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## **BUSINESS CONTINUITY PLANNING: THE CHALLENGE OF CONTINUITY**

*Business continuity planning has pushed its parameters beyond natural disasters to include events ranging from terrorism to power shutdowns to pandemics. As a discipline, it has also shifted from an almost exclusive focus on data recovery to involve the key business drivers for any corporation or organization. Canadian companies are learning lessons from recent disasters both here and in other countries, but are they resilient enough to recover from the "big one?"*

While no one really wants anything bad to happen, Lisa Benini is one of the few people in Canada who secretly hopes for a small-scale disaster or two. As senior advisor for the government of British Columbia's business continuity program and a training consultant, she is an expert on how organizations can recover from crises and severe events. Her experience has demonstrated it is only after a serious wake-up call that most firms take business continuity planning seriously.

"Successful organizations that have really good plans are usually the ones who have already been through a disaster," Benini notes. "Then business continuity has senior management's attention and gets the budget to do it properly. We always pray for these little disasters to happen."

In Canada, these 'little' disasters have come in the form of recent flooding in Alberta and Ontario, the SARS crisis in Toronto and the power blackout in Northeastern Canada and the U.S. in August 2003. While none triggered the wholesale loss of infrastructure or lives of a Hurricane Katrina or 9/11, several observers say these events have sharpened awareness of business continuity planning (BCP) in the risk management community and insurance industry.

"BCP is becoming very prevalent in terms of the level of focus in the insurance industry," says Ken Lloyd, senior project manager, Crawford Adjusters Canada, who has spearheaded a major company-wide disaster recovery and business continuity plan for the last two years. "The state of preparedness across the industry has been raised."

"With all our business partners, such as brokers and vendors, this is something that is very much on their minds," says Mike Wallace, vice president, risk, underwriting and reinsurance, Royal & SunAlliance Canada. "They want us to have a strong business continuity plan from the perspective of being able to service their clients."

"I think it is becoming more mainstream," says Peter Neumann, senior vice president, national risk control director, Aon Reed Stenhouse Inc. "One of the things we are clearly finding when we respond to requests for quotations for business is a line item that says, 'tell us a bit about your BCP.'"

In the fall of 2005, KPMG conducted a poll among 254 senior executives involved in Canadian business or IT management and discovered that 83 per cent of respondents had a business continuity plan in place. The results led KPMG to conclude in a report called *Building a Continuity Culture* that “the awareness of the need for effective business continuity planning is well entrenched in Canadian companies.”

Graeme Booth, one of the authors of the report and a partner with KPMG LLP, says BCP has evolved in recent years. “It is only in the last couple of years that we have started to see the direct connection with the strategic imperatives of the organization coming right to the surface in BCP,” he says. “If you flip back even ten years ago, it really started with disaster recovery planning and that was focused almost exclusively on the IT environment.”

“I would say the KPMG percentage is about right from my perspective,” notes Wallace. “All of our large partners, when we talk about multinational companies, have detailed business continuity plans.”

“BCP is entrenched at a very high level,” Booth adds. “The thing we are seeing more often, with more certainty now, is that the business continuity plans in place in organizations are really being better connected with the key business activities in the organization.”

It is easy to say you have one, but more difficult to demonstrate a proven and tested BC plan. Business continuity experts say that an effective plan should include a comprehensive ‘business impact analysis’ (BIA) and ongoing testing through risk assessment. Another survey released in June, 2006 by Hewlett-Packard (HP) showed that only 26 per cent of companies regularly review and test their plans. HP polled more than 340 chief information officers and IT managers of major companies worldwide.

There are lingering questions about how well Canadian corporations and organizations of all sizes could handle a major disaster on the scale of a Hurricane Katrina or Northridge earthquake – not to mention an avian flu pandemic or coordinated terrorist attack.

“Corporate awareness is growing, but there is a difference between awareness and actually being ready for a major disaster,” notes Glen Frederick, director of client services for the B.C. government.

