for driving the development of insurance incentives for preparedness is to approach it from a consumer demand standpoint.
 - For example, one participant suggested that an organization such as the Risk & Insurance Management Society (RIMS) might help develop the impetus by assembling some of its most proactive members who are putting these preparedness programs together and demanding better or more disciplined underwriting from their insurance companies.
- 5. However, even in those situations where preparedness may be assessed in some regard by an insurance company, the value of that preparedness is only informed by whatever internal data is maintained by that specific insurance company. There are no industry databases or research on preparedness and its effect on insurance losses.**

- Data is in fact collected on an industry-wide basis on insurance losses on individual policies. This is accomplished through standardized reporting.
 - However, since there is no common industry-wide methodology for measuring preparedness there is no data to collect on the preparedness of those companies insured.
 - Thus, insurance loss information is collected but without any indication of whether or not the firm that incurred the loss was “prepared.”
- 6. Consequently, there has been no systematic correlation established between programmatic preparedness and reduced losses to the business after an incident on an insurance industry basis.** Again, this is due to the fact that there is no data maintained by the insurance industry on preparedness which could be correlated with reported losses.
- To date there has been little information gathered on the impact of preparedness on reducing losses for the insurance company or the corporation it has insured.
 - Much of the data currently collected focuses exclusively on the physical engineering attributes (such as the presence of sprinkler systems or the type of building construction) and not on the elements driven more on the programmatic side such as preparing and exercising a preparedness plan. It was acknowledged by one insurance company participant that collecting information of a programmatic nature would “lead to better outcomes on the insurance side.”
 - In terms of information on business preparedness, “the state of data collection in the industry right now is well behind, even from a theoretical standpoint,” according to one Insurance Working Group participant.
 - Another participant suggested that “there are few lines, if any lines, where insurers actually collect information as an industry about mitigation factors; they collect information about ... the nature of claims... but to correlate the mitigation factors to the losses is not done.”
 - “I don’t think there are many people that dispute that mitigation has some value. [But] there may be a lot of people who dispute the cost benefit ...value [of mitigation],”per a Working Group member.
 - A self-sustaining issue may be identified in that the lack of any industry-based correlation between preparedness and lower insurance losses in turn provides no motivation for insurance companies to undertake the effort to collect data on preparedness in the first place. Absent the data, no correlation is possible.
- 7. Such a demonstrated correlation could greatly advance the acknowledgement and rewarding of preparedness since in large part insurance companies make decisions based on historical evidence, i.e., what factors have been shown to increase or decrease insured losses over time.** On a purely actuarial basis, a correlation between business preparedness and reduced losses after incidents would be necessary to justify relatively better policy terms for prepared businesses.
- Data is the key driver in insurance decision-making and underwriting, especially the correlation between identifiable factors and their impact on insured losses over time.
 - Pricing of policies may be made on factors such as the nature of a particular group of policyholders (e.g., type of business) or geographic location based on historical experience. There is no “set rate”, per se, because nothing is homogeneous, especially when underwriting large organizations.
 - On a conceptual and anecdotal basis, underwriters acknowledge that preparedness generally minimizes the impact of emergencies.

- Nonetheless, for underwriters there optimally needs to be clear data that shows the correlation between preparedness actions and reduced loss potential by insured businesses.
 - It was acknowledged that certification may provide a level of independent validation that would be credible to underwriters. While certification would not replace due diligence efforts conducted by insurance companies, it could provide one additional piece of information relevant to underwriting the risk.
- 8. To establish a correlation between preparedness and reduced losses after an incident, three key elements are necessary: (a) an agreed upon criteria for “what” effective preparedness is; (b) an efficient method to “confirm that preparedness is in place” in a company; and (c) an ongoing initiative to collect, store and analyze preparedness information based on this criteria in order to determine “if and how preparedness makes a difference in reducing losses.”**
- There was concurrence by several participating insurance companies that in order for there to be more robust acknowledgement and potential rewarding of business preparedness, the following are needed:
 - A. **Criteria: What is preparedness?** There needs to be an accepted set of criteria defining “what effective preparedness is.” Insurance companies do not want to be responsible for determining good preparedness practice. Existing consensus-based preparedness standards could potentially address this need.
 - B. **Measurement: Is preparedness in place?** There needs to be “a clear delineator as to whether or not the firm is prepared” according to those preparedness criteria. Insurance companies are reluctant to undertake individual assessments of a company’s preparedness program. The new certification program could likely serve this purpose.
 - C. **Ongoing Analysis: Does preparedness make a difference in reducing losses?** There needs to be “sufficient data collected and analyzed to show a correlation between preparedness and loss reduction,” i.e., there must be a significant difference in loss experience overtime of companies that are “prepared” versus those that are “unprepared.”
- 9. The voluntary private sector preparedness certification program (PS-Prep) may address the first two needs for identifying a preparedness correlation by: (a) providing a set of standard criteria for what is effective preparedness, and (b) an assessment/auditing process that confirms the criteria are reflected in policyholder operations, both at no cost to insurance companies**
- Voluntary Certification could provide a mechanism for insurance companies to identify effective preparedness in policyholders and over time to better acknowledge business preparedness in underwriting.
 - The certification program could provide a credible, easy-to-acknowledge confirmation that preparedness criteria have been met (that the business is prepared) at no cost to the insurance industry.
 - The certification program could provide much needed information on indicators or identifiers of whether a firm is programmatically prepared.
 - The standard(s) used in the certification program may provide underwriters with a way to systematize their understanding of emergency management and business continuity practices.
 - There is value in standardization. “Standards are going to play a larger and larger role in...the insurance industry,” one participant asserted.

