



Ready or not...

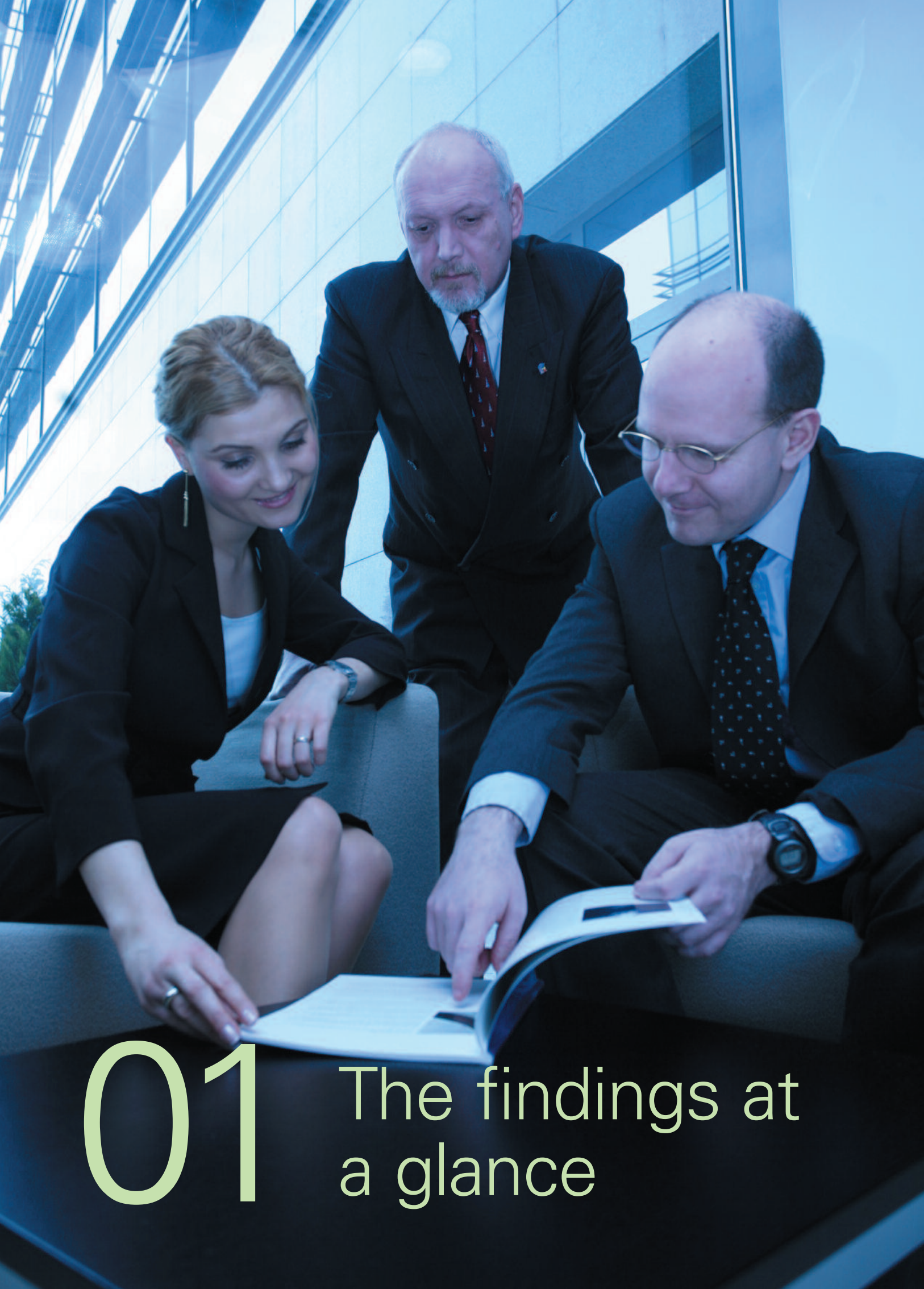
KPMG's 2008 Business Continuity Management
Survey in Financial Services Industry in Romania

ADVISORY



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01 The findings at a glance

The Financial Sector in Romania may not be ready to face a market wide disaster.

- Almost one third of the participants said that they do not have a Business Continuity Management (BCM) Program in place;
- Those who do are more concerned about the recovery of critical IT resources than the resumption of business processes following a disaster.

BCM is largely driven by internal business needs and regulatory requirements.

- Where business needs such as those related to continuity of operations and timely recovery when business is interrupted are seen as the main driver for BCM, usually the scope of BCM is limited to critical resources (i.e. IT).
- Business needs combined with regulatory compliance (especially with National Bank of Romania regulations and BASEL II requirements) usually lead to a more comprehensive BCM, covering not only IT resources, but also critical processes.

BCM benefits are usually neither recorded nor measured.

Even those organizations which do have proper BCM in place do not monitor the costs of disruptions to their business. Even if some of the participants monitor business disruptions in terms of occurrences and magnitude, this is rarely converted into business loss.

KPMG comment:

While organizations from the European Union and especially those from western Europe are performing regular market wide business continuity exercises, in Romania there are still organizations that do not always have business continuity plans or, if they do, they do not test them on a regular basis.



02 Executive summary

KPMG in Romania is pleased to launch the report outlining the results of our 2008 Business Continuity Management in Financial Services Industry survey.

