Monetary Authority of Singapore

Response to feedback on
the Consultation paper on

# GUIDELINES ON BUSINESS CONTINUITY PLANNING

June 2003

This paper documents MAS' response to comments and feedback received on the 'Consultation Paper on Guidelines on Business Continuity Planning', issued 10 January 2003.

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# EXECUTIVE SUMMARY

In January 2003, MAS published a consultation paper outlining sound principles for Business Continuity Planning in response to requests from financial institutions[1] ("institutions") for guidance. The paper proposed seven principles and sought comments from financial sector participants and interested parties.

The consultation period closed on 10 February 2003. Appendix A provides the list of respondents. This paper summarises the comments received and sets out the MAS' response.

Respondents generally welcomed the proposals in the consultation paper. There was broad support from the institutions that MAS regulates as well as from local and overseas financial sector participants.

A number of respondents requested details on the required level and extent of compliance to the principles. MAS would like to reiterate that the guidelines are sound business continuity management principles and serve as standards that institutions are encouraged to adopt. MAS does not intend to prescribe in detail how institutions should conduct their business continuity efforts. They may adapt the guidelines as necessary, taking into account the diverse activities they engage in and the different markets in which they conduct transactions. Institutions should also read the guidelines in conjunction with relevant regulatory requirements and industry standards.

There were specific concerns over Principle 7, which advocated the practice of separation policy to mitigate concentration risk. Respondents were concerned over the cost and need to separate transaction operations and IT operations, and the need for intra-function separation. They have requested room for flexibility in implementation.

Principle 7 draws from the premise that in a disruption, institutions risk losing their ability to recover critical functions due to a significant loss of people or technology. While cost is an important consideration, institutions must determine the appropriate mitigating solution that best balances costs and the risk exposure following a disruption. In their deliberation, institutions are encouraged to be innovative and explore different avenues of mitigating concentration risk.

MAS thanks all the respondents for their submissions and comments. MAS will carefully consider them and amend the guidelines as necessary.

[1] This includes financial institutions that MAS regulates and financial utility providers. Financial utility providers are organisations that provide specialised financial services such as cheque clearing and settlement.

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# 1.0 GENERAL RESPONSES

## 1.1 INTRODUCTION

1.1.1 There were 79 submissions to the consultation paper. MAS received 24 submissions from the banking sector, 17 from the insurance sector, 29 from Capital Market Services Licensees and Financial Advisors, 2 from financial utilities and 7 from interested parties both locally and overseas.

## 1.2 PREFERENCE FOR "BUSINESS CONTINUITY MANAGEMENT"

1.2.1 A number of respondents commented that as the scope and breadth of business continuity goes beyond the planning component and is part of the holistic management process, Business Continuity Management ("BCM") may be a more appropriate phrase than Business Continuity Planning, to describe the discipline and processes in managing business continuity.

***MAS' Response***

MAS welcomes the suggestion and agrees that the management and business operation of any institution should integrate business continuity as an ongoing discipline. BCM is the manifesto of this management discipline and process. The Business Continuity Plan[2] ("BCP") continues to be an important tangible element of BCM.

## 1.3 IMPLEMENTATION TIMELINE

1.3.1 Respondents requested that as institutions are at different stages of their BCM programme, they should have the flexibility to determine an appropriate implementation timeline.

[2] A plan of action that sets out the procedures and establishes the processes and systems necessary to restore the orderly and expeditious operation of the institution in the event of disruptions to the operations of the institution.

***MAS' Response***

MAS is cognisant of the fact that the development and implementation of an appropriate BCM framework may be a rigorous process, involving time and resources. While, MAS acknowledges the difficulties in immediately implementing a BCM, the guidelines help institutions recognise that it is in their best interest to establish such a framework. As a start, institutions should consider developing a BCP as soon as possible, if it is not already in place.

## 1.4 INSTITUTIONS COMPLIANCE WITH THE BCM GUIDELINES

1.4.1 A number of respondents concurred with the approach of sharing sound principles instead of prescribing details as to how institutions should conduct their BCM. However, a few respondents still sought clarifications on the level and extent of compliance required.

***MAS' Response***

MAS would like to reiterate that the guidelines are a statement of sound principles and serve as standards that institutions are encouraged to adopt and work toward as appropriate.

Institutions are encouraged to accept and adopt the sound principles. MAS recognises that in responding to the guidelines, institutions will need to take into account the diverse activities they engage in and the different markets in which they conduct transactions.

MAS, in the course of its supervision, will review the BCP in place and engage the institution in dialogue to understand their BCM and risk mitigating strategies. An important consideration would be the ability of the institution to cope with operational disruptions and fulfil its obligations to customers and counterparties following a disruption.