- Even with defined standard criteria, however, underwriters may not have a deep capability in assessing business preparedness due to lack of time/resources or expertise. Thus, independent auditing would be of great value.
 - From an underwriter's perspective, there would be value in considering a certification that a company has. The fact that an informed independent and credible third party has come in and done an audit may inform the underwriting and risk assessment processes.
- It was stressed that a standardized audit process would involve exactly the same process steps for small and large companies, but the costs associated with each would be different due to the relative size differences. The use of first- and second-party attestations as lower-cost alternatives to third-party certification under the PS-Prep Program for many small businesses would encourage small businesses to meet applicable business continuity standards while providing procedural flexibility that meets their ongoing operational and financial imperatives.
- If the management systems approach is reflected among one or more of the designated standards for certification, it was suggested that implementation to achieve certification involves a significant amount of overhead and therefore likely a higher cost. If however an organization previously has been through certification to another one of the ISO management system standards (e.g., ISO 9000, 14000 or 22001), then the incremental cost of certifying under this program will be much smaller as there are many common elements such as document control, internal audit and management reviews.

10. With standard criteria and an assessment process in place through the certification program, information must be captured overtime (on losses and the certification status of companies) and an ongoing capacity to analyze this data must be established to inform the insurance industry and other parties on the impact of preparedness.

- Without a set of criteria and a measurement process there has been no data to analyze to date on an industry-wide basis. However, even with such data potentially available, key steps would be necessary to identify the correlation between preparedness and reduced losses. Both short- and long-term initiatives will be necessary in this regard including:
 - Data Collection: Collection of the data on the preparedness status of companies (e.g., are they certified or not) and insurance loss histories and other information on impact of incidents
 - Data Storage: Storage of this data overtime to establish a sufficiently robust database to allow for valid correlations.
 - Data Analysis: Analysis of this data overtime for correlation between preparedness and outcomes after crises.
- **Data Collection:** There is an opportunity to incorporate preparedness certification in an ongoing effort to standardize the collection and electronic transmission of underwriting data. This effort involving the Risk Insurance and Management Society (RIMS) and the Association for Cooperative Operations Research and Development (ACORD) should be evaluated and integrated if appropriate.
 - There is an ongoing initiative focused on developing a common insurance application form that will collect underwriting data and allow it to be electronically transmitted. This initiative is being undertaken by the RIMS technology advisory committee together with ACORD, a nonprofit association whose mission is to facilitate the development and use of standards for the insurance, reinsurance and related financial services industries.
 - One participant suggested that the certification program might be integrated into this initiative as one data point that would be included in all underwriting proposals.

- It is nonetheless important not to underestimate the potential cost and complexity of proposed data collection due to substantial size of the data base as well as the lack of standardized definitions, coding, and data retrieval mechanisms among insurance companies. It was emphasized by a participant that this effort should not be perceived to be an inexpensive and relatively easy next step.
- **Data Storage:** Any data storage effort should seek first to build upon existing industry practices and capacity. The ISO organization is a likely candidate.
 - One possibility for storing preparedness information might be to look within the processes that already exist within the insurance industry, possibly involving the Insurance Services Office (ISO) or others, to identify that data collection point that would correlate preparedness actions to loss potential.
- **Data Analysis:** This capacity must produce compelling results based upon the input of a diversity of stakeholders.
 - In order to build a credible and substantial database to allow for a more detailed correlation, it may take years to identify companies or organizations that actually undertake preparedness actions and then watch and see how they react to various events and major disasters. Thus, the effort should include the capacity to productively analyze discrete information as it is available not just when sufficient data is available for more comprehensive analysis and correlation in years to come.
 - Near-term activities could include developing case studies and lessons learned from individual events as they occur. Case studies could play an especially important role prior to the amassing of statistically significant data. Such an effort could provide insightful and potentially compelling information garnered from real life experiences which could prove valuable to both the insurance industry as well as the wider business community.
 - It was suggested by one participant that an important issue to consider in the correlation analysis process is how insurance companies classify claims when they are placed. It was offered that it is common procedure for an insurance call center representative to take a call and take brief notes including some key words that are used to identify the nature of the problem. Thus, an ice storm that causes someone to lose power and bring a propane heater into their apartment which subsequently leads to a fire which destroys property may have a good chance of being classified as an ice storm–related problem.
 - It was suggested that some standardization of root causes would need to be implemented as well as training on how to capture the proper information on a claim. This would support a more valuable correlation analysis.
 - Another suggestion was made that studying the net impact from a particular event would need to be based on a risk assessment methodology, and should include an evaluation of the proactive steps that were taken by a company and to compare them with the reactive, mitigative steps other firms had to apply.
 - It was noted by one participant that large organizations often conduct a post-event review. This includes an assessment, list of lessons learned, and the financial impact on the firm. This data exists in-house, often within the risk committee or internal audit committee. Such information, captured on an anonymous basis, could provide valuable insights towards the bottom-line justification of preparedness.

11. If preparedness information can be captured utilizing the certification program as an indicator and a significant correlation could be shown between business preparedness and reduced business losses, this could:

- a. **Inform insurance underwriters and likely result in relatively better insurance terms for prepared businesses;**
 - b. **Inform general corporate management on the benefits of resilience and the impacts of disruptions;**
 - c. **Inform other stakeholders such as rating agencies on the impact of preparedness.**
- "... There is a tremendous amount of uncertainty as to whether the mitigation factors actually affect insured losses... credible data ... is needed to make decisions that go well beyond the insurance industry," per one Working Group participant.
 - Presuming that there is a measure of preparedness and overtime a correlation to better outcomes, it was suggested by elements of the insurance industry that the competitive aspect of the industry would and should dictate what happens in terms of if and how insurance companies acknowledge and reward preparedness and the new preparedness certification.
 - Thus, the insurance industry would not likely support a mandatory premium credit. It was suggested that whether it is a drug-free workplace or a safety committee, positive experience (in terms of insured losses) gets reflected overtime. Therefore, it was argued, any mandatory premium credit would not be necessary.

12. The voluntary business preparedness certification program could provide the insurance industry with a mechanism to shift toward more risk-based pricing and other incentives for companies to become more prepared. Yet, a key theme stressed by many was the importance of maintaining the PS-Prep program as voluntary in nature including with regard to its interface with insurance and underwriting.

