Business Continuity Planning:

How prepared must a CFO & other Executives be for a potential interruption to the business

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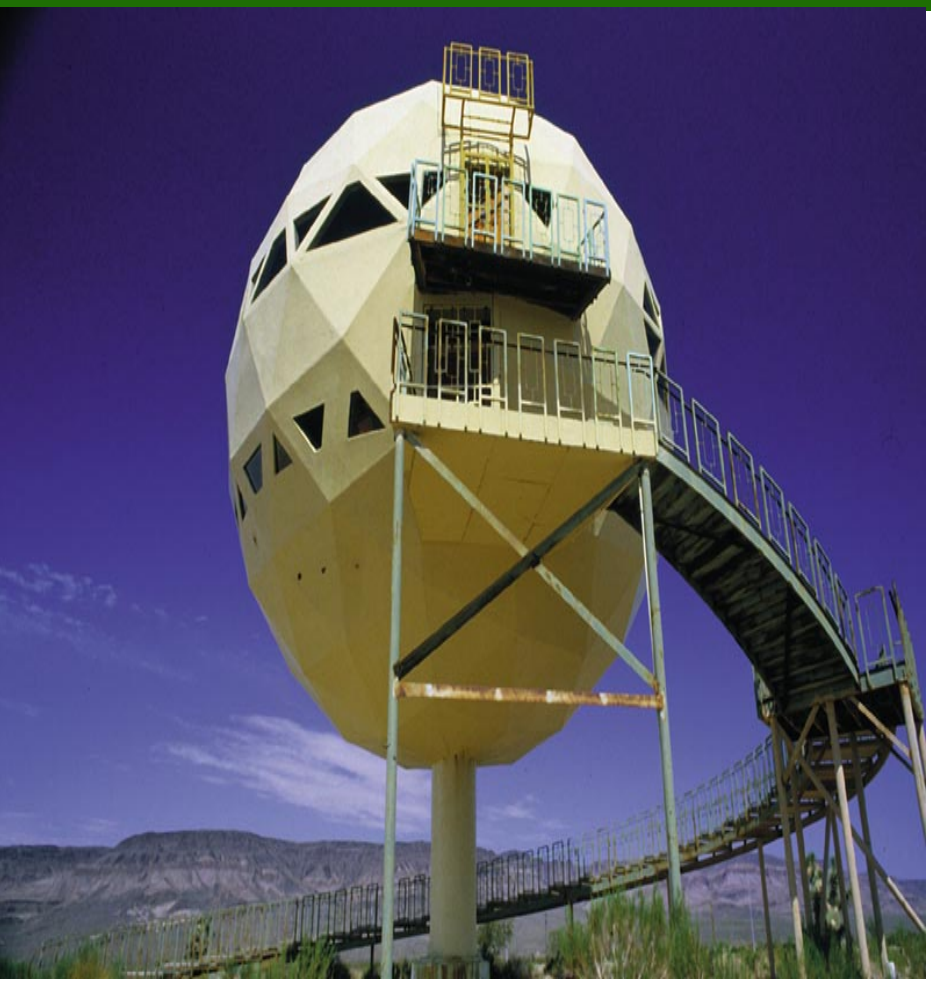
Presentation Outline



- What is a business interruption?
- What is business continuity planning (BCP)?
- Ownership of the BCP problem
- Statistics on the state of BCP readiness
- How should you respond to the risk of disruption?
- Selling the BCP investment
- Critical elements for BCP success

Introduction

- **Chartered Accountants operate in various capacities:**
  - **General Manager**
  - **CEO**
  - **Administrators**
  - **Oversight for IT department**
- **Accountants therefore must understand how to contribute to discussions about planning and responding to business interruptions**
- **This presentation will show that business continuity planning is bigger than the CFO, but the CFO can be a great source of influence**

What is a Business Interruption?

- **Strategic: New competitor**
- **Operational: Fire at the data centre or a virus attack**
- **Financial: Discovery of fraudulent financial reporting**
- **Legal: Product liability lawsuit**
- **Compliance: Revocation or suspension of banking license**

What is a Business Interruption?

