FINANCIAL SERVICES AUTHORITY

**SAINT VINCENT & THE GRENADINES**

**GUIDANCE NOTE: NO. 8**

**On**

# Business Continuity Management for Insurance Companies

**Issued: December 11, 2019**

## INTRODUCTION

The conduct of insurance business in St. Vincent & the Grenadines is regulated under the Insurance Act, Chapter 306 of the Laws of Saint Vincent and the Grenadines, Revised Edition 2009 ("the Act"). Regulation and supervision of insurance business is conducted by the Financial Services Authority ("FSA"), acting under the authority of the FSA Act, Act No. 33 of 2011. Additionally, the FSA has the duty, in collaboration with insurance companies, to promote and maintain high standards of conduct and management in the provision of insurance services.

Insurance companies can face operating disruptions that can occur with or without warning and the results may be predictable or unknown. Failure on the part of insurance companies to quickly recover after a disruption is therefore crucial in maintaining confidence in these entities and the financial system as a whole. This may also compromise their business obligations, which may result in significant financial losses and potentially lead to a contagion effect on the financial system.

These Guidelines outline essential principles that the FSA will use as a benchmark in assessing the adequacy of an insurer's Business Continuity Plan. ("BCP"). The FSA encourages all insurers to develop and implement workable and effective BCPs to ensure that specified operations can be maintained and recovered in a timely manner in the event of a disruption, consistent with the nature, scale and complexity of business activities. Additionally, BCPs are by their nature dynamic, evolving and changing as circumstances dictate and therefore, should be updated regularly.

## PURPOSE

The purpose of these Guidelines is to ensure that an insurer has an effective business continuity management framework capable of identifying, assessing, managing, mitigating and reporting on potential business continuity risks to ensure that the insurer is able to meet its financial and service obligations to its policyholders, depositors and other creditors.

## SCOPE OF APPLICATION

These Guidelines apply to all insurance companies operating in the State. The Guidelines are not intended to be prescriptive, nor do their broad applicability suggest a "one-size-fits-all" approach to business continuity. An insurer's BCP should be flexible, proportionate to its operational risks and tailored to the nature, size, scale, scope of its operations and complexity of its business activities.

In the case of an insurer that is a branch of a foreign insurer, the head office's BCP will suffice, in so far as the plan makes adequate provisions in line with these Guidelines for the insurer's local operations. In the case of an insurer that is a subsidiary of an insurance group subject to consolidated supervision, the group's BCP will suffice, providing that the plan makes adequate provisions in line with these Guidelines for the insurer's local operations. Where an insurer is operating through an agency, the Agency will be required to develop its own BCP consistent with

these Guidelines. However, where the Agency is part of a group, the Group's BCP will suffice, if the plan makes adequate provisions in line with these Guidelines for the insurance operations.

## DEFINITIONS

"***Business Continuity Management***" is a holistic framework that identifies potential threats to an insurer and the impacts to business operations that those threats, if realized, might cause;

"***Business Impact Analysis***" is a systematic process to determine and evaluate the potential effects of an interruption to critical business operations as a result of a disaster, accident or emergency;

"***Control Functions***" means those functions that have a responsibility distinct from management to provide objective assessment, reporting and/or assurance. This includes the risk management, compliance, actuarial and internal audit functions;

"***Business Continuity Plan***" means a plan to help ensure that business processes can continue during a time of emergency or disaster;

"***Recovery Strategy***" means a methodology chosen by an insurer to restore its critical operation and systems to their normal status following a disruption to business;

"***Risk Assessment***" means the identification, evaluation, and estimation of the levels of risk involved in a situation, their comparison against benchmarks or standards, and determination of an acceptable level of risk;

***"Risk Evaluation"*** means the process of determining acceptable risk; and

***"Risk Management"*** means the processes established to ensure that all material risks of the insurer are identified, measured, limited, controlled, mitigated and reported on a timely and comprehensive basis.

## BUSINESS CONTINUITY MANAGEMENT

Business Continuity Management ("BCM") is a holistic framework that identifies potential threats to an insurer and the impacts to business operations that those threats, if realized, might cause. It includes policies, procedures and standards that provide for the continuous functioning of an institution during operational disruptions. The objective of the BCM is to ensure the timely resumption and delivery of essential business activities in the event of a major disruption, by maintaining the key business resources required to support delivery of those activities. The primary output of the BCM process is a Business Continuity Plan ("BCP"), which is a plan for mitigating some of the institution's risks.

## RISK MANAGEMENT-BOARD AND SENIOR MANAGEMENT RESPONSIBILITY

Business continuity is an element within the wider context of Risk Management. Risk Management is the practice of systematically identifying, understanding and managing risks encountered by an insurer. The Board of Directors of an insurer ("the Board") is ultimately responsible for risk management and subsequently the BCP and effectiveness of the same. The

Board is also responsible for endorsing policies and procedures developed by senior management for business continuity management.