## 1.5 ROLES OF INDUSTRY ASSOCIATIONS

1.5.1 A number of respondents commented that industry associations have an important role to play in BCM efforts such as facilitating industry-wide tests and coordinating industry efforts in approaching key service providers. They commented that the cost of such efforts should not be borne by member institutions.

***MAS' Response***

MAS supports the recommendation that industry associations play a role in BCM. MAS will engage in discussions with relevant industry associations on the comments received.

## 1.6 SIGNIFICANTLY IMPORTANT INSTITUTIONS

1.6.1 A number of respondents noted that as Significantly Important Institutions ("SII") are required to align closer with the guidelines, they sought clarifications on the criteria for identifying SII. Some suggested transaction volumes could be a basis for the criteria.

***MAS' Response***

Due to the interdependent nature of the financial system, institutions may have differing recovery expectations of each other and of the industry. Some institutions are expected to maintain a higher state of business continuity preparedness because of the extent to which other institutions depend on them to fulfil their obligations.

A few of such institutions are depended on by the financial industry to the degree that their failure to recover from operational disruption may contribute towards the amplification of systemic risk. For the purpose of the guidelines, such institutions are collectively referred to as Significantly Important Institutions ("SII").

The criteria for determining SII would naturally change according to industry and financial markets dynamics. They are likely to vary within and between industry sectors and more importantly, change over time. MAS encourages institutions to focus on having an appropriate BCM in place that is commensurate with the nature, size, complexity of their businesses.

MAS will, in the course of its supervision, be in contact with those institutions regarded by MAS as SII and will discuss with them their adherence to the guidelines. In the meantime, institutions are encouraged to accept and adopt each of the sound principles, and adapt them to their unique circumstances.

Ultimately, the responsibility for business continuity preparedness and recovery following operational disruptions rests with institutions.

# 2.0 SPECIFIC REPONSES

## 2.1 PRINCIPLE 1: BOARD AND MANAGEMENT SHOULD TAKE RESPONSIBILITY FOR THE BCP PREPAREDNESS OF THEIR INSTITUTION.

2.1.1 There was overwhelming support for annual management attestation. Some respondents commented that attestation is the most appropriate approach to ascertain the state of readiness of an institution while others indicated it is another aspect of internal risk controls that the institution should incorporate into the regular risk review process. Some respondents recommended that endorsement by internal audit or attestations by key upstream and downstream counterparties that the institution has dealings with would provide further assurances to management.

2.1.2 There were mixed reactions to the need to include residual risk in the attestation. Some commented that such a statement would help clarify strategic assumptions made and highlight interdependencies within an institution, while others commented that it would not be meaningful to reflect residual risk as they are unlikely to be material and that such information may compromise security.

2.1.3 A few respondents sought clarification on whether it was mandatory to disclose the attestation to customers and counterparties. Some suggested sharing BCM information instead of releasing a formal attestation.

***MAS' Response***

MAS welcomes the support for annual management attestation.

Principle 1 advocates that both senior management and the Board of directors have ultimate responsibility for the business continuity preparedness of their institution. Senior management has the responsibility to steer BCM and establish the policies, strategies, and procedures necessary for the continuation of business functions within their institution. The attestation is an internal document to the Board of directors[3]. Senior management should determine the form that best provides them the level of comfort and the need for further assurance

However, institutions are responsible for determining and decide on the necessary disclosure of the attestation to customers and counterparties. The disclosure of residual risk is also encouraged in the attestation.

[3] For overseas incorporated institutions in Singapore, the attestation should be addressed to the relevant function responsible for BCM at Group/Global level.

## 2.2 PRINCIPLE 2: INSTITUTIONS SHOULD EMBED BCP INTO THEIR BUSINESS–AS-USUAL OPERATIONS, INCORPORATING SOUND PRACTICES.

2.2.1 Most respondents agreed that BCM is about management prudence that aims to effectively balance risk exposures and costs. While cost is an issue to some institutions, others mentioned that there are activities such as good planning, role-playing and scenario analysis that help build awareness and enhance responses to emergency situations without incurring substantial cost. Respondents noted that the integration of risk identification and business impact analysis with cost-benefit analysis forms the basis for risk-focused BCM and potentially lead to more mature and effective plans, strategies, and solutions.

2.2.2 One respondent mentioned that the cost of BCM implementation is more an investment in management prudence and good corporate governance than an insurance against disruptions.

***MAS' Response***

MAS welcomes the support for Principle 2.

## 2.3 PRINCIPLE 3: INSTITUTIONS SHOULD TEST THEIR BCP REGULARLY, COMPLETELY AND MEANINGFULLY.

2.3.1 A majority of the respondents commented that an annual test is adequate. Some suggested conducting different types of tests at different intervals (e.g. call tree tests could be conducted quarterly) because full-blown institution-wide testing would require significant resources and might adversely affect daily operations.

