



Prudential Practice Guide

LPG 232 – Business Continuity Management

March 2007

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About this guide

Prudential Standard LPS 232 Business Continuity Management (LPS 232) sets out APRA's requirements in relation to business continuity management (BCM) for life companies. This prudential practice guide aims to assist life companies in complying with those requirements and, more generally, to outline prudent practices in relation to BCM.

Subject to the requirements of LPS 232, life companies have the flexibility to configure their BCM in the way most suited to achieving their business objectives.

Not all of the practices outlined in this prudential practice guide will be relevant for every life company and some aspects may vary depending upon the size, complexity and risk profile of the life company.

The role of the Board and senior management

1. Although the Board of directors is ultimately responsible for BCM under LPS 232, APRA recognises that the Board will delegate certain functions. A Board may delegate the day to day responsibilities to management or a specialist and need not have a detailed knowledge of, or familiarity with, the particulars of the day to day management of BCM.¹

Business Continuity Management

2. Business continuity is generally defined as a state of continued, uninterrupted operations of a business. BCM is an approach taken across the whole of the business to ensure business continuity.
3. In order to adopt a whole of business approach, many of the processes embedded within a life company will need to consider BCM. For example, BCM may need to be considered in:
 - (a) the planning phase for new business acquisitions, joint ventures and major projects involving the introduction of new business processes and systems; and
 - (b) staff training, including those without specific BCM responsibilities, to ensure staff are aware of business continuity issues.
4. A consistent method of documenting the BCM will typically be implemented throughout the life company and have detailed input at the business unit level.
5. A centralised business continuity function may be of assistance to ensure that common standards and practices are in place across a life company or a corporate group.

Business Continuity Management Policy

6. The Business Continuity Management Policy (BCM Policy) required by LPS 232 is a high level strategic document outlining a regulated institution's objectives and approach in relation to BCM. The BCM Policy of a life company assists it in ensuring that critical business operations can be maintained or restored in the event of material disruptions and that the financial, legal, regulatory, reputational and other material consequences are minimised.
7. In many corporate groups it is common practice to develop and implement BCM across the group. Where this is the case, APRA expects that each life company will satisfy itself that the group BCM arrangements meet the life company's BCM Policy requirements.

Business Impact Analysis

8. Business Impact Analysis (BIA) is a dynamic process which involves identifying all critical business operations and assessing the impact of a disruption on these operations. It is used to help shape a Business Continuity Plan (BCP).
9. Typically, a BIA will be conducted at least annually, or more frequently where there have been significant operational changes or new or changed external factors that would alter the life company's BIA.
10. Components of a BIA will vary for each life company but APRA would ordinarily expect it to detail:
 - (a) the likelihood of a disruption scenario leading to short, medium or long-term disruption to critical business operations;
 - (b) particulars of the impact of a disruption to critical business operations, such as the revenue lost as a share of total revenue;

¹ Refer LPS 232.

- (c) the priority and timeframes assigned for the recovery of critical business operations; and
 - (d) the degree of difficulty, including the time taken, to restore the business activity or support function or implement alternate arrangements.
11. There are numerous disruption scenarios that may be encountered by a life company. Common scenarios include:
 - (a) loss of precinct;
 - (b) loss of building;
 - (c) denial of access to building for a limited time;
 - (d) loss of IT (data);
 - (e) loss of IT (voice);
 - (f) loss of vital (non-electronic) records;
 - (g) loss of key staff (temporary or permanent); and
 - (h) loss of key dependencies.
 12. In developing the BIA, critical interdependencies that are not within the life company's direct control will typically be identified and provided for within the scenario setting. This may include dependencies on utilities, third party service providers and key suppliers.

Recovery objectives and strategies

13. Recovery objectives are pre-defined goals for recovering specified critical business operations, to a specified level of service (recovery level) within a defined period (recovery time), following a disruption.
14. A recovery level is the target level of service that will be provided in respect of a specified business operation after a disruption. A life company may have a range of recovery levels for different business operations.
15. A recovery time is the target time taken to recover a specific business operation. A life company may divide recovery time as the duration:
 - (a) from the disruption to the activation of the BCP; and
 - (b) from the activation of the BCP to the recovery of the specific business operation.
16. A life company may have a range of strategies to meet the recovery objectives.
17. In assessing recovery objectives, a life company may also consider the effect of:
 - (a) the increased risk of failed transactions;
 - (b) liquidity dislocations;
 - (c) solvency problems; and
 - (d) loss of confidence that prolonged disruptions may cause.

Business Continuity Plan

18. The BCP facilitates the management of a disruption and the recovery of critical business operations. The ultimate objective of a BCP is the full restoration of a regulated institution's operations to the point where the institution is able to resume normal business operations. A life company's BCP will typically include business continuity procedures which enable it to meet immediate and long-term recovery strategies.
19. In developing its BCP, the life company may wish to sequence the recovery of operations according to their business impact, focusing first on critical operations.
20. In managing a disruption and recovering critical business operations, a life company's recovery strategies may consider the resources needed to run operations in the event that the primary operational site is unavailable. The resources, which may cover a wide range of things, include operational resources such as computer hardware and software, printers, faxes, telephones, standard stationery and forms. Additional resources may include suitably trained staff and relevant documentation such as insurance policies and contracts, up-to-date contact lists and copies of the BCP.