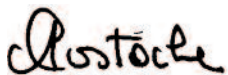
Since the terrorist attacks of 11 September 2001, 11 March 2004, and 7 July 2005, Business Continuity has been, and remains, high on the board-level agenda. Increasing global threats not only from terrorism, but also from other dangers such as climate change and the risk of pandemic flu now make resilience a strategic imperative for business. With reputation, employee welfare and shareholder value at stake, it is a subject no organization should ignore.

Furthermore, in the current international financial climate, it has become even more important for businesses to have effective Business Continuity Management. Those organizations that conduct risk assessments and business impact analyses on a regular basis have provided their Top Management with a better and more up-to-date view on the critical issues affecting their business processes and this puts them in a stronger position to face the current economic challenges.

This paper is written for senior executives, with board level responsibility for business continuity, as well as for professionals with responsibility for the implementation and management of business continuity in their organization. It provides insight into how leading financial institutions are preparing their businesses to face the various economic and other risks which might pose a threat to their operations.

Combining insights and trends from several organizations active on the Romanian market in the financial sector with our experience in conducting Business Continuity Management projects and programs, we believe our survey makes a significant contribution to business continuity management research.

*Business Continuity Management, a concept that appeared several years ago in the industry and media is the process aimed at managing uncertainty with a focus on resuming business operations in the event of a disaster in the shortest possible time and with the lowest possible costs. In today's business environment it is a term that can no longer be ignored: "It won't happen to us!" is no longer a valid statement. The question is **"If it happens, will we be ready?"**.*



Aurelia Costache
Partner



In a competitive environment, few organizations can afford costly interruptions to business processes or capabilities. But the continuity of core services, technologies, and operations is constantly threatened by technology infusions, security breaches, rapidly evolving processes, and new business ventures.

KPMG Romania has conducted a survey on the current status and maturity of the Business Continuity Management processes implemented by the players on the Romanian financial services market (e.g. banks and insurance companies).

The purpose of the survey was to evaluate the ability of each organization and that of the market as a whole to face a disaster through the implementation of relevant business continuity and disaster recovery plans which include regular testing and maintenance.

Although almost all participants claim that they have implemented Business Continuity Management programs, the results of our survey show that only a small proportion of them have programs that go beyond the traditional information systems recovery processes. The survey revealed also that almost one third of the respondents do not have a Business Continuity Management Program in place at all.

The responsibility for business continuity is generally allocated to existing business units such as IT, information security or risk management. Only 19% of the respondents have set up a distinct business continuity function to deal with Business Continuity matters.

Respondents stated that the main drivers for BCM are:

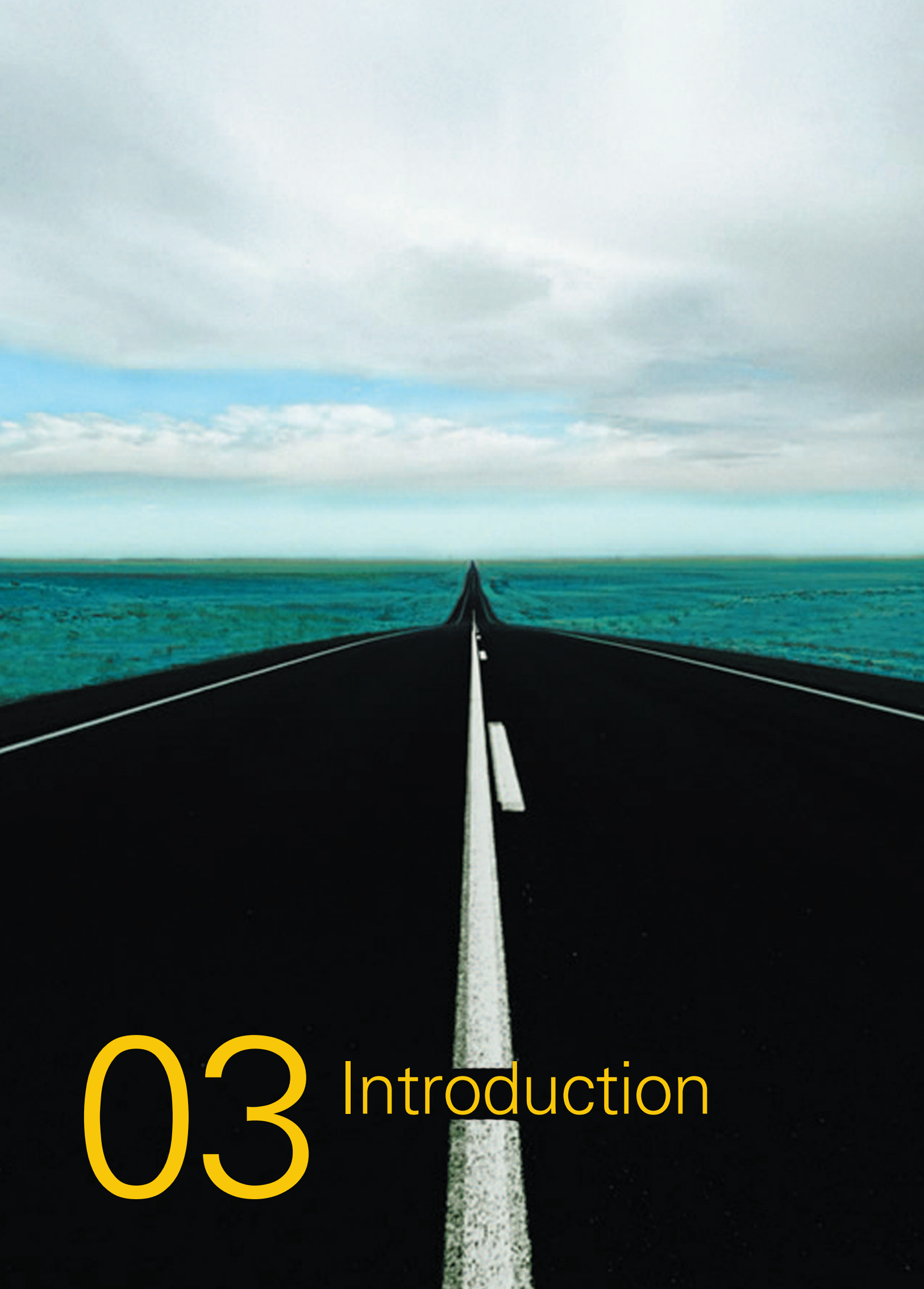
- Continuity of business operations and timely recovery when business is interrupted (44%);
- Government or other regulatory requirements (42%).