***MAS' Response***

MAS encourages institutions to carry out different types of tests. Taking into consideration the criticality of the business function, the complexities and resources required, institutions could conduct tests in modules and at different but regular intervals.

MAS also encourages institution-wide tests as it offers a different perspective from that of a modular test. Institutions should progressively make their tests more challenging and explore different scenarios each time they conduct the same type of test.

Ultimately, institutions have to satisfy themselves that such tests and exercises contribute meaningfully towards enhancing their preparedness against disruptions.

2.3.2 Some respondents commented that a 'BCP test' inherently implies a pass or fail conclusion while 'BCP exercise' may be a better phrase to describe a designed programme that aims to familiarise staff with the resources and procedures of an implemented BCP.

***MAS' Response***

Depending on the circumstances both terminologies may be appropriate and applicable.

## 2.4 PRINCIPLE 4: INSTITUTIONS SHOULD DEVELOP RECOVERY STRATEGIES AND SET RECOVERY TIME OBJECTIVES FOR CRITICAL BUSINESS FUNCTIONS.

2.4.1 Respondents generally agreed with the principle and requested flexibility in determining their appropriate recovery time objectives. Some commented that industry associations should establish recovery time objectives applicable to their member institutions.

***MAS' Response***

Institutions are responsible for determining their critical business functions and the corresponding recovery strategies and recovery time objectives that are commensurate with the criticality of the business function as well as the size and nature of operations.

The transparency and sharing of recovery time objectives would help improve service level expectations and understanding among institutions and further mitigate interdependency risk (Principle 5). The involvement of industry associations would help in this process.

## 2.5 PRINCIPLE 5: INSTITUTIONS SHOULD UNDERSTAND AND APPROPRIATELY MITIGATE INTERDEPENDENCY RISKS OF CRITICAL BUSINESS FUNCTIONS.

2.5.1 Several respondents called for more transparency and assurances from key external service providers, as well as a demonstration or attestation of the robustness and preparedness of their BCM.

2.5.2 Most respondents indicated that in dealing with common key service providers, an industry approach may be more effective in addressing interdependency risks while others commented that both the individual institution and industry approaches should be considered.

***MAS' Response***

As stated in the consultation paper, MAS encourages institutions to proactively seek assurances from their key service providers. Institutions have to decide for themselves the form of assurance that best provides them with an adequate level of comfort when engaging a particular service provider as no one-method can satisfactorily apply across all institutions and circumstances. MAS does not intend to dictate the form of assurance that institutions should seek.

In addition, industry associations, as a collective group of institutions, could also lend a "larger voice" to help address such concerns. MAS recognises the merits of both approaches. It is the responsibility of the institutions to consider all approaches and take reasonable steps to ensure that their key service providers are capable of supporting their businesses, even in disruptions.

2.5.3 A number of respondents commented that it would be difficult to mitigate the risk of unexpected termination or liquidation of external service providers. However, they acknowledged the importance of monitoring the financial status of the service provider and gathering market intelligence to discern early warning signs of potential problems.

***MAS' Response***

Although it may be difficult, it is in the best interest of the institutions to mitigate the risk of unexpected termination or liquidation of key service providers that the critical business function depends upon.

Institutions have the responsibility to balance the risk and cost trade-offs, address the risks adequately and take reasonable steps that are commensurate with the criticality of the business function as well as the size and nature of operations. Ultimately, the risk of interdependency lies with institutions and cannot be "assumed" away.

## 2.6 PRINCIPLE 6: INSTITUTIONS SHOULD PLAN FOR WIDE-AREA (ZONAL) DISRUPTIONS.

2.6.1 There was no objection to the principle. Respondents requested further clarification on the definition of a zone[4] with some commenting that the size of the zone would vary with the type of the scenario under consideration. The majority considered two kilometres (2 km) to be a reasonable distance to define a zone while a minority questioned the need to specify a distance to define a zone.

***<u>MAS' Response</u>***

Due to a number of factors such as the differing size and complexity of business operations across all institutions in Singapore, it would not be appropriate nor practical to standardise on a criteria that defines a zone that could be applied equally across the financial sector.

MAS looks to institutions to demonstrate that they have planned and catered for wide-area disruptions in their BCM. Some planning parameters that institutions may consider are the geographical concentration of institutions, transactional processing activities, and dependencies on internal or external service providers.

[4] Specifically, respondents requested for clarifications on the definition of a zonal disaster, zone segregation, distance between zones, and whether it only applies to the Central Business District.

## 2.7 PRINCIPLE 7: INSTITUTIONS SHOULD PRACTISE SEPARATION POLICY TO MITIGATE CONCENTRATION RISK.

2.7.1 Respondents acknowledged that the practice of separation policy would mitigate concentration risk. In particular, they supported the need to separate primary and recovery sites.

