BANCO DE ESPAÑA
Eurosistema

Recommendations on business continuity[1]

The continuity of a business can be defined as the situation in which an entity's operations take place continuously and without interruption. However, extreme events[2] such as some of those seen in recent years (terrorist attacks, pandemics or natural disasters) evidence the risk of serious disturbances or interruptions in the operations of the financial sector and the need to mitigate their consequences, addressing the issue globally on a co-ordinated basis.

The Banco de España considers that managing business continuity should form part of the operational risk management of a credit institution. As with the management of any risk, it is necessary to set it in an overall framework including policies, strategies and procedures to ensure that certain operations, particularly the most critical ones, can be maintained or recovered as soon as possible in the event of a serious disruption of the system.

Although the scope and details may vary considerably from one credit institution to another depending on their characteristics and profile, the management of business continuity should include the following:

- Business impact analyses: These identify the operations and services that are "critical" for an institution, the main factors on which its continuity depends (both internal and external) and the appropriate levels of protection in different possible situations.

- Recovery strategy: This establishes the recovery objectives and priorities on the basis of the results of the business impact analysis. It should include, among other things, the "target service level" that an institution wishes to offer in the event of this type of problems, and the framework that will enable it to return to the initial situation.

- Business continuity plans: These are detailed guides for implementing the recovery strategy. They establish and assign functions, responsibilities and delegation of powers in a scenario in which an extreme event affects the key personnel of an institution. They also define the mechanisms for activating continuity plans.

[1] Report on Banking Supervision in Spain, 2006. Chapter 2.4.1, pages 94 to 97
[2] For these purposes, an extremely serious event can be defined as a large-scale, exogenous and sudden event that may have major deleterious effects.

- Testing programmes to check the effectiveness of the continuity plans that have been approved.

- Staff training and awareness programmes.

- Communication and crisis management programmes.

Against this background, the high-level principles of business continuity[3] published by the Joint Forum[4] provide an overarching framework in which to subsequently develop more detailed processes tailored to the characteristics of each country, sector or institution. Given that business continuity is a global issue, unsurprisingly its recommendations are directed not only at financial institutions in the broad sense of the term, but also at their supervisors. The report covers the following areas:

- *Obligations and responsibilities of the board of directors and senior management*: As with the management of any risk, ultimate responsibility for business continuity management rests with an institution's board of directors and senior management. All institutions and financial authorities should adopt an overall approach enabling effective business continuity management. The governing bodies should create and promote an organisational culture that places the necessary importance on ensuring business continuity.

  Business continuity management should form part of any institution's overall risk management programme and address not only technical aspects, but also the fact that employees, insofar as they may be directly or indirectly affected by an extreme event, may not be available following that event. An organisation's business continuity management should cover at least its most critical operations.

  It should be kept in mind that outsourcing business operations or services does not transfer the associated business continuity management responsibilities to the service provider.

  A framework should be implemented for reporting to the board and senior management on matters related to business continuity management, including implementation status, incident reports, action plans, etc.

  A financial institution's business continuity management should be reviewed by an independent party, such as internal or external audit, and the findings reported to the board and senior management on a timely basis.

  To avoid confusion in an operational disruption, an institution's business continuity management should clearly specify which senior managers would form part of the crisis

[3] Joint Forum: "High Level Principles for Business Continuity" (August 2006): http://www.bis.org/publ/joint17.pdf

[4] The Joint Forum was set up in 1996 under the auspices of the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to address matters relating to the supervision of so-called "financial conglomerates" and other cross-sectoral topics of interest to supervisors in the three sectors.

management team, their roles, responsibilities and authority to act, and who would replace them if necessary.

- *Risk of major operational disruptions*: Financial institutions and financial authorities should incorporate the risk of a major operational disruption into their approaches to business continuity management. Financial authorities' business continuity management also should address how they will respond to a major operational disruption that affects financial institutions or the financial system.

  Because access to the resources needed for the full recovery of their operations may be limited during a major operational disruption, financial institutions should identify through a business impact analysis those business functions and operations that are to be recovered on a priority basis and establish appropriate recovery objectives for those operations.

  Operational disruptions vary in intensity, scope and duration. Recent experience of various extreme events, however, has demonstrated that on occasions their consequences and impact can be very severe, not only for the domestic market, but also at times for the international market. In this connection, financial institutions should review the adequacy of their recovery plans, particularly with respect to its alternate site: this should be located sufficiently far away from the primary business location, should not depend on the same physical infrastructure components and should have the staff, information and technical resources needed to recover critical operations in the event that its primary offices are severely damaged or access to the affected area is restricted.

- *Recovery objectives and re-establishment of activity*: Financial institutions should develop recovery objectives that reflect and are proportionate to the risk they pose to the operation of the financial system. These objectives can be identified in consultation with the competent financial authorities.

  A financial institution's business continuity management should consider the risk that a disruption suffered by it may also affect the ability of other financial institutions – or even of the financial system as a whole – to continue their usual operations. For this purpose, recovery objectives should identify expected recovery levels and recovery times for each type of activity.

- *Internal and external communications*: To manage a crisis and maintain public confidence, an institution requires clear, regular communication. Financial institutions and financial authorities should include in their business continuity plans procedures for communicating within their organisations and with relevant external parties in the event of a major operational disruption.

  The ability to communicate effectively in the event of a major operational disruption is essential, not only initially (to gather information on the seriousness of the events and be in a position to take the necessary decisions), but also during the process of recovery of an organisation's operations, in order to be able to inform domestic and international interested parties of the progress made and to help maintain public confidence in the process. In this respect, institutions' business continuity plans should include communication protocols and procedures identifying, inter alia, the persons responsible for communication (both within and outside the organisation).

- *Cross-border communications*: Given the growing interdependencies among financial systems, the communication procedures of financial institutions and financial authorities also have to include procedures for communicating with financial authorities in other jurisdictions in the event of major operational disruptions with cross-border implications.

  A disruption in one country may have international repercussions and affect the operations of an institution in another country. To cope with this, communication protocols should address the possibility of contact with financial authorities in other countries and identify the officials at other financial authorities who should be involved in the action to be taken in response to operational disruptions.

- *Testing the effectiveness of plans and updating them*: Financial institutions and financial authorities should test their business continuity plans, evaluate their effectiveness and update their business continuity management, as appropriate.

  For business continuity management to be effective, it is necessary to periodically test the ability to recover critical operations as intended and to modify as needed the business continuity plan or other aspects of business continuity management. In addition, internal or external audit should assess the effectiveness and results of an organisation's testing programmes and report their findings to senior management and the board so that these can take the appropriate decisions. This practice also helps promote awareness of the importance of these matters among the institution's staff, particularly among those who may be assigned certain responsibilities in the event of a major operational disruption.

  Programmes to test the effectiveness of business continuity plans in alternate or back-up sites are particularly important in the case of those institutions that present risk to the financial system, although, in view of the substantial costs involved, the decision to undertake such programmes should be based on a cost-benefit analysis.

- *Review of business continuity plan management by financial authorities*: Financial authorities should incorporate business continuity management reviews into their programmes for assessing the financial institutions for which they are responsible.