Tests of the business continuity action plans rarely take place. Those who do test their action plans are more focused on the technology aspects (e.g. application recovery, infrastructure recovery, etc) and less interested in testing the people aspects (45% of the respondents said that they never tested the people aspects of their business continuity plans).

KPMG comment:

Continuity of business operations and timely recovery when business is interrupted is the main driver behind BCM implementation. This is also one of the reasons why our BCM culture is IT and not business driven.

When regulatory requirements are seen as a driver behind BCM initiatives, the scope of the BCM Framework goes beyond IT. For these organizations, IT is seen as a support function and business processes get more attention.



03 Introduction

KPMG's 2008 Business Continuity Management Survey explores the status and maturity of BCM projects in the financial sector in Romania.

Several definitions are used for Business Continuity; according to the British Standard BS25999:2006, Business Continuity is defined as:

"Strategic and tactical capability of the organization to plan for and respond to incidents and business disruptions in order to continue business operations at an acceptable pre-defined level"

In addition, Business Continuity Management is defined as:

"The holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities."

To be more precise, BCM "...involves managing the recovery or continuation of business activities in the event of a disruption to business, and management of the overall program through training, exercises and reviews, to ensure the **business continuity plan** stays current and up-to-date."

For this survey, KPMG Romania invited a number of selected financial services organizations operating on the Romanian market to undertake a series of face-to-face meetings and the answers received were analyzed by a KPMG team of Business Continuity professionals. The detailed analysis of the results is provided in this report to help the reader gain an insight into:

- The status and maturity of Business Continuity Management capabilities across the Romanian market;
- The drivers and expected benefits of Business Continuity;
- The overall capability of the market to face a disaster.



KPMG comment:

The first step of the BCM lifecycle is to obtain an understanding of the organization through the identification of its key products and services as well as the critical activities and resources that support them. This element ensures that the BCM program is aligned to the organization's objectives, obligations and statutory duties.

At this stage, the organization should determine and document the impact of a disruption to the activities that support its key products and services. This process is commonly referred to as a business impact analysis (BIA). As a result of BIA, the organization will also collect information and produce a list of its most critical business processes. This is used at a later stage for the prioritization of investment effort in building business recovery solutions.

Critical activities are underpinned by resources such as people, premises, technology, information, supplies and stakeholders. Each organization should understand the threats to these resources, the vulnerabilities of each resource, and the impact that would arise if a threat became an incident and caused disruption to business activities. This is usually referred to as Risk Assessment.

A total of 25 financial institutions (banks and insurance companies) were included in our survey. The respondents were selected from a wide range of functions within each company, from CIOs and Chief Risk Officers to security officers and physical security representatives. This group also contained participants from organizations of different sizes and with different turnovers.

The distribution of participants with respect to size and turnover was as follows:

| | |
|-------------------------------------|-------------|
| Total respondents | 25 |
| Size of organization (users) | |
| Less than 1,000 | 32% |
| 1,000 to 5,000 | 52% |
| More than 5,000 | 16% |
| Total | 100% |
| Turnover | |
| Less than €50 million | 28% |
| €50 million to €100 million | 13% |
| €100 million to €500 million | 42% |
| More than €500 million | 17% |
| Total | 100% |

The first section below describes the current status and the maturity of the BCM programs. The main drivers behind BCM initiatives and the benefits generated by BCM programs are highlighted in section two. The third section evaluates Risk Assessment and Business Impact Analysis practices while section four analyzes the implementation of Business Continuity plans and user awareness activities.