“From my own experience, people don’t even want to think about the big one,” says Benini, whose work with the B.C. government includes a business continuity ‘scorecard’ rating various ministries on their level of preparedness. “I usually try to get them to talk about a catastrophe within their building or region, where there is some level of infrastructure in place. That was the shock with Hurricane Katrina; there was virtually no infrastructure left in key areas.”

Benini says most companies expect to have employees and systems in place, but what Katrina showed was how a large-scale disaster can have devastating effects on communications. Telephone lines, cell phone and Internet connections were not working for several days (or weeks), while buildings were inaccessible due to the flooding. Many companies had no way of contacting their employees and vice versa.

Those organizations that had a business continuity plan with such features as mass notification systems, “mirror” or redundant web sites, fully outsourced data recovery and/or call centre services, clear lines of managerial accountability, call-tree lists and employee safety procedures fared far better than the others.

Canada’s P&C insurance industry has to work from two sides of the coin on the increasingly topical issue of BCP. First, it has to ensure that its operations, particularly adjusting and claims services, can still function in the wake of any type of disaster. But it also it must be aware of the business continuity plans of its corporate clients from an underwriting and risk perspective, especially for business interruption claims.

“It really affects the insurance industry from two points of view,” notes Mark Baker, a former business continuity supervisor for State Farm Insurance Company and now a consultant. “One is your own company, and two it is your policyholders. Insurance companies are becoming more concerned about it, so you will find that most are developing BC departments and looking at how ready they are for a

disaster. Some firms are also providing services to clients for BC planning, but it is spread out all over the place. There are specialty firms doing it, and insurance companies and brokers are getting involved in risk management.”

“It is obviously to the benefit of the insurance companies to take a hold of this area,” says Neumann. “If the business continuity planning is properly done and the risks are mitigated then obviously the losses are reduced, which benefits them on the bottom line.”

On the first side of the coin, there is strong evidence that the insurance industry is taking business continuity planning seriously. Royal & SunAlliance has a business continuity team in place that uses the good practice guidelines of the Business Continuity Institute and Disaster Recovery Institute International. These organizations provide courses, certification and a base of common knowledge.

Wallace says R&SA has experienced both domestic and international disasters, which have acted as test cases for the strength of the BC plan. “You have to be prepared to be dynamic, every single type of disaster – whether natural or man-made or hybrid – is going to stretch the organization differently,” he says. “Every time we have a disaster we learn something.”

He cites the example of the SARS crisis in Toronto as particularly instructive of how “disasters” can be unique. “The biggest lesson we learned through SARS was the need to have clear, concise communication both internally and externally,” Wallace notes. “Even though the government said the voluntary quarantine had been lifted, that was when the second phase of cases came in. It is important to make sure we are diligent looking at it not just from what the government is telling us, but what our own sources are saying.”

Neumann says the threat of a pandemic is an unusual twist to any business continuity plan. “It is interesting in that it is completely opposite to the flood or fire or earthquake, which is ‘get the troops together and make it happen,’” he says. “One of the key components of the pandemic is social distancing and keeping people apart. The question then is: how do we get people to work and communicate from their homes?”

For business continuity plans in general, the idea of the 200-page document sitting on the shelf may be of comfort to a company, but it is not necessarily effective when disaster strikes, according to Neumann. “People tend to overdo them in many ways,” he says. “Before you know it, you have a binder three inches thick. When things don’t go right, it is not the time to pull out a binder and try to figure it out.”

“I have seen a lot of organizations, including government, that see (BCP) as just filling in a template, putting it on the shelf and it is done,” adds Benini. “We continue to tell people it is not just about the plan. It is testing it, keeping it up to date, it is really making it part of doing business.”

Neumann recalls the power failure of August 2003 and some of the lessons he drew from that event. “A number of things came out, such as the loss of cell phones and the closures of gas stations because there was no power,” he says. “Key persons who had to be on the forefront to solve some of these problems couldn’t get to the office. Those are the kinds of things where you need the experience of the event to kind of figure that out.”

