



Financial Services Authority

Resilience Benchmarking – Insurance Sector

April 2010

Contents

	Executive summary	3
1	Background	5
2	Survey findings	6
3	Follow up	10

Executive summary

The UK insurance industry contributes significantly to the economy. It is essential to individuals and businesses who wish to manage risks and recover losses in the face of the unexpected. Therefore, the sector's resilience and recovery capability in the event of a major operational disruption (such as a terrorist attack, severe weather or a flu pandemic) is vital.

The Resilience Benchmarking Survey for the insurance sector was developed to provide an initial assessment of how prepared the insurance sector is for disruptions such as these. It sought to address three main questions:

- How resilient would the insurance sector be if faced with a major operational disruption?
- How quickly could it recover?
- What needs to be done to improve its resilience?

High level findings

Firms appear to be making good preparations in some areas, such as providing for staff welfare during a disruption, and in the level of testing carried out. However, the survey also highlighted several key areas which insurance firms should pay particular attention to, and consider whether they need to make improvements.

- **Recovery timeframes**
Firms should review whether their current recovery capability for critical processes is consistent with their business obligations. If necessary, firms should make changes to reduce recovery timeframes, so the effects of a major disruption on their business are minimised.
- **Risk assessments**
Firms must ensure they regularly carry out detailed risk assessments and impact assessments, taking into account the nature and complexity of the firm's business. We anticipate most firms will conduct this at least annually or when there is a change in normal operations.

- **Third party involvement**
Firms need to collaborate with third parties (e.g. service providers, neighbouring businesses, emergency services and local authorities) especially regarding planning and testing. Firms should aim to increase interaction with third parties (e.g. arrange formal meetings with providers to plan their communications network's resilience) and carry out joint testing where possible.
- **Outsourcing**
Firms that outsource critical activities must ensure they include formal business continuity requirements in contracts to oversee suppliers' continuity arrangements.
- **Third party providers**
Firms relying heavily on third party providers of business continuity sites should consider how they would be affected if there was a multiple invocation of syndicated space. They must ensure their arrangements are transparent.
- **Security**
Firms should ensure they have robust vetting procedures on all personnel, including contractors as part of their business as usual staff management. This includes checking references and carrying out background security checks. Firms should be aware that any weaknesses in this area could undermine measures they may have otherwise established, leaving them vulnerable to an insider threat.
- **Funding**
At a time when many firms are facing financial pressures, it is important that sufficient funds are available to the crisis management team, allowing them to meet all their objectives.

Follow-up action

Supervisors will discuss the individual results of the survey with participating firms. More generally, firms are encouraged to use this report to review the areas highlighted and make any necessary changes so they are satisfied with their internal plans and procedures, and the resilience and recovery capability of their firm.

1 Background

The Resilience Benchmarking Survey for the insurance sector follows the 2005 and 2008 benchmarking surveys, which were mainly targeted at banks and financial sector infrastructure providers. In 2009 we were approached by several insurers interested in using our Resilience Benchmarking Survey tool and as a result, and in consultation with members of the insurance sector, with strong support from the Association of British Insurers, we developed this specific survey for the insurance sector.

Nineteen firms took part in the survey¹ representing approximately 40% of total net written insurance premiums in the UK. While this sample's findings do not necessarily represent the insurance sector's preparedness as a whole, we believe they give an indication of the key issues facing the sector concerning building resilience, and its overall preparedness in responding to a major operational disruption.

¹ Ten of the firms are major general insurance firms; seven are major life insurance firms and five do both. Nine firms also offer commercial insurance. The reinsurance sector was also represented. *(Based on the ABI rankings of the top 20 General and Life insurers by total net written premium in 2008.)*

2 Survey findings

Key areas of focus for firms

We have summarised below the main areas that firms should review to see if their current resilience and recovery capabilities fully meet their business needs.

i) Recovery timings

One theme that emerged from the survey was the contrast in the insurance sector's recovery timeframes compared with firms that took part in previous surveys:

- a) **Critical processes recovery:** seven firms (39%) reported they could restore over 90% of critical processes between one and three working days. In the 2008 survey, virtually all financial infrastructure providers, 86% of wholesale payment firms and 75% of trade clearing and settlement firms said they could restore 81–100% of normal volumes capacity by the close of the same business day.
- b) **Technical recovery:** seven firms (39%) reported they could recover all critical IT systems within 24 hours (compared to 85% in 2008). The results showed the need for more comprehensive planning in this area by firms (e.g. how to move IT operations back onsite after recovery and prioritising IT recovery in line with business conditions). It also showed that firms needed to collaborate more with recovery site providers.

To a degree the difference in recovery targets is likely to reflect the different lines of business of the participating firms. Nonetheless, insurance firms must review whether their current recovery capability is consistent with their business obligations.

ii) Approach to planning

Overall, the survey showed that a more robust and rigorous approach to planning would reap dividends.