KPMG comment:

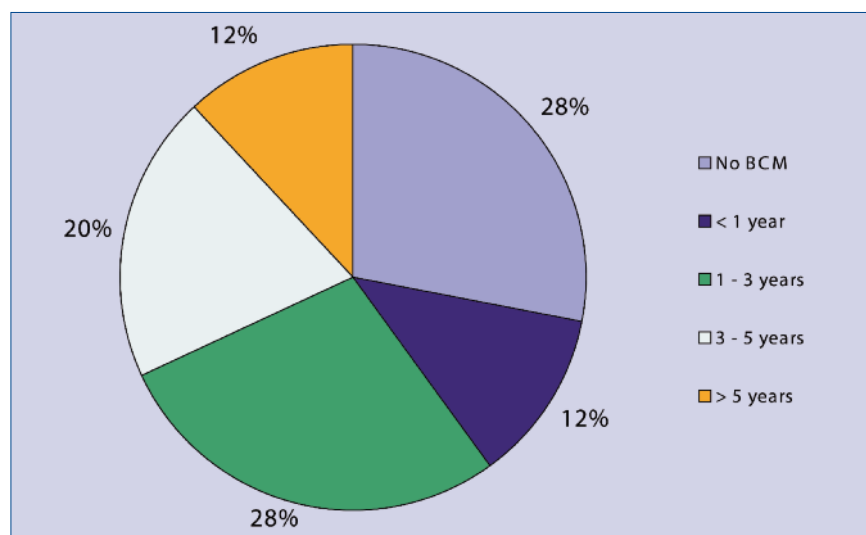
When it comes to business continuity in the financial sector, there should be no question of size: both larger organizations and smaller ones should be able to stand in front of their customers and say that the continuity of their operations is ensured in at least a reasonable way.



04 BCM Program Overview

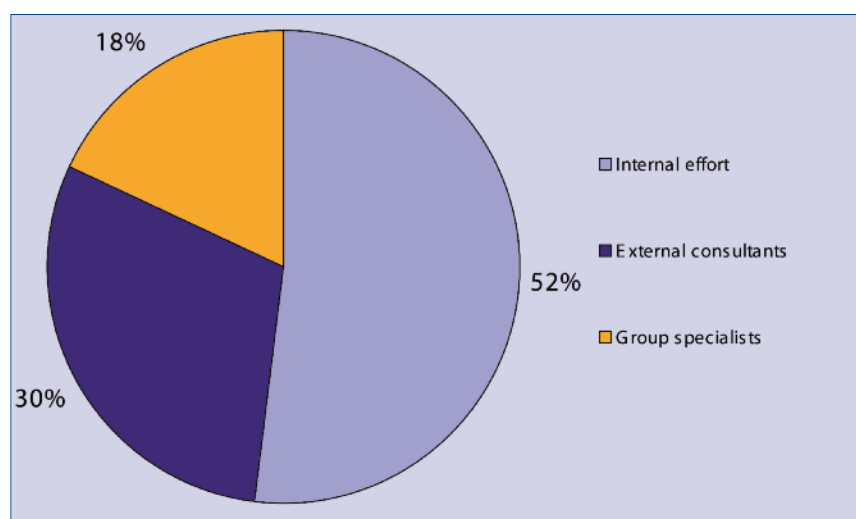
Continuity of business operations and timely resumption after an interruption is critical to the survival of most organizations operating on this market. Although some sort of disaster recovery mechanisms exist in virtually all organizations, very few can claim that they have long established Business Continuity Management Programs in place. The majority of respondents (68%) admitted that they have no BCM Program or only started to implement one in the last 3 years.

Business Continuity Management age



In terms of work carried out to develop a BCM Program, half of the respondents indicated that this has been entirely an internal effort while the other half used external consultants or group specialists.

Approach to BCM development

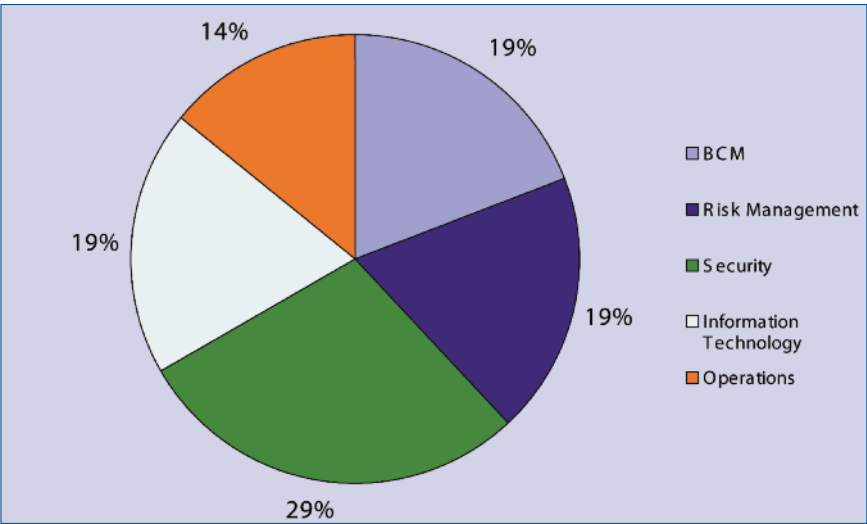


KPMG comment:

Setting up a business continuity program is still a big challenge for most Romanian organizations. Market behavior suggests that financial organizations prefer to develop the business continuity management process on their own instead of using the services of an external consultant. The knowledge transfer in this respect is mostly promoted by the group.