1. **COSO recently (Sept 2004) issued: COSO Enterprise Risk Management (ERM)– Integrated Framework**

2. **This ERM document is meant to deal systematically with business interruptions or events affecting the following categories of a company's operations (see also previous slide):**
   1. **Strategic**
   2. **Financial**
   3. **Operational**
   4. **Legal and Compliance**

What is a Business Interruption? An Illustration of How the COSO ERM Framework Operates

Event	Risk	Response	Control	Measurement
Strategic: Arrival of cheaper widgets from overseas on the local market	Reduced sale & possible closure of the local business	Risk Mitigation	Investment in more modern technology to reduce production cost	Unit cost of production
Compliance: The bank being used by money launderers	Significant reputational damage & regulatory penalties	Risk Prevention	Provide AML training & support to staff	Number of AML training hours & undetected AML breaches
Operational: Fire at the data centre	Loss of lives & failure to give customer access to their funds	Risk Prevention & Mitigation	Development and implementation of a **business continuity capability**	Business Continuity Plan test results

What is a Business Interruption?

1. Our Focus today is only on the Control Response of implementing a Business Continuity Capability
    i. This is to respond to the risk of operational failures such as fire, virus attacks etc (see table above again)
2. An ERM framework is needed to deal mores systematically with other types of interruptions affecting strategy, compliance, finance, etc
    i. Developing business continuity plans is only a part of a broader ERM framework
3. CFOs et al should also be influencing their Boards in developing an ERM framework

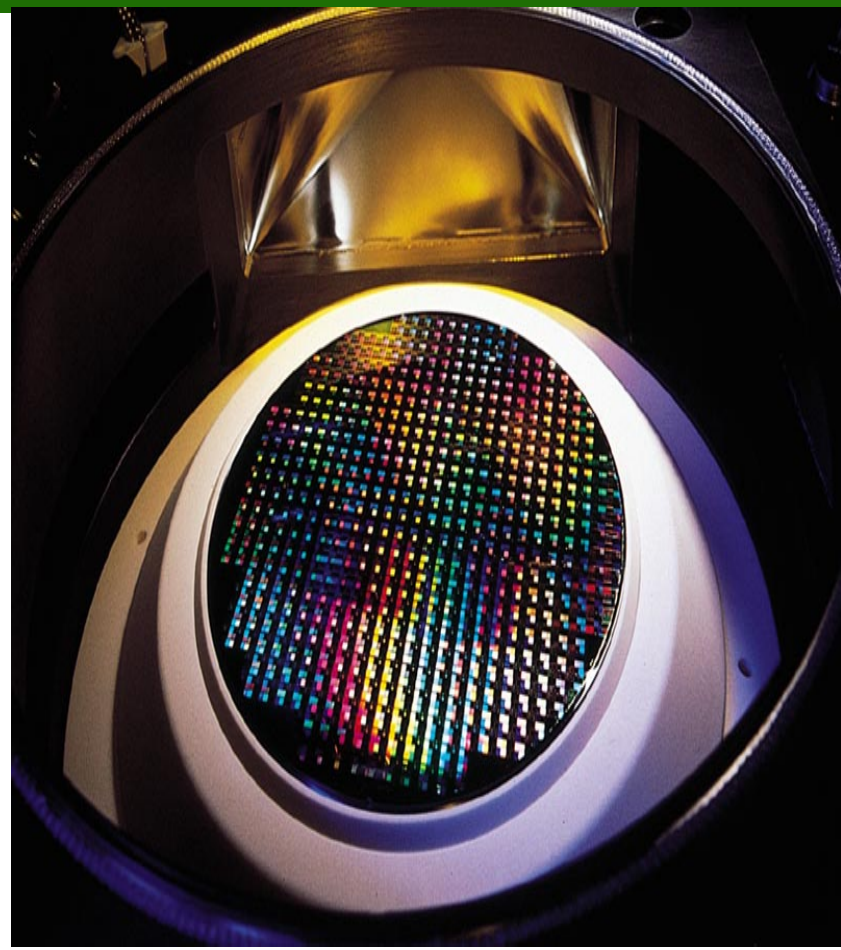
Why an ERM Framework?