2.7.2 However, respondents also raised concerns over the cost and need to separate transaction operations and IT operations, and the need for intra-function separation. They have requested room for flexibility in implementation.

***MAS' Response***

Institutions should strike a balance between mitigating concentration risk and not losing the efficiencies gained from the centralisation of business processes and critical staff. This principle draws from the premise that institutions risk losing their ability to recover critical functions due to a significant loss of staff or technology in a disruption.

While cost is an important consideration, institutions should design and determine the most appropriate approach, or combination of approaches that best balances cost and risk exposure that provides an adequate level of comfort and assurance. They are encouraged to be innovative and explore different avenues of mitigating concentration risk.

The principle does not intend to prescribe a policy for mitigating concentration risk. MAS will revise the guidelines to further reflect this intent.

# APPENDIX A – LIST OF RESPONDENTS

| | |
|---|---|
| **Commercial Banks** | ABN AMRO Bank N.V |
| | ABSA Bank Ltd |
| | Citibank N.A. |
| | Credit Suisse First Boston |
| | Deutsche Bank AG |
| | Dresdner Bank AG |
| | Indian Overseas Bank |
| | JP Morgan Chase Bank |
| | Mizuho Corporate Bank Ltd |
| | National Bank of Kuwait SAK |
| | Norddeutsche Landesbank Girozentrale |
| | Oversea-Chinese Banking Corporation Ltd |
| | Royal Bank of Canada |
| | Skandinaviska Enskilda Banken AB(publ) |
| | Societe Generale |
| | Southern Bank Berhad |
| | The Bank of Tokyo-Mitsubishi Ltd |
| | The Development Bank of Singapore Ltd |
| | The Hongkong and Shanghai Banking Corporation Ltd |
| | The Northern Trust Company, |
| | UBS AG |
| | UCO Bank |
| | United Overseas Bank Ltd |
| **Merchant Banks** | Royal Bank of Canada (Asia) Ltd |
| **Insurance Companies** | ACE Insurance Ltd |
| | Allianz Insurance Company of Singapore Pte Ltd |
| | American Home Assurance Co |
| | AVIVA Ltd |
| | AXA Life Insurance Singapore Pte Ltd |
| | China Insurance Co (Singapore) Pte Ltd |
| | Everest Reinsurance Company |
| | Manulife (Singapore) Pte Ltd |
| | Muenchener Rueckversicherungs Gesellschaft |
| | Overseas Assurance Corporation Ltd |
| | Overseas Union Insurance Ltd |
| | QBE Insurance International Ltd |
| | Royal & Sun Alliance Insurance (Singapore) Ltd |

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| | Sompo Japan Insurance Company (Asia) Pte Ltd<br>Tenet Insurance Company Ltd<br>The Asia Insurance Company Ltd<br>The Great Eastern Life Assurance Co Ltd |
| **Capital Market Services Licensees** | 3i Investment PLC<br>AIG Investment Corporation (S) Ltd<br>Alliance Capital Management (S) Ltd<br>Barclays Capital Asia Ltd<br>Credit Suisse First Boston (S'pore) Securities Pte Ltd<br>DBS Asset Management Ltd<br>DBS Vickers Securities (Singapore) Pte Ltd<br>Deutsche Asset Management (Asia) Ltd<br>Deutsche Securities Asia Ltd<br>G.K. Goh Stockbrokers Pte Ltd<br>Goldman Sachs (S) Pte<br>Henderson Global Investors (S) Ltd<br>Kim Eng Ong Asia Securities Pte Ltd<br>Lehman Brothers Pte Ltd<br>Lim and Tan Securities Pte Ltd<br>Man Financial (S) Pte Ltd<br>Morgan Stanley Dean Witter Asia (S) Pte<br>OCBC Securities Pte Ltd<br>Phillip Capital Management (S) Ltd<br>Phillip Securities Pte Ltd<br>Pictet Singapore Pte Ltd<br>Prudential Asset Management (S) Ltd<br>Refco (Singapore) Pte Ltd<br>Salomon Smith Barney Singapore Securities Pte Ltd<br>Schroder Investment Management (S) Ltd<br>UOB Bullion and Futures Ltd<br>UOB Kay Hian Pte Ltd<br>Wellington Int'l Management Co P L |
| **Financial Advisers** | EFG Financial Advisory Pte Ltd |
| **Financial Industry Associations** | Life Insurance Association<br>Securities Association of Singapore |
| **Financial Utilities** | Banking Computer Services Pte Ltd<br>Network for Electronic Transfers (S) Pte Ltd |

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|---|---|
| **Interested Parties** | BearingPoint<br>DRI Asia<br>Infineon Technologies Asia Pacific<br>PricewaterhouseCoopers<br>The Business Continuity Institute<br>Two individuals (Australia and the UK) |