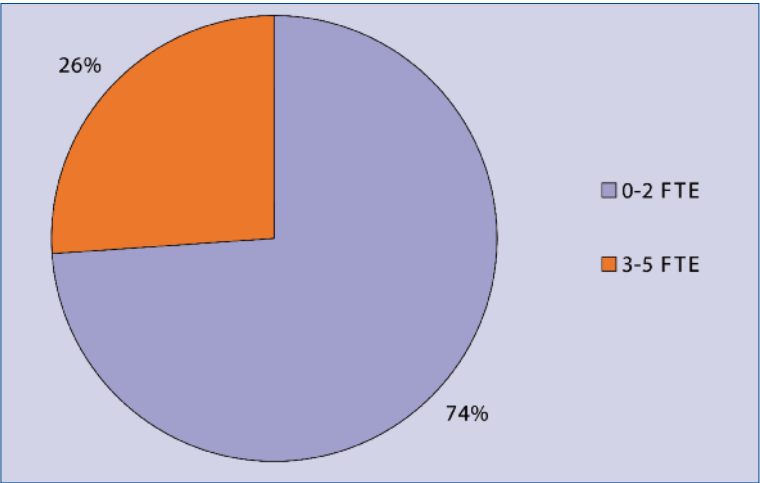
Only 19% of the respondents have set up a distinct business continuity function to deal with Business Continuity matters. The most common model is to have the business continuity responsibilities cumulated with information security (29%) or IT (19%). For those participants for which regulatory compliance was the main driver behind BCM development (e.g. BASEL II), it is more common for the responsibilities for BCM to be allocated to the Risk Management (19%) or Operations departments (14%).

BCM responsibilities



In terms of full time human resources dedicated to Business Continuity Management, most of the organizations (around 74% of the interviewees) have up to 2 full time equivalents (FTE) while the rest claim that they employ 3 to 5 FTEs for Business Continuity Management activities.

FTE dedicated to BCM

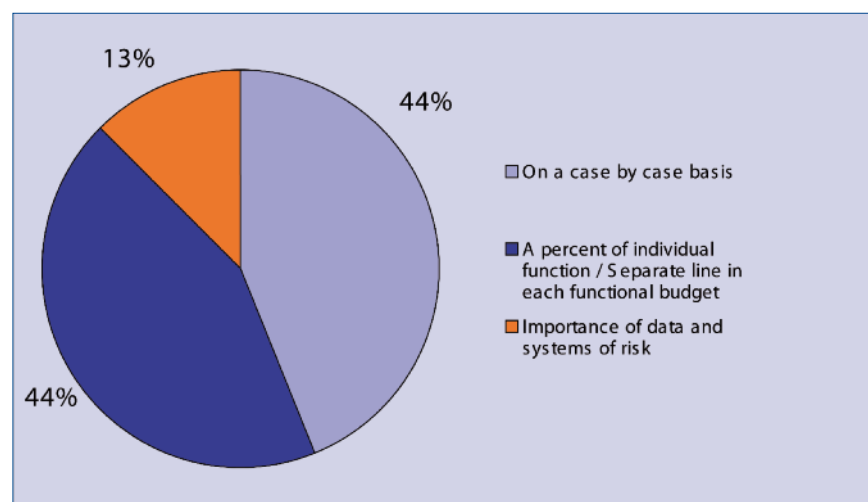


KPMG comment:

One of the main issues in terms of business continuity management is the lack of proper assignment of the roles and responsibilities of those who are managing and coordinating this process. Even if the main concern of any organization is the containment and optimization of costs, the management of business continuity should be seen as a normal function within the organization instead of a necessary evil.

Funds are generally allocated on a case by case basis or as an individual line in each functional budget. Only 13% of the respondents claimed that the BCM budget is developed based on the results of the Risk Assessment and Business Impact Analysis. Also, 88% of the respondents claimed that there is no separate budget for Business Continuity capabilities, products and services.

BCM Budgeting



KPMG comment:

Business continuity is still seen as a one off exercise. Everybody is responsible for business continuity which means that nobody is responsible.

KPMG's view is that business continuity should be seen as a normal business process in the same way as liquidity management or payments processing. Although everybody must be aware of his or her role and responsibility with respect to business continuity, a business continuity management function is an imperative for every organization in today's world. This function should be responsible for the day to day operation and maintenance of the BCM program starting from risk assessment and business impact analysis, action plans development, maintenance and testing as well as users' awareness. Strong endorsement and support from management is critical for the success of the BCM program.

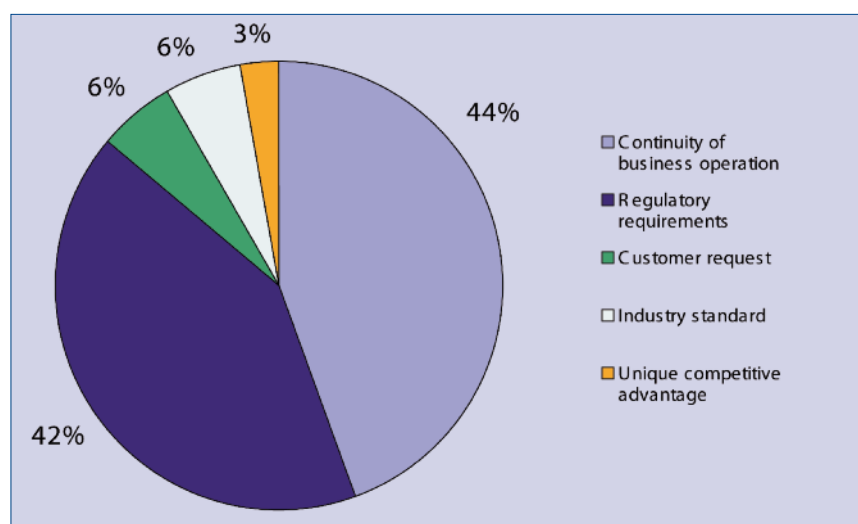
One of the main reasons why BCM programs are still not clearly defined is the lack of funds allocation for these activities: most organizations do not have a separate budget for the management of business continuity, but allocate funds on a case by case basis.