1. It gives a universal view of the key events that can have a significant impact on a company's operations
2. Forces pre-meditated responses to these events and therefore reduces surprise at the Board level: Driven by a company's risk appetite
    - Example 1: Risk appetite: Must have 100% IT recovery capability for our company
    - Example 2: Risk appetite: Will not spend more than 5% of revenue on business continuity planning
    - Example 3: Risk appetite: Must not have more than 2% customer complaint rate
3. All department heads and executives will end up with an inventory of events and risks that could affect the company
4. Action: You should think about starting this ERM discussion with your Board when you return home

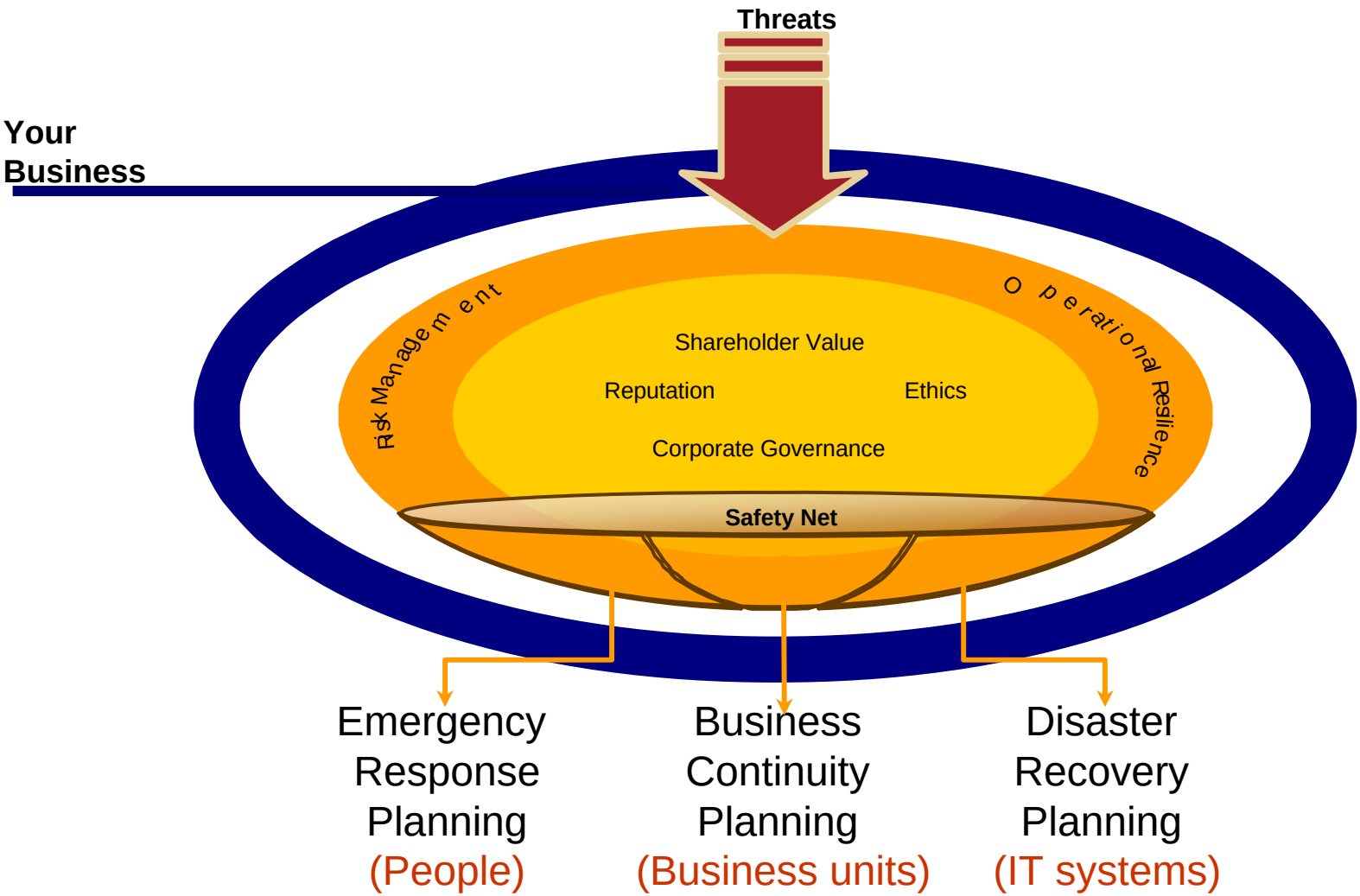
What is Business Continuity Planning?