An additional factor is the need for a company to gauge the reliability of major telecommunication and power providers when it comes to service outages. “We rely on a power grid for so many years that when it goes down, we wait for it to go up in one or two hours,” Neumann says. “At some point in a crisis or event, you have to pull the trigger and say ‘as of now, here is where the BCP kicks in.’”

For Ken Lloyd, Crawford Adjusters Canada’s business continuity project has provided some eye-openers about the extent of the risk. “I think the business impact analysis resulted in a greater understanding of the complexities of our business,” he says. “You can’t just paint everything with one brush in terms of the requirements. Within any corporation you have different functions, from the financial side to the operations side to the human resources side. They all have different systems and processes that require a different sense of urgency. Some business processes have to be back in service within four hours, others within 24 hours, and others are not as urgent.”

For example, the company's call claims centre is clearly mission critical, and special arrangements, including a contact with an outsourced office site and facility provider, have been made to ensure that it can be up within two hours in any kind of disaster.

When it comes to risk management and insurance in Canada – the other 'side of the coin' – Neumann says insurance companies are paying attention to business continuity in at least a general sense. This applies especially to the larger risk management accounts.

"Companies assess their risks based on the hard and soft conditions that exist within the company and the property/assets they insure," he says. "When they send around inspectors to do a physical asset inspection, if they see line items such as 'this specific risk also has a business continuity plan, which picks up a supply chain management,' you see a positive response. It will be part of the overall assessment of the risk."

Brokers, particularly larger firms like Aon, are also offering advisory and consulting services on BCP, but some risk managers say more should be done. Frederick argues that business continuity planning could be a readily available source of expertise from insurers and brokers.

"I think brokers especially and insurers could be stronger in providing resources for business continuity planning," he says, "I think they are missing the boat. I never hear of the larger or smaller brokers offering BC expertise. When we go looking for a market, it would be nice if our market could provide this service or at least point to areas of expertise."

This need may be particularly acute in the mid-to-small market, where companies don't have the resources for a business continuity department. In fact, many say the larger "risk management" insurance accounts tend to have advanced business continuity plans (and staffing), while the move to the mid-small market has been sluggish.

"If you are a major bank or telecommunications company, you are going to know more than an insurance company or broker about business continuity planning in your field," says Baker. "But if you don't know anything about business continuity, it is possible that a mid-size or small company could be offered that expertise by a broker or insurer. There is a big gap for smaller to mid-size firms."

A recent survey by The Conference Board found that larger companies are more likely than small companies to have a plan to deal with a possible avian influenza epidemic. Companies with sales of \$5-10 billion were the most likely to either have a plan or be developing one, while 35 per cent of the companies with sales of less than \$100 million had no pandemic emergency plans at all.

"Most organizations don't give resources to do the BCP work, so you find people who are doing this off the corner of their desk," says Benini. "You get a piecemeal plan happening. Often people don't set aside the resources, commit the time and get commitment from senior management. That has always been a problem."

With the increasing importance of business continuity planning, regulators are already moving into the field. Lloyd says that as part of a U.S.-based company, Crawford Adjusters Canada was influenced by the Sarbanes-Oxley Act (SOX) and its requirements for data retention and due diligence. In Canada, the Investment Dealers Association now has a by-law in place that requires all members to have a documented BCP, implemented and tested by July 31, 2006. Benini also points out that the Canadian Standards Association has developed a draft standard for emergency management and business continuity, which is expected to be published in late 2007 (CSA Z1600). The Canadian National Emergency Management and Business Continuity standard is based on the U.S. National Fire Protection Association (NFPA) 1600 Standard on Disaster Management, Emergency Management and Business Continuity Programs.

