



**Banca d'Italia**

# **Business Continuity in the Italian Financial System**

**Stefano Carcascio**  
**Head of Market Supervision Office**  
**Banca d'Italia**

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# 1 From a traditional to a more comprehensive approach

- Since the 70', implementation of individual disaster recovery plans against events characterized by (statistical) predictability
- After September 11<sup>th</sup>, a radical re-thinking:  
***major operational disruptions can result from events that cannot be predicted***



# Initial reflections led to the conclusion that it was necessary:

- To **focus less on causes** (natural events; terrorism; logic attack) **and more on effects** to be prevented (unavailability of infrastructure; inaccessibility of area; lack or sharp reduction of vital services) in order to give greater flexibility;
- To **adopt a systemic view**;
- To promote a **Business Continuity Management that includes all the policies, standards, and procedures** aimed at maintaining a system in operation or having it recovered;
- **A close coordination – under the leadership of authorities – between infrastructures, financial institutions and service providers to:**
  - identify critical functions, interdependencies and vulnerabilities;
  - define the objectives of the system's resilience (sites; recovery time);
  - ensure the fulfillment of the objectives;
  - manage the crises, particularly when “everything goes wrong”.



## 1.2. A survey on domestic business continuity plans adequacy in the new scenarios (2002)

### – Objectives:

to identify and analyze dependencies and define a strategy for a more comprehensive approach;

### – Institutions involved:

trading and post-trading management companies; six major Italian banks (biggest banking groups); service providers in payments and securities settlement;

### – Main results:

- crucial infrastructures had always Disaster Recovery Plans and often Business Continuity Plans **but only at individual firm level**;
- top managements aware of the importance of Business Continuity, **but knowledge of and involvement insufficient**;
- **weaknesses in the event of a “regional” disaster**;
- **substantial concentration risks** and **strong interdependencies** between players;
- plans showed room for improvement (obsolescence, inadequate attention to organizational aspects); problems with **utilities**.



## 2. The strategy for the implementation of a new business continuity approach

Most important conclusion: necessary to improve the resilience of the system by

- an **“enhanced first line of defense”**, i.e. increase of the resilience of single infrastructures/institutions on the basis of plans that take into account all relevant profiles and include arrangements able to ensure the continuity of systemically important functions;
- inclusion of **individual business continuity plans** and arrangements within the scope of the **scrutiny by the competent supervisory authorities**;
- establishment of a **coordinating function** with tasks of assessing the requirements, organizing tests, managing crises.



- The **proposed actions** were:

- implement low-cost interventions as soon as possible;
- assess interdependencies;
- define objectives;
- issue supervisory guidelines;
- adopt the instruments for Communication management.

**in the context of:**

- a **policy** aimed at activating **convincing and intense cooperation** in a **task** that was **expected to be very demanding in terms of investments** and organizational changes.

**This program was agreed** in February 2003.



## 2.1. A national contact list

Immediate low-cost intervention: in the first quarter of 2003, a National Contact List for Financial Business Continuity.

## 2.2. The Joint working group (CODISE)

CODISE includes both authorities (all major supervisory functions) and financial system representatives

- coordinated by Banca d'Italia and Consob with the presence of a representative of the Italian Government
- Operators of main market infrastructures, six major banking groups, main payment systems service providers

CODISE task: “to define the steps towards the System’s Business Continuity”, with the aim of limiting systemic risk.



## The CODISE program

- Identification of the relevant services and operators;
- Analysis of the vulnerabilities and interdependencies and selection of the tools/policies;
- Definition of the “single” sub-objectives at individual institution/infrastructure;
- promotion and verification of effective Business Continuity Plans;
- implementation of a mechanism to manage “global crises” and coordinate tests.

CODISE's activities in parallel with Eurosystem activities for TARGET 2.