BCP responsibilities and authorities

21. A BCP would typically document specific responsibilities and authorities for:
 - (a) assessing the impact of the disruption;
 - (b) determining an appropriate response;
 - (c) implementing the communication plan;
 - (d) evacuating staff;
 - (e) activating an alternate site if required; and
 - (f) implementing recovery objectives.
 - (iii) the reliability of the shared capacity;
 - (f) whether the alternate site and the primary operational site share the same power grid, telecommunications network or other physical infrastructure;
 - (g) whether the alternate site has sufficient current data and the necessary equipment and systems to recover critical business operations for a sufficient period of time; and
 - (h) whether adequate transport is available to the alternate site.

Alternate site

22. An alternate site refers to a site used for the temporary resumption of critical business operations. This site may be an operational site owned by the life company or a disaster recovery site managed by the life company or a third party service provider.
23. In assessing the appropriateness of a particular alternate site, the following would typically be considered by the life company:
 - (a) the capacity of the alternate site;
 - (b) the timeframe over which the site could operate in a particular combined business continuity and operational mode;
 - (c) the distance between the alternate site and the primary operational site, in order to minimise the risk of both sites being unavailable simultaneously;
 - (d) whether an annual review and assessment of the capacity and adequacy of the alternate site has been conducted;
 - (e) where the alternate site has contracted arrangements with a third party:
 - (i) the likelihood of multiple simultaneous calls on shared resources at the alternate site;
 - (ii) the impact of multiple simultaneous calls, for example, on the dedicated and shared functional and seating capacity available; and
24. In order to minimise the risk of a primary operational and alternate site being impacted by a wide area disruption, APRA would normally expect that, if the primary site is in a central business district (CBD), the alternate site would be located outside it.
25. A life company may consider conducting staff training at the alternate site on a regular basis to ensure there are sufficient staff able to recover critical business operations in the event of a disruption.

Communication plan

26. A communication plan describes the information necessary for notifying key internal and external stakeholders if the BCP is invoked.² Examples of information that might be included in a communication plan are:
 - (a) the process for notifying APRA, as soon as possible and no later than 24 hours after experiencing a major disruption that has the potential to have a material impact on its risk profile, or to affect the life company's financial soundness, of the nature of the disruption, the action being taken, the likely effect and the timeframe for return to normal operations and when normal operations are resumed;
 - (b) identification of those responsible for communicating with staff and various external stakeholders;

² A reference to a communication plan can be individual or collective. A life company may have a number of plans.

- (c) a list of contact names, numbers and email addresses of, but not limited to, staff, regulators, customers, counterparties, service providers, market authorities and media;
- (d) out-of-hours numbers (including primary/alternate contacts) for all staff with BCP responsibility; and
- (e) the staff authorised to deal with the media.

27. Ordinarily, contact lists require review to ensure they remain up-to-date.

Outsourcing

28. *Prudential Standard LPS 231 Outsourcing* (LPS 231) defines outsourcing to involve a life company entering into an agreement with another party (including a related body corporate) to perform, on a continuing basis, a business activity which currently is, or could be, undertaken by the life company itself.³

29. Typically, a life company will have procedures in place to adapt the BCP in the event of any material outsourcing agreement which involves a change to business processes and systems.

30. While some life companies may rely upon third party service providers for components of their BCP, accountability for the BCP remains with the life company. It is important for life companies to recognise that, while outsourcing can be of significant benefit and may reduce some risks, it may also give rise to other risks.⁴

31. Alternative contingency arrangements may need to be considered for the event that the service provider is unable to provide the agreed services. This is particularly important where there is no capability of bringing the outsourced business function back in-house (in either the short or medium-term), or where an arrangement with an alternative service provider could not be implemented within an acceptably short time period.

Review and testing of the BCP

32. Testing of the BCP is required under LPS 232 and is considered essential to ensuring that the BCP is capable of meeting its objectives. A life company will typically document testing scenarios, objectives and procedures. Testing would ordinarily be overseen by senior management and involve all personnel with specific responsibility for BCM.

33. There are a range of test approaches available to a life company, including:

- (a) desk-top 'walk-throughs';
- (b) individual component testing (e.g. IT equipment);
- (c) testing from an alternate site; and
- (d) fully integrated tests covering the entire life company and third party service providers.

34. Areas of the BCP that are likely to require regular testing include:

- (a) staff evacuation procedures;
- (b) communication plans;
- (c) alternate site activation and capability;
- (d) data back up and recovery;
- (e) readiness of critical service providers;
- (f) physical and computer security; and
- (g) recovery of critical business operations.

³ For further information refer LPS 231.

⁴ Refer *Prudential Standard LPS 220 Risk Management* (LPS 220) and LPS 231.



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