- a) **Risk assessments:** the frequency and level of risk assessments carried out, including the extent to which plans are reviewed when changes occur, emerged as an area that some firms may need to address:
 - five firms reported a current Business Impact Assessment in place;
 - four had not carried out continuity-related risk assessments for critical functions in the last two years;
 - three had conducted detailed risk and impact assessments and had planned updates as part of their change management processes; and
 - five firms stated that only a minority of changes include business continuity reviews.
- b) **Third party involvement:** a key vulnerability revealed in previous benchmarking and market wide exercises was the lack of collaboration with third parties, especially regarding planning and testing. A similar finding in the insurance sector survey suggests this area is often overlooked:
 - **providers:** six firms had not involved critical suppliers in their business continuity management process; five had undertaken detailed formal reviews of telecom providers network architecture; and three had involved critical suppliers in tests annually or more frequently;
 - **neighbouring businesses:** only one firm had held detailed discussions with neighbouring firms and seven (41%) reported no involvement (compared with 20% of 2008 respondents), while no firms had held joint tests; and
 - **emergency services and local authorities:** a quarter of firms reported that they do not consider local emergency services response plans and six firms do not take local authority plans into account. Furthermore, ten firms said they do not involve the emergency services in business continuity plan testing.
- c) **Upkeep of business continuity documents:** three firms reported they update business continuity documents when a change occurs or a test is completed and seven look after business continuity documents within an organisation-wide formal document management framework.
- d) **Risks associated with loss of critical paper records:** seven firms reported that paper records supporting their critical process are not scanned and two had not identified their critical stored information.
- e) **Transport arrangements:** six firms stated they provide staff transportation to and from recovery locations under any disruptive circumstances.
- f) **Deputies:** four firms reported having deputies that cover less than 50% of the core crisis management team and six firms reported that over 70% of deputies have been involved in tests.

iii) Business as usual staff management

There was also scope for improvement in business as usual staff management, especially concerning staff vetting and staff awareness, although staff crisis management was mixed (e.g. stronger than previous survey respondents in staff welfare issues but weaker in staff transportation arrangements).

- a) **Security arrangements:** 13 firms (68%) reported that they request and check two references (compared with 80% of 2008 respondents) and ten perform background security checks on new employees. Contractor vetting was the exception rather than the rule.
- b) **Staff awareness/business continuity training:** six firms stated that most staff are aware of how their organisation's continuity strategies affect them. This suggests a need to raise awareness of business continuity, such as through induction training programmes (which are currently only included for new employees at 13 firms). A further 12 firms reported that only 5–30% of staff and contractors had received business continuity training in the past 12 months.

iv) Empowerment and funding

Following previous benchmarking surveys, this survey also highlighted the need to empower the crisis management team and a shortfall in their funding. This indicated that some crisis management teams do not feel they are sufficiently equipped to fulfil their role:

- seven firms reported that their crisis management team does not have full authority to make binding decisions in a crisis; and
- 13 firms (72%) believed they have sufficient budget to provide effective levels of recovery and resilience for business critical functions (compared with 95% of 2008 respondents).

These findings may be partly due to the harsher economic climate; however it is important that firms allocate sufficient funds to support effective levels of recovery and resilience, as well as ensuring the crisis management team has full authority to make decisions in a crisis.

v) Liquidity and cashflow management

Questions asked on planning around liquidity and cashflow management revealed that this is an area that may require more attention among firms. Five firms stated they have no written contingency plan for managing their balance sheet position; six firms reported only a general continuity plan that touches on aspects of liquidity and cashflow requirements during a disruption, and two firms have no relevant written continuity plan.

vi) Key dependencies

The following dependencies/concentrations are potential areas of vulnerability that may also require further attention:

- a) Recovery service provision: as with previous benchmarking findings, the insurance survey revealed a heavy reliance on recovery service providers, with 14 firms syndicated to a third party recovery services provider. This suggests information about syndicated space and how multiple invocations may affect these arrangements should be made more transparent.
- b) Telecommunications: six firms have a policy to use more than one telecoms provider for voice and data at critical sites. This means many firms are exposed to the risks of being heavily reliant on a single provider.
- c) Outsourcing continuity oversight: nine firms who outsource critical processes/ functions to a third party service provider have contract clauses and annual audits established to oversee the suppliers' continuity arrangements and 11 include formal business continuity terms in their contracts.

(vi) Testing

The level of testing carried out by insurance firms was generally positive (with the exception of testing with third parties):

- all firms had tested recovery of their critical processes;
- 17 firms stated restoration must be planned and tested at all critical sites;
- 14 firms reported involving between 75 and 100% of critical business functions in continuity testing over the past two years; and
- 17 firms have involved over 70% of their crisis management team in tests within the last 12 months and two thirds had involved their management team in continuity plan tests.

(vii) Staff welfare

Another strong area was the provisions made for staff welfare during a disruption. Sixteen firms have established procedures and the same number include advice on counselling in their plans. A further 13 have specific plans to provide for staff casualties, including post traumatic stress disorder in the longer term.

3 Follow up

Supervisors will discuss the individual results of the survey with participating firms. More generally, firms are encouraged to use this report to review the areas highlighted and make any necessary changes to ensure they are satisfied that their internal plans and procedures are robust and their firm's resilience and recovery capability is fully consistent with the needs of their business activities.

We would welcome feedback on this report. If you have any comments or observations, or if you would like to know more about the survey, please contact the Resilience Team on Resilience.BenchmarkingProject@fsa.gov.uk.

The Financial Services Authority
25 The North Colonnade Canary Wharf London E14 5HS
Telephone: +44 (0)20 7066 1000 Fax: +44 (0)20 7066 1099
Website: <http://www.fsa.gov.uk>

Registered as a Limited Company in England and Wales No. 1920623. Registered Office as above.