## 3. The new framework

### 3.1. Vital and critical services

**Vital services** are essential for public confidence and for other systemically relevant functions; **cannot be interrupted** for more than a few hours, “**must complete**” **operations before the end of the day**

the Italian RTGS; monetary policy operations; Italian CSD; Italian CCP; multilateral trading facilities of the money market; domestic message transmission network; crucial services provided for retail payments

**Critical services** can be interrupted for more than a day.

some retail payment systems, trading systems, interbank procedures



## 3.2. Criteria of risk containment

Three scenarios:

- 1) regional disaster
  - **geographical dispersion of alternative sites**
- 2) unavailability of a “vital” infrastructure
  - **matching security plans to the role played**
  - **controlling the risks of outsourcing**
  - **coordinated rules for utilities**
- 3) a “logic attack”
  - **effective prevention**
  - **availability of qualified human resources**



## 3.3. Division of labour and responsibilities between authorities and the private sector

- **Each relevant infrastructure/institution is responsible for the preparation and implementation of business continuity plans**
  - Thorough analysis of the specific risks
  - The choice of the best mix remains in the firm's responsibility.
- **It is necessary that supervisory responsibilities are activated**
- **The authorities have a leading role in the “maintenance” of the framework** (e.g. organizing integrated tests and updating objectives and scenarios).
- **The authorities are responsible for coordinating crisis management.**



## 3.4. The three Supervisory Guidelines

### Addressees

- market infrastructures
- banks
- payments systems operators and service providers

### Common criteria:

- risk diversification
- harmonization
- consistency
- adequate magnitude of the risks
- strategic relevance of BCPs'



## From 2007, the main infrastructures/institutions should meet the following requirements

- Business continuity should be central in the strategy of system operators
- Company's business continuity plan should
  - classify internal activities
  - identify the objectives and measures needed;
  - allocate sufficient resources to implement the plan;
  - consider possible interrelations with other institutions
  - consider crisis scenarios for major disaster
  - Identify essential staff
- Organizational arrangements should be defined
- Risk analysis
  - Impact analysis on internal processes
  - Documentation for all the activities relating to crisis, organization and procedures, path to the resumption of operations
  - Recovery centres to minimize the probability of a simultaneous blockage of activity in the centres. i.e. principal and alternative sites should not be exposed to similar risk/threats.



## ***3.5 System Business Continuity Testing***

- In December 2005, Monte Titoli (MT) organized a new kind of Disaster Recovery testing the effective interaction with its secondary sites of a large number of market participants (banks) and all central infrastructures (markets, clearing house, central bank).
- CODISE is now planning tests, integrated at system level, aimed at checking the organizational model to manage crisis situations. The first test, to be held in 2007, will be a role-playing exercise



## ***3.6 How the Italian continuity framework would work ... in a domestic emergency***

- Activation of contingency measures at single institution/infrastructure level. **But**, even when “the first line of defense” shows adequate resilience, **the return to “normal” conditions depends crucially on effective communication and coordination**. Therefore, the continuity managers of the involved institution report to the crisis manager at the Central Bank.
- **If the first line of defense proves to be insufficient**, coordination between survivors could be complemented by the use of the Central Bank’s specific discretionary powers, alternative facilities, and lending of last resort. Systemically relevant infrastructures may recourse to alternative sources of energy and communication networks.



## *...in a foreign originated crisis*

- BIS contact list can be of great help in handling international crises; in the euro-area the TARGET management framework is an effective tool for coordination
- Cross-border securities settlement would presumably be among the most badly affected. Italian SSS has been designed with the capability to deal even with a large amount of fails. However **liquidity problems can require central bank interventions**
- **Other vulnerabilities** might emerge for services provided cross-border by international suppliers (SWIFT). The availability of RNI attenuates but does not eliminate the problem



## 4. Need for coordination at euro area level?

- Framework for business continuity requires coordinated and co-operative efforts.
- At international level similar exercise would be difficult, within the euro area a common framework appears to be more feasible.
- A common framework at euro area can enhance the overall resilience by:
  - harmonizing requirements
  - facilitating cost-efficient solutions
  - organizing integrated tests and managing cross-border crises
  - coordinating with other international authorities.



## 5. Expected role of the Eurosystem and/or other institutions

- The Eurosystem appears to be the place where the main activities could be coordinated efficiently and effectively.
- The Eurosystem may coordinate efforts to define guidelines aimed at harmonizing the differences in business continuity requirements.
- With the support of the European Commission those guidelines could be made enforceable. (Memo: a unanimous consensus reached on standard 11 of ESCB-CESR).