A definition:

Procedures that are instituted to continue the operations of your business despite a significant interruption (to its buildings, IT systems or employees) with the ultimate objective of restoring the business to pre-disaster levels.



What is Business Continuity Planning?



Statistics on the State of BCP Readiness

- Many companies in the region are not comprehensively prepared (less than 10%)
  - Plans tend to be IT centric and they often ignore the business units such as treasury, accounting etc
- Recent Gartner survey findings:
  - 85% of large companies (USA) have IT recovery plans
  - Only 25% of these companies have business unit recovery plans (e.g. for treasury, accounts etc)

How Should Executives Respond to the Risk of a Disaster?

Is your company prepared?

If you got a call right here in Belize at this moment, saying that your Head Office is on fire, what would you do?

What Should You do to Get Your Co. Prepared for a Major Operational Disaster? 3 Steps

1. **Understand the basic approaches that can be taken to develop and implement a business continuity capability at your company**

2. **Use your position as CFO or Executive to influence and educate the Board on the importance of BCP**

3. **Help the Board to understand that the BCP problem is not restricted to the CFO or other single executive –**
    i. **It is a corporate wide matter that must have Board level support and that it is a key part of good Corporate Governance**

How to Sell the BCP Investment to your Board

BCP Investments are usually very expensive and so must be sold!

- Competitive advantage
  - Major customers who depend heavily on their suppliers for critical services e.g. outsourcing of IT services are now requiring their suppliers to state if they have a BCP program before contracts are awarded (10 to 20% of companies are now doing this – Giga report 2002)….YOU MAY MISS OUT ON THE NEXT CONTRACT:
  - Question: if your company were to be invited to tender on a major bid tomorrow, but a prerequisite for entering was having a BCP capability, would you miss out on the opportunity?

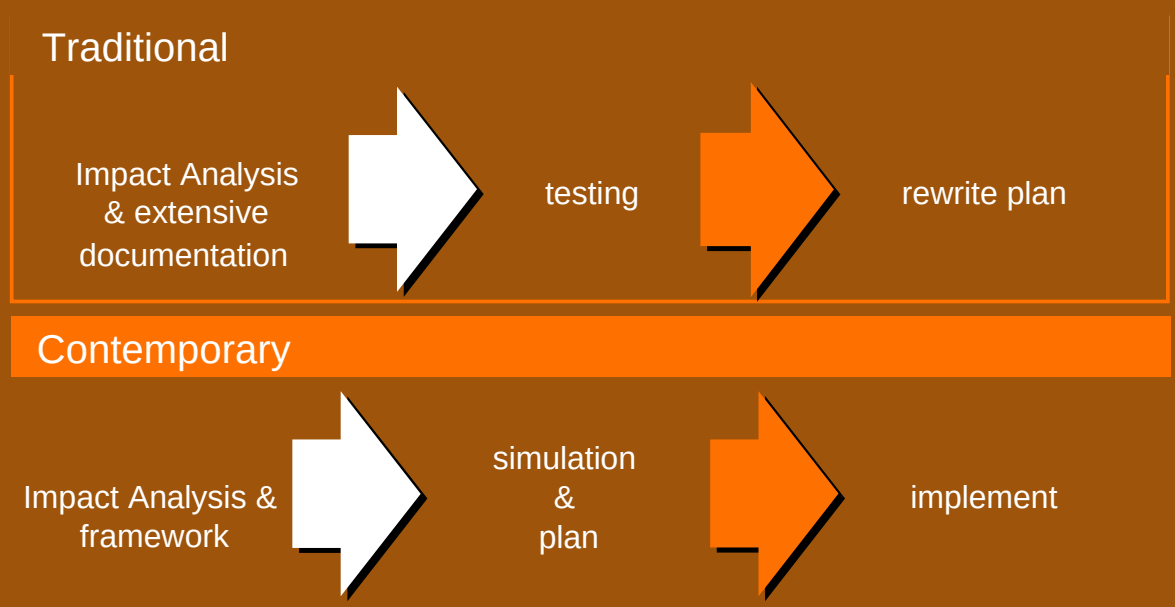
- Compliance with regulatory requirements e.g. in US and Europe.
  - Thought: Caribbean regulators (financial services) may soon start to require that financial services company have BCP programs