A structured, systematic approach to risk management will enable insurers to develop a thorough understanding of the risk issues that may prevent the achievement of goals and objectives. As part of this process, the insurer should define its essential functions and key dependencies and also clearly identify those risks which may potentially result in interruption to its service.

An insurer's senior management has the responsibility for:

(a) developing the BCP and ensuring that sufficient resources are allocated to implementing the plan;
(b) ensuring that the necessary administrative support functions in the recovery effort, such as human resource, legal, security etc., are in place:
(c) ensuring that all levels of staff are cognizant of the importance of the BCP and the role it plays in ensuring the continuity of operations; and
(d) ensuring that employees responsible for managing the BCP are adequately trained and aware of their responsibilities.

An effective BCM goes beyond the construction of a BCP. It is a proactive process and may require a fundamental cultural change within the organisation. Insurers should therefore strive to build an organisational culture that embeds BCM as part of their "business-as-usual" operations and day-to-day risk management.

As part of the Corporate Governance framework, senior management should report to the board on matters relating to business continuity such as recovery strategies, incident reports, testing etc.

## COMPONENTS OF A BUSINESS CONTINUTY PLAN

A BCP is a comprehensive written plan of action that sets out the procedures and establishes the processes and systems necessary to continue or restore the operation of an organisation in the event of a disaster or major operational disruption. The BCP provides detailed guidance for implementing the recovery plan and outlines the roles and responsibilities in managing operational disruptions. It also defines triggers for activating insurers' BCPs and establishes business resumption teams for each core business process. An effective BCP should set out the decision-making authority in the event of an operational disruption and provide clear guidance regarding the succession of authority under those circumstances. BCPs should also be flexible to address a broad range of potential disruptions.

Insurers should conduct business continuity planning on an enterprise-wide basis. In enterprise-wide business continuity planning, an insurer considers every critical aspect of its business in creating a plan for how it will respond to disruptions. It is not limited to the restoration of information technology systems and services, or data maintained in electronic form, since such actions, by themselves, cannot always put an institution back in business. Without a BCP that considers every critical business unit, an insurer may not be able to resume serving its customers at acceptable levels.

There are three stages to creating a business continuity plan:

i. Conduct a risk assessment and an analysis of the impact on the business in order to determine the magnitude of the exposure to threats;
ii. Develop and document the business continuity plan; and
iii. Test, approve, and implement the business continuity plan. This stage includes updating the business continuity plan on an ongoing basis to meet the changing demands of the business.

| **Stages** | **Objective** |
|---|---|
| **I. Risk Assessment** | |
| 1. Risk Evaluation | ➢ Identify critical business functions essential for continued service.<br>➢ Determine events that can adversely affect your company, the damage that such events can cause and the controls needed to prevent or minimize the effects of a potential loss. |
| 2. Business Impact Analysis | ➢ Identify the impacts that result from disruption which can affect the company and the techniques that can be used to quantify and qualify such impacts.<br>➢ Prioritise critical business functions. |
| **II. Develop and Document Business Continuity Plan** | |
| 1. Develop Recovery Strategy | ➢ Determine and guide the selection of alternative recovery operating strategies to be used to maintain the critical functions. |
| 2. Document Plan | ➢ Organise and document a written plan. Senior management should review and approve the proposed plan. |
| **III. Test, approve and Implement Business Continuity Plan** | |
| 1. Test Plan | ➢ Develop testing criteria and procedures. Coordinate, test and evaluate the plan. Document the results. |
| 2. Approve and Implement Plan | ➢ Obtain senior management's endorsement of the plan. |
| 3. Maintain Plan | ➢ Develop processes to keep the plan up-to-date with reviews and tests completed at a minimum of 12-month intervals.<br>➢ Ensure the plan is in line with the strategic direction of the company. |

This framework should be adopted regardless of the size of the institution. Business continuity planning should focus on all critical business functions that need to be recovered to resume operations. Continuity planning for technology alone, should no longer be the primary focus of a BCP, but rather viewed as one critical aspect of the enterprise-wide process.

While smaller, less complex insurers generally do not need the same level of planning, they are expected to fulfill their responsibility by developing an appropriate BCP and periodically conducting adequate tests.

## I. Risk Assessment

### 1. Risk Evaluation- Identify Critical Business Functions

This part of the process is aimed at identifying those processes and functions that are critical to the operation of the insurer; the speed at which the impact of their loss will be felt and within what time-scale.