A teal-toned background featuring a blurred image of a white coffee cup on a saucer, a silver pen, and a calculator. The text '05 Drivers and benefits' is overlaid in the bottom left corner.

05 Drivers and benefits

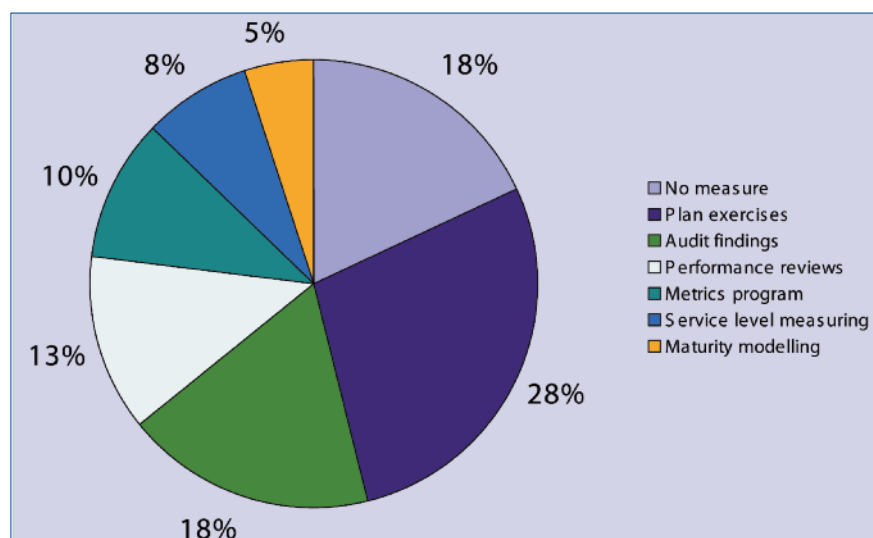
The main driver behind business continuity initiative is the continuity of business operation and timely recovery when business is interrupted. More precisely, the recovery of critical resources (mainly IT facilities) is seen by the respondents as the main driver behind BCM initiatives. In addition, in recent years, regulatory requirements (e.g. the adoption of BASEL II or compliance with NBR requirements) have put more pressure on development and implementation of a Business Continuity Management Program: only 3% of the respondents see a competitive advantage in having a BCM program.

BCM drivers



However, very few measure the performance of their BCM program directly and those who do, do it on a rather ad-hoc basis (e.g. through audit findings and plan exercises).

BCM performance measurement



KPMG comment:

The financial sector is probably the most regulated one in a mature economy. This can also be seen in the market from the continuity point of view: organizations develop and implement business continuity management in order to comply with the legislative requirements. Although primary technical measures are taken by all the organizations surveyed (from regular backups of systems and data to fully replicated systems located off-site) people and processes aspects are usually not taken into consideration.

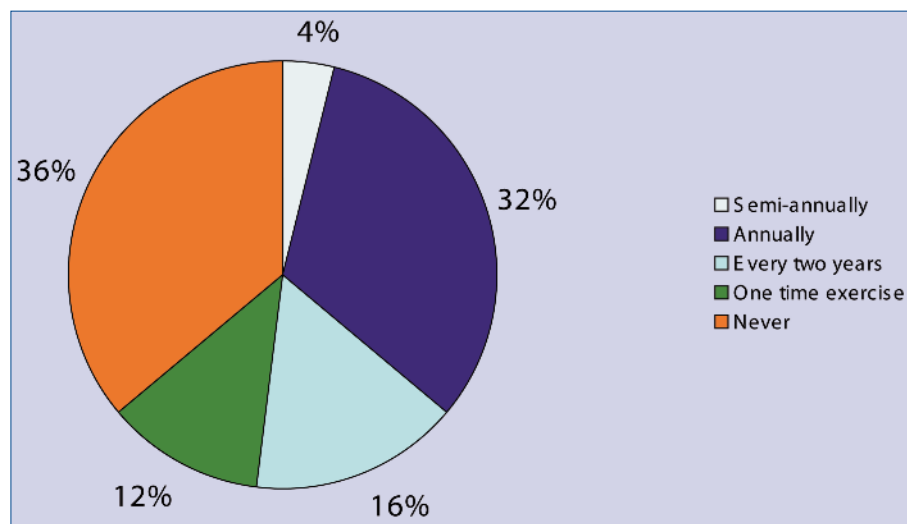
The fact that drivers such as customer demand or gaining unique competitive advantage are still rarely taken into consideration shows that we are developing and implementing business continuity management because we have to and not because we want to.