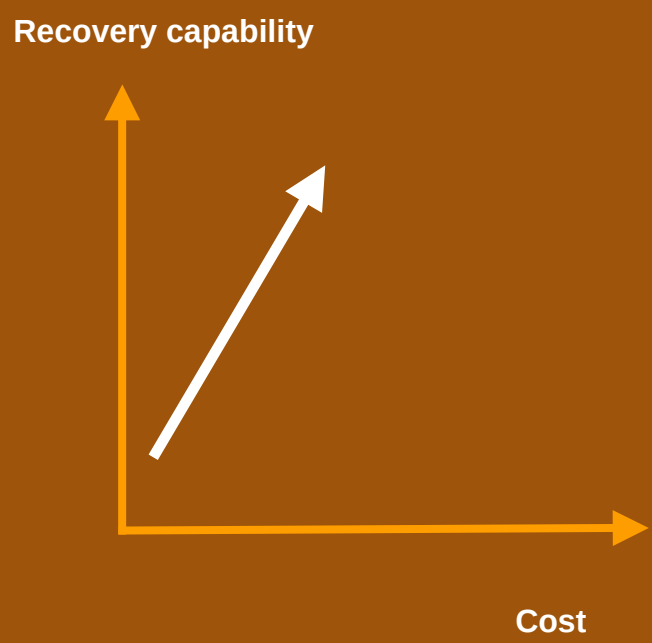
How to Sell the BCP Investment to your Board

- Protection of people (most important)
  - Protection of the life and safety of employees and customers
    - The people cost was the highest cost in 9/11
    - Question: Would your staff know what to do and where to go if there was a major fire at work?

- Commitment to client service delivery
  - Especially providers of financial services, health care and other time critical businesses – COST OF BEING DOWN WOULD BE TOO SIGNIFICANT, EVEN IF THE CHANCES OF BEING DOWN IS LOW: Question: Do you work at a bank, if yes, is there a robust business continuity program?

Approaches to Developing a BCP Capability





Traditional Approach

- Do threat assessment e.g. fire, flood, earthquake, virus etc
  - Risk accept, prevent, mitigate or transfer
- Do business impact analysis (BIA)
  - Key processes and recovery time objectives (RTOs)
    - E.g. For an Accounts Dept: Payroll, Statutory Reporting, Bank Reconciliations
  - Minimum resource requirements (people, technology etc)
  - Impact on the company (financial, reputational & legal)
  - Identify internal and external dependencies
- Identify strategies that can meet RTOs
- Extensive documentation of the plan ….over 200 pages in some cases!
- Testing of the business continuity plan
- Rewrite or amend the plan base on the test results
- BCP is not seen a a living part of the company, but the “problem” of one or two persons

Contemporary Approach

- Threat assessment (same as traditional approach)
- Do business impact analysis (same as traditional approach)
- Simulation of a disaster (Airlines now doing real flights with simulated high jacks – June 2005 – on ABC news last night)
- Document a focused plan based on simulation results...much less than 200 pages
- No need to rewrite the plan as the plan is documented after the simulation
- BCP is seen as a living document, as it is hooked into other parts of the company

Contemporary Approach

This approach builds a least cost route for a robust BCP capability by setting BCP into the organisation's context

Where does BCM fit in the organisation and how to get maximum leverage?

How much are we going to spend and how?

What parts will be centralised?

command, control, communication

Contemporary Approach
Why corporate links?

BCP is very expensive on its own (why spend all this money on something that may never happen?)	Need to leverage all existing functions and management structures
BCP is a symbiote (now that we've got a plan we can forget about BC)	Treating BCP as a project will doom it to failure – it is not normally a front of mind activity

Contemporary Approach

What is the overall strategy?

- Do nothing
- Transfer function (buy-in, MOU)
- Do a bit – have some contingency in place
- Duplicate
  - active (split operations)
  - passive (duplicate backup is redundant)
  - partial active/passive

Contemporary Approach

What is a BCP model?