- The basic economic equation in the insurance industry is that companies pay a premium for someone else to determine and bear a certain amount of risk. The assumption is that other companies that are being insured are being similarly rated to determine whether they are in the same risk pool, and that the premiums they pay are also appropriate. However, participants suggested that premium pricing (for all the various reasons outlined above) is not always risk-based in that it may not assess a firm's preparedness, and thus that some firms may be paying too much while others may be paying too little for insurance.
- The certification program may however provide insurance firms with an opportunity to introduce more rational and disciplined pricing into the marketplace by acknowledging firms that become certified with one rate structure and others with a different rate structure because the other firms are not taking on these steps that reduce both your own exposure (in terms of retentions) and carrier exposure (in terms of potential covered loss). This, of course, presumes that the insurance firm sees a correlation between preparedness and reduced losses.

13. The voluntary and participative nature of the certification program represents an opportunity for the private sector to take the lead in lieu of regulatory activity, and could offer additional competitive advantage opportunities.

- The certification program could offer individual insurance companies an occasion to pursue competitive advantage.
 - One participant suggested that management consultancy firms to the insurance companies should start encouraging clients to step outside of the existing box and take the lead in the industry by improving their underwriting strategies and incorporating preparedness activities into the pricing equation.

- Another participant said that while some discussions about how to take the lead in the marketplace have already begun, moving from the conversations to the competitive stage, is a long and difficult road.
- For companies that are insured there may also be some potential opportunities.
 - As referenced earlier (in #4) with the PS-Prep Program in place, policyholder companies may take individual and/or collective action to proactively request acknowledgement of preparedness efforts by insurers. Such a measure could be used by firms with preparedness programs to more effectively communicate that status to their insurance firms and engage them with their insurers to acknowledge preparedness programs by presenting a third party assessment of their program, especially firms with larger insurance policies. This could lead to improved policy pricing and terms.
 - Additionally, some certified companies may choose to band together to form insurance pools similar to those formed for worker compensation insurance. Likeminded companies that aggressively address preparedness arguably will have lower incidences and sizes of losses which could lead to lower cost of insurance on a pool basis.
- Some participants expressed concern that if insurers as well as policyholders did not stand up and take the lead with respect to the certification program, there would likely be more regulation, whether through the federal bodies or through the insurance regulators in all 50 states.
- The insurance industry can potentially play a role in disseminating preparedness information to policyholders on an aggregate basis, especially to small businesses.

14. The insurance environment however is complex and many factors must be taken into consideration to develop effective initiatives to forward preparedness in this industry. These factors are outlined within these proceedings and include such elements as regulatory constraints, competition, and stratified customer base and product line silos.

- The insurance industry is a competitive market and firms may be wary of cooperating with each other on issues of underwriting and pricing.
 - Insurance companies often develop proprietary underwriting regimes which they consider confidential and critical in achieving strategic goals and profitability.
 - Loss control strategies also may be considered proprietary.
- Cooperation among insurance companies on underwriting and pricing, even in forwarding a public good such as preparedness, could potentially be perceived as price-fixing and subject to anti-trust regulation.
- Insurance company business units are often organized along product lines (e.g., property & casualty vs. directors & officers insurance vs. business interruption insurance) and these units often do not share information.
- The insurance market is stratified, with larger companies receiving relatively more attention and greater flexibility from underwriters than smaller companies.
 - With bigger companies the pricing mechanism may be more flexible to accommodate incentives for preparedness in the near term.
 - Larger companies, it was suggested, may be more likely to be able to take on a more programmatic approach because of their size and resources. It was suggested that many mid- to large-sized companies likely have some level of business preparedness currently. However,

smaller companies, which represent the vast majority of American businesses, do not. This is a particular challenge.

- Among smaller companies, not only do they often lack the resources to undertake significant preparedness activities, there is also not as much flexibility in the insurance underwriting process to acknowledge whatever actions they might take, e.g., the policy amount does not allow for significant individual attention to be exerted on assessing individual factors for each company, especially if that assessment requires significant effort.
- Smaller companies may need mechanisms such as assistance from their insurance companies on how to implement a preparedness program.
- The time horizon for small- and medium-sized businesses to see a bottom line positive impact from implementing a preparedness program needs to be relatively concrete and not far in the future.
- One participant suggested that the stratification in the market creates a situation that is almost like being on two different planets. From this perspective, any systematized attempt to acknowledge preparedness in the underwriting process would have to be radically different for large companies than for small ones, and it may not be realistic to assume that any system developed for one segment of the market would ripple outward to effectively accommodate the other segments.
- As a caveat to this notion, another participant noted that while the insurance underwriting process might be different for differently-sized companies, a standardized audit process would involve exactly the same process steps for small and large companies, though these steps would naturally be more involved the greater the size and scope of the firm being audited.
- Ongoing commitment to programmatic preparedness must be sustained.
 - One participant expressed a concern that while companies may initially subscribe to business preparedness practices, perhaps in part for insurance benefit, the companies may not sustain their efforts overtime.
- It is important in this initiative to adequately distinguish between key loss prevention and insurance concepts.
 - These include business continuity versus physical mitigation initiatives; preparedness versus exposure management, property insurance versus workers' compensation; natural versus man-made disasters; small versus large commercial policyholders.
 - To avoid potential confusion, a matrix could be developed wherein each of the relevant concepts is identified in separate cells that can be related to each other with respect to the type of preparedness program, the type of insurance purchased, the size or sophistication of the business, and other relevant factors. This classification system could assist in any follow-up research that is undertaken by allowing researchers to hone in on specific relational issues.
- The cause of the loss is an important factor to be considered as well.
 - One participant offered that "Business Disruption" is typically covered by a property insurance policy, but only if the disruption was caused by a peril covered by the property policy (e.g., wind, earthquake, flood, etc.). Other insurable risks which insurance might be available in the marketplace and which could reasonably result in "business disruption" include: Event Cancellation, Terrorism, Brand Protection, E-Commerce and Political Risk. Yet the underwriting for Property versus E-Commerce or Event Cancellation is very different. The underwriters may

be interested in different mitigation plans and the same insurance companies would not likely provide coverage for all of these risks. A question to be addressed is what role certification would play with each of these different kinds of risks.