06 Risk assessment and BIA

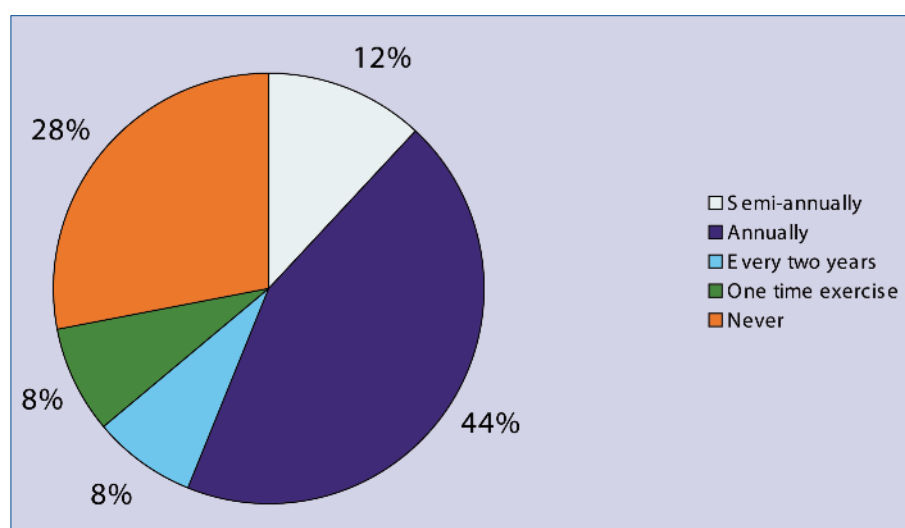
Business Impact Analysis exercises are usually undertaken on a yearly basis (32% of participants) while 4% of respondents claim that they run these exercises more frequently. However, 36% of the interviewees have never undertaken a formal Business Impact Analysis exercise.

Business Impact Analysis exercises



The situation is similar for risk assessment. The highest percentages are again for annual exercises (44%) or no exercises (28%).

Risk Assessment Exercises



KPMG comment:

An interesting conclusion can be drawn from the two graphs here. It seems that the organizations surveyed are more used to risk assessments as compared to Business Impact Analysis. This is particularly true if we consider the industry analyzed. In the banking sector, everybody is somehow used to risk management while business continuity and consequently Business Impact Analysis is a relatively new term.

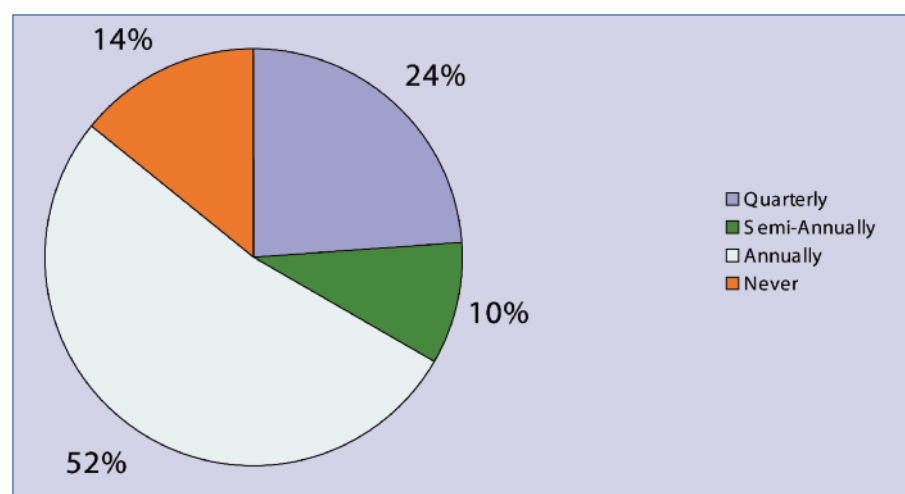
Another conclusion of the survey is that the cost of disruptions to business operations is rarely if ever quantified. Very few organizations have implemented reporting mechanisms to allow the BCM responsible to have a clear picture of all incidents and business interruptions encountered and to be able to quantify the cost of this interruption.

A high-speed train is shown in motion, blurred background, blue tint.

07 Testing and Maintenance

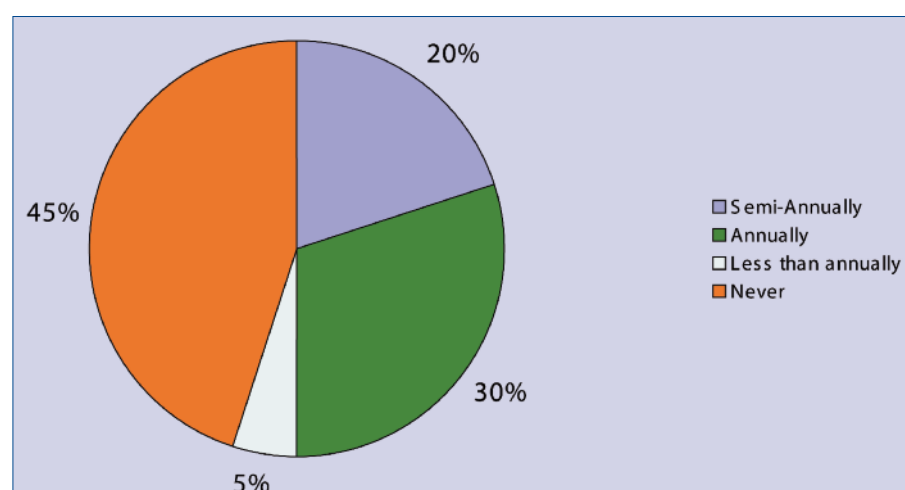
More than half of the organizations interviewed (52%) claim that they test the technology aspects of their business continuity plans (i.e. disaster recovery solutions) on a yearly basis, while 34% of respondents claim that they conduct DRP tests more frequently. However, 14% of those interviewed have never run an exercise to test their disaster recovery plans.