Critical business operations are generally those which do not have scheduling flexibility. Initially, entire departments or operational areas may not be needed. These departments may however become critical depending on the duration of the emergency. Therefore, the time-frame for when a function becomes critical, should also be considered. It may be useful to allocate to each operation a time-frame within which the impact would begin to be felt: for example, this may be within 4 hours, within 24 hours, or within 1 week. When planning it will help to list the critical functions and managers or employees responsible for each function

The following should be reflected in the critical business section of the BCP:

- Identify the position(s) and employee(s) responsible for critical functions;
- List the employees' home and mobile numbers and address in case mail is necessary;
- List the resources needed for each critical function. Consider the minimum necessary for continued operations;
- Identify any variances in the time of year for critical functions;
- Identify any variances in resource needs;
- List alternate sites for a complete loss of service, include: space needed and contact for alternate site (home and mobile numbers);
- Document the means for relocating personnel safely;
- Identify how equipment will be relocated;
- Document who is responsible for relocation logistics; include their home and mobile numbers; and
- Document alternative (back-up) methods for relocating people and equipment. Plan to use the minimum number of people and equipment for restoring critical business functions. Include the "alternate" person for logistical responsibility.

### 2. Business Impact Analysis

Business impact analysis (BIA) is a systematic process to determine and evaluate the potential effects of an interruption to critical business operations as a result of a disaster, accident or emergency. A BIA is an essential component of an insurer's business continuity plan; it includes an exploratory component to reveal any vulnerabilities and a planning component to develop strategies for minimizing risk. The result is a business impact analysis report, which describes the potential risks specific to the organization studied. One of the basic assumptions behind BIA is that every component of the organization is reliant upon the continued functioning

of every other component, but that some are more crucial than others and require a greater allocation of funds in the wake of a disaster. Also, the importance of some functions will vary depending upon when the disaster occurs. For example, accounting and tax-related functions are generally tied to statutory and regulatory deadlines etc.

## II. Develop and Document Business Continuity Plan

### 1. Develop Recovery Strategy

The previous work would have identified the organisation of the business, the risks facing it and the potential damage to the business. Management must decide on which level of risk is acceptable to the business as this will help determine the actions to be taken and how the BCP will be developed. The main purpose of the BCP is to reduce the likelihood and/or impact of a disaster to a more acceptable level so as to reduce the exposure of the business as far as reasonably practicable and lessen the likely consequential effects. The BCP should then detail the manner in which the remaining risks will be managed.

The insurer will need to develop its recovery strategy by:

- Identifying communication channels;
- Identifying necessary resources;
- Identifying the disaster decision-making team;
- Conducting disaster assessment; and
- Creating accelerated access plan.

### 2. Document the Plan

Poorly written plans are difficult to use, quickly outdated, and can be extremely frustrating. Well-written plans reduce the time required to read and understand the procedures and therefore, result in a better chance of success if the plan has to be used. Well-written plans are brief and to the point. The exercise of drafting the plan should be departmental-driven. The department managers need to determine what their critical functions are, and who the people are that are needed to perform those functions.

## III. Test, approve and Implement Business Continuity Plan

### 1. Test Plan

An insurer should develop testing criteria and procedures. Procedures to test the BCP should be documented. A BCP is a "living" document; changing in concert with changes in the business activities it supports. An insurer must review and test its BCP at least annually, or more frequently if there are material changes to business operations, to ensure that the BCP can meet the BCM objectives. This is essential for ensuring that the insurer's plan is current, fully functional and addresses the current operational processes and procedures. Software applications are commercially available to assist the BCP coordinator in identifying and tracking these organizational changes so that the BCP can be updated. The plan should be updated to correct any problems identified during the test.

2. **Approve and Implement Plan**

Once the BCP has been written and tested, the plan should be approved by the Board. It is the Board's ultimate responsibility that the insurer has a documented and tested plan.

3. **Maintain Plan**

All such organizational changes should be analyzed to determine how they may affect the existing continuity plan, and what revisions to the plan may be necessary to accommodate these changes. It is expected that BCP updates will be documented to show that the plan reflects the institution, as it currently exists. Lastly, the insurer should ensure that the revised BCP is distributed throughout the organization.

The results of the testing must be formally reported to the Board or to delegated management.

## AUDIT AND INDEPENDENT REVIEWS

The audit department or other qualified, independent party should review the adequacy of the business continuity process to ensure the Board's expectations are met. This review should include assessing the adequacy of business process identification, threat scenario development, business impact analysis and risk assessments, the written plan, testing scenarios and schedules, and communication of test results and recommendations to the board. In order to discharge these responsibilities, the audit department or other independent party should directly observe tests of the BCP. The Board should receive and carefully review audit reports on the effectiveness of the institution's process that identify any areas of weakness.

## COMMENCEMENT

**This Guidance Note shall come into effect this 1st day of January, 2020.**

Issued by:

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