- Market conditions have a clear impact on underwriting rigor by insurance companies.
 - Insurance pricing is very much influenced by whether it is a “hard market” or a “soft market.”
- Insured companies can change policies and insurance companies annually.
 - Challenges in a data collection should include the fact that policies renew annually and a company can leave at any time, so it may be hard to track preparedness with one insurer.
- Companies also self-insure or pursue other alternative risk programs.
 - Some companies choose to address risks in whole or part by self-insured and self-funded programs, which may be written by captive insurance companies. This may be because either the cost was too high in the marketplace or the marketplace would not agree to provide effective insurance coverage. As a result, some companies may have only limited risk transfer to the insurance industry for many risks with most of the risk held at the company level.
- The Terrorist Reinsurance Act (TRIA) has the effect of reducing the premium charged for exposures to risks associated with terrorism.
 - Although participants affirmed the importance of TRIA, it was noted that the amount of the premium being charged for terrorism is somewhere between 1.5 to 3% of property coverage.
 - Because policies are not priced in accordance with actual risks associated with terrorism, it creates a problem with insurance incentives for efforts to mitigate the potential risk impacts associated with terrorism, including both physical and business interruption impacts.
 - Potentially, however, given that the federal government is taking on clear financial risk through the legislation, it might be argued that it would be prudent in requiring some level of preparedness for those it is providing reinsurance coverage for, e.g. conformity with the private sector certification program.
- Insurance regulators may consider how to promote the recognition of preparedness including promoting the incorporation of elements of the certification program in the underwriting process.
 - While the regulatory community has not heretofore been heavily engaged in this issue, it could provide a level of protection vis-à-vis the antitrust laws when it comes to discussion among insurance firms of how to acknowledge preparedness and more accurately price risk.
 - It was suggested that the regulatory community could use its existing oversight of insurance industry activities as a status to promote inclusion of preparedness certification as a relevant factor.
 - Yet, it was also cautioned by another participant that PS-Prep is a voluntary accreditation and certification program and it would be inconsistent with the voluntary nature of these programs if regulators were to use their oversight of insurance activities to require inclusion of preparedness certification as a relevant factor. Rather, it was suggested that the focus should be on the use of such information by insurance companies as an occasion to pursue competitive advantage, while also helping to promote the goals of PS-Prep.
- It was stressed that it is important to understand that a diversity of factors beyond preparedness is considered as part of the underwriting process (e.g., the nature of the business, its location, etc.).

Thus, it was suggested that a simplistic, across the board discount (for example, as is given for smoke alarms in homeowners' insurance) would not be appropriate in recognizing business preparedness.

- The international aspect of both insurers and policyholder companies should be considered. For example, multinational companies with global risk exposures often turn to non-US-based carriers for coverage. These offshore insurance firms should be integrated into the ongoing dialogue about how to design and develop the certification program in order to make certain that potential insurance incentives for certification are maximized.
- The role of changing risk assessment technology needs to be considered in any actions taken.
- Some lessons may be learned from how the insurance industry acknowledged preparedness efforts for the Year 2000 (Y2K) event. Additionally, a wide outreach to the academic and insurance industry communities for relevant existing research is appropriate addressing not only insurance company acknowledgement of preparedness but also the impact of preparedness on minimizing losses.
- While the PS-Prep Program is voluntary, it will be a market-driven need, and businesses will take a business case perspective in balancing the cost and benefits of pursuing certification. In doing so, one participant was concerned that, from a large company perspective, the PS-Prep program "does not mushroom into an ISO or a Sarbanes-Oxley, which can then balloon the cost for a large firm."
- It is critical that the insurance industry is actively involved in advising the design and development process of the new voluntary certification program to assure that the tool that is built is valuable to the insurance industry.
 - The InterCEP Working Group and other forums can be valuable in bringing together representatives from both the insurance industry and those insured to discuss in greater detail how preparedness information currently is captured and considered in the underwriting process and how it might be done more effectively, especially in light of the new voluntary certification program.
- Once the program is fully operational, it was suggested that acceptance of a voluntary program such as PS-Prep would be more widespread if it is promoted by industry within its own sector and as the knowledge of it spreads.
 - The familiarity of people within industry who "know what they're talking about" and having "day to day involvement in their [similar types of] operations" may result in the PS Prep program having more traction.
 - Over a period of time, perhaps measured in years, not months, "this pressure on the intermediate size, large companies and the midrange companies is going to take place, and a cumulative amount of awareness and knowledge in our society of the value of...preparedness is going to start getting much more widely accepted," noted one participant.

15. Special concerns that members of the insurance industry have expressed include:

- Insurers are concerned that the standards contemplated by the PS-Prep Program must include a focus on risk mitigation (i.e., steps the business has taken to prevent a loss from occurring) and not solely how to respond post-event, in order to support acknowledgement in the underwriting process. There was concern expressed that adoption and implementation of a voluntary consensus standard may not be entirely relevant to underwriting catastrophic risk especially if the standard does not address risk mitigation.

- Insurers are concerned that there is potential for increased liability exposure on the part of insurers resulting from an inappropriate application of a PS-Prep standard. For example, even though the PS-Prep program provides for independent third party evaluation of conformity with a designated standard, some insurers are concerned that the potential for liability exists if (1) the insurer does not independently evaluate whether the business has complied with the standard and (2) the business has not implemented it or has implemented it in an unsatisfactory manner. The concern is that the business could assert that the insurer had a duty to evaluate compliance with the PS-Prep Standard and failed to do so, which resulted in harm to the business.
- Insurers are concerned that there could be major cost and resource implications associated with large-scale data collection and analysis necessary to measure the effectiveness and outcomes associated with the implementation of a preparedness standard. It was suggested that this could be of substantial magnitude since there is a great deal of diversity among business size, type and lines of insurance purchased, and the risk to which a business is exposed.