"When we talk about organizations having BC plans in place, they have an understanding of what the risk inventory is in their organizations and they are developing their plans based on the business impact analysis and then they are testing those plans," Booth notes. "Certainly, the financial sector in particular has significant regulatory drivers that are forcing organizations to prove and be able to demonstrate they have workable plans in place. Canadian companies are really taking the requirements and level of diligence that SOX is driving and adapting it to their business decisions and structures. They are seeing these as good business practices period."

Indeed, a study done by Hewlett-Packard in March of this year showed that over 80 percent of IT decision-makers at both large and medium-size businesses view business continuity and availability as an increased priority for 2007. HP says the results mark a shift in strategy for many companies, which have historically taken a reactive approach to recovering from unplanned downtime or disasters, to longer term business continuity planning.

"In today's global marketplace, any amount of downtime can be devastating, if not terminal, to a business," notes John Bennett, worldwide director, Business Continuity and Availability Solutions, HP. "Research shows that IT decision makers see a dramatic return on investment as a result of building a sound, long-term, holistic business continuity plan, which will ultimately reduce the impact of internal or external threats."

Frederick suggests it could very well be shareholders of public companies who push even harder for effective business continuity plans. "Your investment is at risk if the corporation you invested in doesn't have a plan that works," he says.

Neumann thinks the full entrenchment of business continuity planning will likely take place in the next 10-15 years, becoming as much a part of corporate best practices as financial, environmental and safety audits. "This whole thing about BCP is really a cultural element that has to be ingrained into the minds of the corporation," he concludes. "As we move forward, this is just another management requirement that will be instilled in the way we run companies."

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## RESOURCES FOR BUSINESS CONTINUITY PLANNING

### From KPMG:

[www.kpmg.ca/en/services/advisory/err/documents/BusinessContinuity.pdf](http://www.kpmg.ca/en/services/advisory/err/documents/BusinessContinuity.pdf)

### From Hewlett Packard:

[www.hp.com/hpinfo/newsroom/press/2006/060607b.html](http://www.hp.com/hpinfo/newsroom/press/2006/060607b.html)

[www.hp.com/hpinfo/newsroom/press/2007/070326a.html](http://www.hp.com/hpinfo/newsroom/press/2007/070326a.html)

### From the Conference Board of Canada:

[www.conferenceboard.ca/documents\\_summary\\_sp.asp?rsp=12&rspdesc=Risk+Management](http://www.conferenceboard.ca/documents_summary_sp.asp?rsp=12&rspdesc=Risk+Management)

(See: A State of Unpreparedness: Canadian Organizations' Readiness for a Pandemic, June 2006. Also other research reports on business continuity planning, such as Business Continuity and Pandemic Preparedness: Planning, Partnership, and Participation, June 2007)

### From the Federal Government:

<http://securitepublique.gc.ca/prg/em/gds/bcp-en.asp> (Business Continuity Planning Guide from federal government)

### From the Business Continuity Institute (BCI):

[www.thebci.org/gpgdownloadpage.htm](http://www.thebci.org/gpgdownloadpage.htm) (Business Continuity Planning guide in chapters)

### From the Disaster Recovery Institute International (DRII):

[www.drii.org/DRII/ProfessionalPractices/Pro\\_06.aspx](http://www.drii.org/DRII/ProfessionalPractices/Pro_06.aspx) (Business Continuity Planning list for professionals)

### From Aon Reed Stenhouse:

The following two Aon PDFs can also be found at [www.aon.com/us/about/crisis.jsp](http://www.aon.com/us/about/crisis.jsp):

[www.aon.com/us/about/pdf/Managing\\_Your\\_Recovery\\_091405\\_130.pdf](http://www.aon.com/us/about/pdf/Managing_Your_Recovery_091405_130.pdf) (checklist for Business Continuity post-Katrina)

[www.aon.com/us/about/pdf/Managing\\_Your\\_Recovery\\_Practical\\_steps.pdf](http://www.aon.com/us/about/pdf/Managing_Your_Recovery_Practical_steps.pdf) (checklist part 2)