- Allocation of responsibility for critical functions
- Simple model is by position
- More complex is by geography or function
- Very complex is a hybrid of geography and function
- Complex models
    - Have a coordinating team over the top
    - Have individual BCPs for each subcomponent

Contemporary Approach
Purpose of a model

- maintain normal lines of reporting if possible
- maintain normal responsibilities if possible
- effectiveness of recovery
- efficiency of recovery
- avoid duplication of any business continuity activity

Contemporary Approach
How is the Simulation Done?

Scenario	Plans
• tailored, realistic crisis situation • build response capability through experience • test assumptions • learning and awareness exercise • team building	• fit for purpose • thin • assigned roles and responsibilities • recovery strategies for each process • resources available to support recovery • high-level action plans to achieve recovery

Contemporary Approach
Simulation - what to look for

People	Process
• Natural leadership • Ability to remain calm • Ability to communicate clearly • **Understanding of individual (own and others) roles and responsibilities** • Team work	• Information gathering and confirmation • Clear objective setting • Actions to control and contain • Recovery strategy development • Monitor and follow up • Communication strategy

Contemporary Approach
Simulation - debrief

Formal debrief	Plan development
• What worked • What didn't work • What could we do to improve • What are our strengths • Perspectives from all • Capture follow up implementation actions	• Confirm model • Confirm structure for this component • Use skeleton plan to input process with each role separately • Build on any existing processes or procedures if possible • Discuss implementation implications

Keys for BCP Success

Lessons Learned from a recent PwC Jamaica Led Simulation for a Jamaican Company

- The need for information management
  - Classification of information: assess all document types and assign an information classification e.g. critical, necessary, public
  - Digital storage and retrieval
  - Clear desk policy and disciplined use of vaults & fire proof cabinets
- Consider the viability of staff working from home during a crisis
  - Working from home policy must be developed
  - Information security and equipment must be in place

Keys for BCP Success

Lessons Learned from a recent PwC Jamaica Led Simulation for a Jamaican Company

- Media communications must be properly managed
  - Develop policy about media communications and authority levels
  - Ensure staff is aware of message to give to media, regardless of the incident
- Building evacuation
  - Designate assembly points and ensure that the staff know where these are
  - Insist on use of visitors log; will help to account for visitors on the building the day of the disaster

Keys for BCP Success

Lessons Learned from a recent PwC Jamaica Led Simulation for a Jamaican Company

- Board level support and BCP structure
  - Establishment of a BCP Committee and a BCP Coordinator
  - Visible and public support from the CEO and other executives (e.g. attendance at the simulation)

Keys for BCP Success

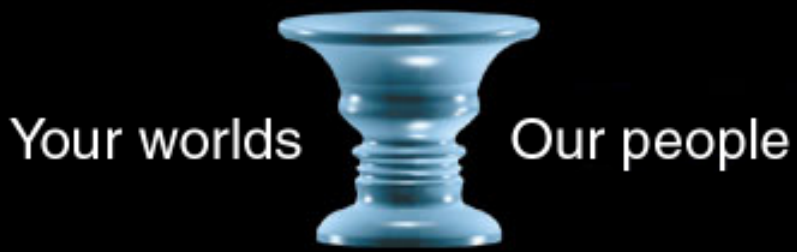
Lessons Learned from a recent PwC Jamaica Led Simulation for a Jamaican Company

- Command & control immediately after an incident
  - Identify teams and alternates with specific roles to take command of an incident
  - Include emergency telephone numbers on staff IDs
- Information technology
  - Avoid having the data centre on the same building as the business units (e.g. accounting, treasury etc) where possible
  - Establish backup telecommunication links
  - Save company data on network drives

Presenter Profile

Bruce L Scott FCA, FCCA, CISA, MBA, ABCP, CISM

Bruce has developed and worked on business continuity plans for Jamaican and Canadian companies. He is the partner in charge of business continuity and enterprise risk management services in PricewaterhouseCoopers Jamaica. He has also conducted numerous risk assessment and was integrally involved with the development of an enterprise-wide risk management program for a very large mortgage company in Jamaica. He is a certified business continuity planner with the Associate Business Continuity designation.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