INTERCEP'S ACTIVITIES

InterCEP is committed to supporting the Working Group by undertaking the following activities:

- Produce high-level summary proceedings of Working Group meetings, to be drafted by InterCEP, then vetted with participants, and finally distributed for stakeholder consideration;
- Develop greater awareness within the general business community of the voluntary business preparedness certification program;
- Produce research output that presents knowledge generated by the Working Group relevant to the design and implementation of the voluntary business preparedness accreditation and certification program;
- Develop an online clearinghouse of documentation relevant to the voluntary business preparedness accreditation and certification program including outreach to other educational, research and industry associations for relevant information and research.

SETTING THE WORKING GROUP AGENDA MOVING FORWARD

With respect to each of these possible next steps outlined in the Draft Recommendations set forth earlier, InterCEP seeks feedback and indications of interest from Working Group participants and readers of this document in response to the following questions:

- Do you think these next steps would have value?
- Do you have any information relevant to these next steps?
- Would you like to get involved and help craft these next steps?

In general, InterCEP is committed to shaping an agenda for the Working Group, including additional next steps and other action items, based on the feedback gathered from participants in response to these additional questions:

- Who else should be at this table?
- In what forums should this discussion be taking place?
- Who/what are the most relevant individuals, job titles, organizations, associations, etc.?
- What concrete next steps can be taken to acknowledge, integrate, and credit existing efforts?
- Additional next steps – what are we missing?
- What meeting formats are most appropriate to maximize participation and productivity?

- How regularly should Working Group meetings be scheduled?

InterCEP encourages readers of this document and other stakeholders to contact us on an ongoing basis with questions, comments and suggestions regarding the Working Group agenda, as well as in reference to the broader process of developing and implementing the certification program. InterCEP's efforts to support this process are undertaken independent of any government agency or accrediting body with the financial support of the Alfred P. Sloan Foundation.

SUMMARY OF KEY POINTS FROM THE WHITE PAPER "INSURANCE INCENTIVES FOR CORPORATE PREPAREDNESS"

The following reflect key points from the white paper, "Crediting Preparedness" authored by William Raisch, MBA, Director, and Matt Statler, Ph.D., Associate Director of New York University's International Center for Enterprise Preparedness and released on October 17, 2006. Note that since the document was drafted there have been important developments in this arena; in particular reference is only made to the standard NFPA 1600 as other general standards currently in discussion had not yet been developed or were not in prominent use in the United States. Some of the text in this summary has been revised slightly to reflect more recent insights from the Working Group proceedings. The document in its entirety is available in the research section of the InterCEP website at:

<http://www.nyu.edu/intercep/Insurance%20Incentives%20for%20Corporate%20Preparedness%2017%20Oct%202006.pdf>

Executive Summary:

Having an effective corporate emergency preparedness program can contribute to relatively lower insurance costs and better policy terms for companies when this factor is considered along with other underwriting considerations, particularly among those companies that receive detailed evaluation of their status by insurance underwriters. This can be an important financial consideration in evaluating investment in corporate preparedness and may not be widely known.

Awareness of this insurance practice should be increased. Also, a reference guideline for what constitutes basic preparedness should be considered by leading insurers. The voluntary preparedness standard (NFPA 1600) is a good candidate.

Key Points:

- Emergency preparedness efforts by corporations generally result in the avoidance of emergencies or mitigation of their effects.
- Avoidance or mitigation generally results in lower financial losses to both to the insurance policy holder and the insurance company which insures it.
- Emergency preparedness efforts may be evaluated in the current underwriting processes of leading insurance companies, at least to some degree in larger corporate policies and/or in key insurance products such as business interruption insurance. The existence of preparedness efforts may be considered in determining insurance policy terms in these situations.
- Therefore, if a corporation undertakes emergency preparedness activities and these are considered by an insurance company in its underwriting process, it may receive relatively better policy terms (including better premium pricing and deductible levels) than it would if it did not prepare. In some high risk situations, the presence of an effective corporate preparedness program may determine whether or not the company will be offered insurance at all.

- However, the criteria used to evaluate corporate preparedness are often dispersed among a variety of criteria used to assess overall insurability of the corporation or facility. Thus, there is not necessarily a focused assessment of corporate preparedness as a cohesive program.
- Furthermore, insurance companies generally do not provide comprehensive guidance as to what constitutes the basic elements an appropriate preparedness program from their perspective and thus what they will assess.
- Nonetheless, it was confirmed with several leading insurance companies that all key elements of the consensus-based preparedness standard ANSI-NFPA 1600 (also known as the National Preparedness Standard) are generally reflected in the underwriting processes of the leading insurance companies when they assess preparedness. These elements may however be dispersed throughout the underwriting process.
- Thus, the ANSI-NFPA 1600 criteria may offer a helpful reference for companies in the development of their emergency preparedness programs as well as for underwriters in assessing the level of preparedness of prospective policy holders.
- In addition, given a potentially significant lack of awareness of the acknowledgement of preparedness in insurance underwriting (at least in the situations when it is assessed), efforts should be undertaken by the insurance industry and other stakeholders to highlight this fact so as to encourage greater preparedness efforts.

**OVERVIEW OF THE LAW
ESTABLISHING A PRIVATE SECTOR PREPAREDNESS ACCREDITATION & CERTIFICATION
PROGRAM**

“The Implementing Recommendations of the 9/11 Commission Act of 2007” (Public Law 110-53 – Title IX, Section 524) was signed into law on August 3, 2007. Section 524 calls for the creation of a voluntary business preparedness accreditation and certification program. The legislation stipulates that the program should:

- Provide a method to independently certify the emergency preparedness of private sector organizations, including disaster/emergency management and business continuity programs;
- Be administered outside of government by third party organizations with experience / expertise in managing and implementing voluntary accreditation and certification programs;
- Be voluntary;
- Designate one or more preparedness standards. NFPA 1600 is referenced as an example;
- Integrate/recognize existing industry efforts, standards, practices and reporting in this area;
- Give special consideration to small businesses; and
- Protect proprietary and confidential information of companies.