Frequency of Disaster Recovery tests



The situation changes when it comes to testing the people aspects of Business Continuity Plans. Half the respondents say that they never test this part of the BCM program or test it on a less than annual basis while the other half state that they run tests involving staff at least on an annual basis.

Frequency of tests for people aspects of BCM



KPMG comment:

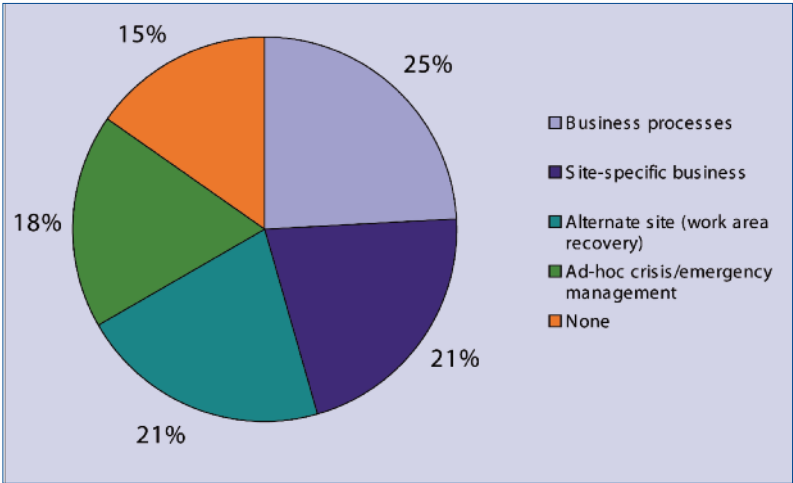
An organization's Business Continuity Management arrangements cannot be considered reliable until exercised and unless their currency is maintained.

Testing is essential to developing teamwork, competence, confidence and knowledge which are vital at the time of an incident. These also provide demonstrable evidence of business continuity as well as incident management competence and capability.

Time and resources spent proving BCM strategies by exercising Business Continuity Plans will lead to a fit-for-purpose capability. No matter how well designed and thought-out a BCM strategy or BCP appears to be, a series of robust and realistic exercises will identify areas that require amendment.

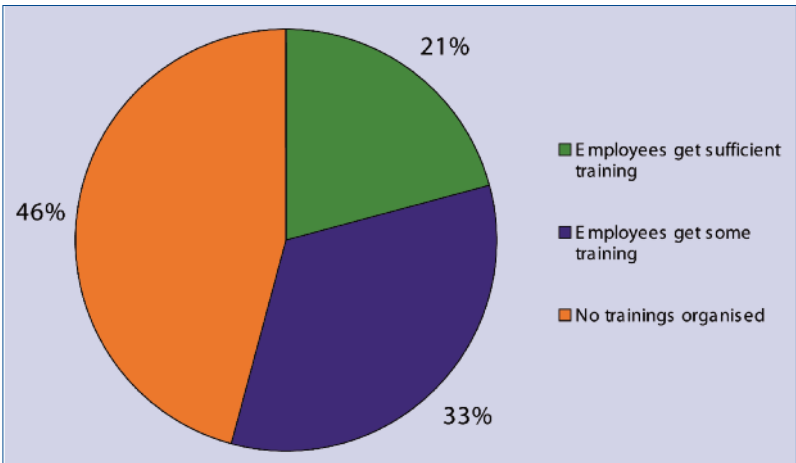
BCM testing is usually done on a component basis (e.g. business processes, site specific or alternate site). Only one organization from those interviewed stated that it had run integrated tests during the previous year, while the majority of them only tested one component of their business continuity plan.

Elements of the BCM tested during the previous year



When it comes to training and awareness, most respondents state that employees do not receive sufficient disaster/ emergency management and business continuity management training (almost half the respondents claimed that their employees received no training), with only 21% of respondents stating that their employees receive sufficient training on BCM.

Training courses organised for employees





About KPMG

KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. We operate in 144 countries and have more than 137,000 professionals working in member firms around the world.

KPMG was one of the first professional services firms to align its services along industry lines and focuses on delivering high-quality, coordinated services to organizations in five key lines of business: Financial Services; Consumer Markets; Industrial Markets; Information, Communications & Entertainment; Infrastructure and Government & Healthcare.

KPMG has been in Romania and Moldova since the early 90's. We now operate from five offices in Bucharest, Timisoara, Chisinau, Cluj, Constanta and Iasi and we are one of the leading professional services firms in the Romanian and Moldovan markets.

KPMG's commitment is to provide a consistently high quality professional service to our clients worldwide. As the business world changes in response to new political and economic situations, so does KPMG. Building on our traditional base of audit and compliance work, we have grown our role into that of a comprehensive professional advisory firm, providing tailored, industry-specific services to meet clients' needs, whether they are multinational or local, large or small.

In a competitive environment, few organizations can afford costly interruptions to business processes or capabilities. But the continuity of core services, technologies, and operations is constantly threatened by technology infusions, rapidly evolving processes, and new business ventures. KPMG has developed a proactive, risk-based approach to help mitigate risks, provide for change control, and establish continuity of business functions and capabilities.

KPMG methodology delivers business continuity and disaster recovery capabilities by way of Assessment, Development, Implementation and Monitoring. By embedding Disaster Recovery/Business Continuity Planning in processes for testing and measuring risk as well as updating Business Impact Analysis, businesses can establish a robust framework for maintaining a business as usual approach even when confronted with difficult circumstances.



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