**DEPARTMENT OF HOMELAND SECURITY’S RESPONSIBILITIES UNDER THE LAW
& SUMMARY OF CURRENT STATUS, AS OF December 1, 2009**

The legislation also assigns the following specific responsibilities to the U.S. Department of Homeland Security (DHS):

- DHS is to designate one or more organizations to act as the accrediting body to develop and oversee the certification process, and to accredit qualified third parties to carry out the certification program;

- In July, 2008, DHS designated ANAB as the accrediting body, the same organization that has been administering private sector certifications in the United States in such areas as quality management systems (ISO 9000) and environmental management systems (ISO 14000) for over twenty years.
- DHS is to separately designate one or more existing standards for assessing private sector preparedness;
 - Over the course of late 2007, 2008 and 2009, DHS reached out to the private sector seeking input into their planning for the new program.
 - On December 24, 2008, DHS released an announcement in the Federal Register which discussed the essential elements of the program, described the consultation that has taken place to date and will take place with the private sector, and further announced that it seeks additional recommendations in a number of areas, including the private sector preparedness standards that DHS should adopt, both initially and over time. The announcement included for comment tentative target criteria to be used in determining which standards to designate. These criteria closely paralleled those in the Sloan Report.
 - On January 13 and February 23, 2009, DHS held two stakeholder meetings in Washington DC open to the public to engage in dialogue with DHS leadership and program managers regarding the Voluntary Private Sector Preparedness Accreditation and Certification Program (PS-Prep). Announced topics included the adoption of private sector preparedness standards; comments regarding a maturity model process improvement approach; small business participation and concerns; comments regarding the business case; and comments regarding the accreditation process and certification process.
 - DHS has yet to designate the one or more standards, however three standards have been proposed as of Fall 2009..
- DHS is to provide information and promote the business case for voluntary compliance with preparedness standards;
 - DHS is currently undertaking research efforts in this regard and InterCEP is assisting based on its historical research on the business case for resilience.
- Monitor the effectiveness of program on an ongoing basis.
 - A committee has been established within DHS to coordinate activity on the PS-Prep Program consisting of representatives from FEMA, the DHS Private Sector Office, Science & Technology Directorate and the Office of Infrastructure Protection.

CURRENT STATUS & TIMELINE OF ACTIVITY

As of December 1, 2009, key activities in the development of the Private Sector Preparedness (PS-Prep) Program development process include the following. Note this timeline is not all inclusive and focuses on government, accrediting body and InterCEP's activities.

- **Legislation Enacted Calling for the Creation of Private Sector Preparedness Accreditation Program (August 3, 2007).** Public Law 110-53 signed into law.
- **DHS Begins Outreach Efforts (Fall 2007).**
- **13 Online Forums to Held to Discuss & Solicit Input on New Program, hosted by InterCEP (Fall 2007):** Several hundred organizations participated nationally in a series of thirteen online forums held both to provide a platform for exchange of information on the evolving program and to begin to solicit input from key stakeholders on how the program should be developed. Each of these forums addressed a different facet of the prospective program. InterCEP hosted these forums and subsequently summarized their findings and communicated them to key stakeholders including the U.S. Department of Homeland Security (DHS) which is responsible for initiating the program. <http://www.nyu.edu/intercep/events/20081010-415.html>

- Meeting of Key Private Sector Associations & Leading Companies Held to Discuss Program, Hosted by Sloan Foundation (October 23, 2007):** The Alfred P. Sloan Foundation, a leader in supporting preparedness initiatives and a primary funder of InterCEP, convened a forum of key stakeholders to discuss the evolving program and investigate cooperative approaches. InterCEP assisted the foundation in this effort. Consensus was reached at this forum that “flexibility within a framework” of existing preparedness guidance should be promoted and that there was substantial commonality of core elements among existing preparedness standards and guidance. The forum members included representatives from four major industry associations (ASIS, DRII, NFPA, and RIMS), who later collaborated to develop a framework to identify relationships between existing private sector preparedness approaches. A report outlining their findings was released entitled “Framework for Voluntary Preparedness.”
- Stakeholders Outreach Meeting Held at InterCEP with Support of Sloan Foundation (December 10-11, 2007):** More than fifty representatives from industry associations and private sector firms met with DHS and other government officials at this Sloan Foundation sponsored forum on the National Voluntary Private Sector Certification Program, facilitated by InterCEP at NYU. A summary of proceedings was developed which identified several key points of wide agreement around the design and operation of a certification program, the designation of an accreditation body, the selection of preparedness standards, and the business case for preparedness. A key next step identified in this regard was the development of working groups dedicated to specific incentive areas, such as insurance, supply chain, rating agencies, etc. that could assemble key stakeholders around each incentive area and act to promote the advancement of that incentive through the certification program.
- Multi-Disciplinary Report Released Finding Common Core Elements of Preparedness Practice across Disciplines (January 2008):** A ‘Framework for Voluntary Preparedness’ encompassing multiple preparedness standards and other guidance was developed by key organizations (RIMS, DRII, ASIS, NFPA) with the support of the Alfred P. Sloan Foundation.¹ The “Sloan Report” argues for flexibility within a framework in terms of preparedness standards and related certification activity. It underscores the commonality of core elements of practice across various disciplines of risk management including security, business continuity, enterprise risk management and emergency management. A copy of the full document is available at: http://www.nyu.edu/intercep/document-clearinghouse/alfred_p_sloan_foundation_fram.html
- Five Working Groups Established to Inform the Development & Implementation of New Certification Program with Focus on Bottom-Line Incentives/Economic Impacts, hosted by InterCEP (commencing March 2008):** The Center seeks to serve as a catalyst and collaborator with the goal to work with other organizations to promote both awareness of the new certification program and input into its development. To that end, the Center began hosting a series of working groups in order to expand and focus stakeholder involvement in the ongoing development of the program. These working groups built upon on the momentum established in various forums in the fall of 2007 but promote more focused discussion and input around targeted topics. The overall objectives guiding these groups have been initially set at (1) to identify existing practices and principles in specific topical areas relevant to private sector preparedness; (2) in light of these practices and principles, to identify issues, opportunities and potential strategies relevant to the design and implementation of the voluntary business preparedness certification program; and, (3) to gather these outputs generated by working group participants and communicate them to program stakeholders including where appropriate DHS, accrediting and certifying bodies.

¹ Cf. “Framework for Voluntary Preparedness – Briefing Regarding Private Sector Approaches to H.R. 1 and Public Law 110-53 ‘Implementing Recommendations of the 9/11 Commission Act of 2007’ Title IX” prepared by representatives of ASIS International, DRII, NFPA, and RIMS. Available at www.sloan.org

InterCEP's research suggests that the success of the accreditation and certification program will depend largely on the extent to which the program addresses operational needs of organizations and the extent to which business value (including bottom-line incentives) can be forwarded through the certification program. Working groups were therefore organized around topics that correspond to key elements of potential business value. Additional information is available at: <http://www.nyu.edu/intercep/events/20080219-296.html> Initial online forums were held as follows:

March 7, 2008: Legal Working Group
March 14, 2008: Supply Chain Working Group
March 18, 2008: Insurance Working Group
March 27, 2008: Rating Agency Working Group
March 28, 2008: Business Reporting Working Group

- **InterCEP Testifies to Congress on the Private Sector Preparedness Certification Program and Insights from Working Group Activity (May 14, 2008):** InterCEP Director Bill Raisch testified before the U.S. House of Representative's Homeland Security Subcommittee on Transportation Security & Infrastructure Protection Subcommittee. The hearing focused on partnering with the private sector to secure critical infrastructure. Mr. Raisch delivered testimony on private sector resiliency, and in particular on the new voluntary certification program for business preparedness and findings from private sector input. Additional information and testimony available at: <http://www.nyu.edu/intercep/events/20080524-389.html>
- **Accrediting Body for New Certification Program Formally Announced by Homeland Security:** On July 30, the U.S. Department of Homeland Security announced that "it has signed an agreement with the non-governmental ANSI-ASQ National Accreditation Board (ANAB) to establish and oversee the development and implementation of the accreditation and certification requirements for the Voluntary Private Sector Preparedness Accreditation and Certification Program." Specifically, ANAB is to "develop and oversee the certification process, manage the accreditation, and accredit qualified third parties to carry out the certification in accordance with the accepted procedures of the program."
 - InterCEP anticipates that ANAB will set out the basic structure, processes and quality control for the accreditation program and will be responsible for "accrediting" the organizations that will undertake the actual certification efforts. These accredited organizations will in turn audit individual companies and if appropriate "certify" the companies that conform to the designated preparedness standard(s).
 - ANAB has for many years played a similar role as the accrediting body for the voluntary private sector certification programs addressing quality management (ISO 9001), environmental management (ISO 14001), information security management (ISO 27001) and numerous other industry requirements. As such, ANAB has had significant business interface and is expected to be sensitive to the concerns and needs of business. ANAB is headquartered in Milwaukee, Wis. and is a certified member of the International Accreditation Forum. ANAB is the only accreditation organization for process/management system certifiers based in the United States. The full release is available at: <http://www.fema.gov/news/newsrelease.fema?id=45280>
- **Initial InterCEP Working Group Proceedings Released and Provided to Accrediting Body & U.S. Homeland Security (July/August 2008):** Proceedings of Working Groups were released generally and provided directly to both the U.S. Department of Homeland Security (DHS) and the accrediting body for the new Voluntary Private Sector Preparedness Certification Program, ANAB. These proceedings are informing initial planning activity for the program. These proceeding reflect issues and recommendations identified in earlier forums held on the new program by the various Working Groups. These proceedings were distributed in draft form to registered Working Group participants for comment. InterCEP then prepared the proceeding for public release. The Working Groups are being hosted by InterCEP to facilitate input on the

design and implementation of the new certification program and to assure that the program reflects the concerns and needs of the private sector. Information on the Working Groups and the proceedings are posted on the InterCEP website at <http://www.nyu.edu/intercep/certification/>

- **U.S. Department of Homeland Security Lays Out Initial Direction for Voluntary Certification Program (July 30, 2008):** DHS set out its initial direction for the certification program in a media release. Selected excerpted points follow:
 - *Program Management Structure:* FEMA Administrator R. David Paulison has been named the designated officer responsible for the program on an overall basis. In this role, the administrator will chair the Private Sector Preparedness Council comprised of Department leadership from the Science & Technology Directorate, Office of Infrastructure Protection, and Private Sector Office; all of which will advise on the development of the program.
 - *Accreditation Body:* As previously discussed (above), DHS has established an accrediting body by designating the ANSI-ASQ National Accreditation Board (ANAB) to develop and oversee the certification process
 - *Preparedness Standards:* Per the legislation, DHS is to designate one or more standards for assessing private sector preparedness. The department has stated that “in developing and implementing the program, DHS will consider preparedness standards, business continuity standards, and best practices established under other provisions of Federal law, regulations, and as established by sector-specific agencies. DHS will coordinate with other preparedness and business continuity programs in other Federal agencies.”
 - *Request for Comment:* DHS announces an outreach to a diversity of private sector stakeholders including soliciting “public comment through a coming Federal Register Notice” with the stated goal by DHS of obtaining input on the following:
 - The scope of the Program;
 - The desired content of the voluntary “preparedness” standards to be designated;
 - Existing standards that should be evaluated and selected in this process;
 - Target criteria that should be the foundation for evaluation of comprehensive voluntary preparedness standards to be developed in the future; and
 - Views concerning standards and approaches for small businesses.
 - DHS further states that “after the receipt, review, and adjudication of public comments, DHS will select target criteria to evaluate preparedness standards for use in the Program. DHS will coordinate with standards development organizations (SDOs) in the update of their current preparedness standards and the development of new standards. DHS will work with private sector stakeholders and the critical infrastructure and key resources (CIKR) sectors to determine what sector-specific additions, guidance, or other expansion of the selected standards or target criteria are appropriate and desirable.”
 - *Business Case:* As per the legislation, the department additionally “will provide information and promote the business case for voluntary compliance with preparedness standards.”
 - *Program Monitoring:* An ongoing program monitoring function will be established for the program to “ensure its effectiveness, to include the operations and management of any of the accreditation and certification bodies and the standards designated. The annual review will also provide recommendations for improvements and adjustments to the program as necessary and appropriate.”
 - *Public Listing of Certified Companies:* Per the requirements of the legislation, DHS will also “maintain and make public a listing of any private sector entity certified as being in compliance with the program, if that private sector entity consents to such a listing.”
 - *Small Business Considerations:* The DHS announcement also cited the need that “small business concerns be taken into consideration, including any need for separate guidance, recommendations, or best practices, as necessary and appropriate.” The Department also indicated that it is considering “in coordination with the Ready Campaign (www.ready.gov) ... the option of developing a self-assessment preparedness tool [and that] compliance for small business may be in the form of a formal self-declaration of conformity.”

- For additional information, see the DHS release:
<http://www.fema.gov/news/newsrelease.fema?id=45287>
- **Follow-on Forums for the InterCEP Working Groups Held (October – November 2008)** In response to recent activity by DHS and the newly designated accrediting body, online forums for each Working Group were held. These conference call / web sessions allowed for wide access for the consideration of the recent announcements by DHS. Additional information is available at: <http://www.nyu.edu/intercep/events/20081010-415.html>
- **Federal Register Notice of Information & Request for Recommendations on Private Sector Preparedness Accreditation & Certification Program (December 29, 2008)** The notice both provided information on DHS activity as well as invited recommendations from the private sector on program development. The announcement included target criteria, i.e., “a draft list of possible elements that can be included in private sector preparedness standards and which may be used by the designated officer in evaluating standards for adoption in the program.” Additional information available at: http://www.nyu.edu/intercep/document-clearinghouse/federal_register_notice_reques.html
- **DHS Holds Two Public Meetings on Private Sector Preparedness Program (January 13 and February 23, 2009):** Two stakeholder meetings, open to the public, were held “to engage in dialogue with Department of Homeland Security (DHS) leadership and program managers regarding the Voluntary Private Sector Preparedness Accreditation and Certification Program (PS-Prep). The first was held on January 13, 2009 at U.S. Chamber of Commerce in Washington D.C. The second public meeting was held on February 23, 2009 at the headquarters of the American Red Cross in Washington, DC. InterCEP presented at both these events based on input from the Working Group activity on the program. Additional information available at: http://www.nyu.edu/intercep/document-clearinghouse/first_of_two_public_meetings_o.html
- **Announcement & Request for Interest to Participate in National Roundtables on Enabling Bottom-Line Impacts for Business Resilience through Certification, hosted by InterCEP (February 11, 2009)** InterCEP announced a series of National Roundtables on Enabling Bottom-Line Impacts for Business Resilience through Certification. These roundtables, supported by the Alfred P. Sloan Foundation, are to build on continuing InterCEP Working Group activities and focus on five main economic and potential incentive areas that could be advanced through the new Voluntary Private Sector Preparedness Certification Program, currently in development by the U.S. Department of Homeland Security. Additional information available at: <http://www.nyu.edu/intercep/events/20090211-424.html>
- **InterCEP Testifies Again to Congress on New Private Sector Preparedness Certification Program (March 11, 2009)** InterCEP Director Bill Raisch was requested to provide an update on the Private Sector Preparedness Program activity by the House Homeland Security Subcommittee on Transportation Security and Infrastructure Protection. The hearing focused on the recent Mumbai attacks and their role as a “wake-up call to the private sector.” Raisch provided ongoing insights from related Working Group activity as well as recommendations to forward the PS-Prep program. Additional information available at: <http://www.nyu.edu/intercep/events/20090319-427.html>
- **National Roundtables on Enabling Bottom-Line Impacts for Business Resilience through Certification, hosted by InterCEP (March-June, 2009)** InterCEP held a series of National Roundtables on Enabling Bottom-Line Impacts for Business Resilience through Certification. These roundtables, supported by the Alfred P. Sloan Foundation, focused on continuing InterCEP Working Group activities in five main economic and potential incentive areas that could be advanced through the new Voluntary Private Sector Preparedness Certification Program, currently in development by the U.S. Department of Homeland Security:
March 30, 2009: Supply Chain Working Group

April 15, 2009: Business Reporting Working Group

May 12, 2009: Rating Agency Working Group

June 2, 2009: Insurance Working Group

June 8, 2009: Legal Working Group

DHS representatives participated in all five National Roundtables held by NYU's InterCEP in the as well as a diversity of earlier online web forums. ANAB has also attended some of these forums and informed its development activities as a result.

- **Announcement and Request for Comment on Three Proposed Standards:** On October 15, 2009, DHS Secretary Napolitano announced a posting in the Federal Register, stating DHS's intention to designate three specific standards and soliciting any comments on the proposed standards, recommendations of additional standards or comments on other programmatic aspects of the PS-Prep Program. The three standards proposed were:
 - ASIS International SPC.1-2009 *Organizational Resilience: Security Preparedness, and Continuity Management System*.
 - British Standards Institution 25999 *Business Continuity Management: Part 1 (2006) and Part 2 (2007)*.
 - National Fire Protection Association 1600:2007 *Standard on Disaster / Emergency Management and Business Continuity Program*.
- **Announcement of Public Outreach Meetings and Extension of Comment Period:** On November 4, 2009, DHS announced a series of public meetings to discuss the PS-Prep program in ten cities across the country. The comment period on the Federal Register Notice was extended to January 15, 2010.