

Business Continuity: Trends and Planning

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Business Continuity: Trends and Planning

Executive Summary

Business continuity planning has changed radically in the last decade due to a confluence of events—both man-made and natural—as well as technology advances. In the past, planning for business continuity consisted of ensuring that the credit union's core processor would be up and running as soon as possible in the event of a business disruption.

Regulators today expect that credit unions will develop an enterprise-wide business continuity plan, whereby every critical business function is examined for its response to disruptions. Business continuity is a team effort that requires the participation of all employees and all business units.

The tipping point came during the planning for Y2K. Billions of dollars were spent in preparation of a worldwide computer shutdown. When January 1, 2000 passed with few incidents, critics charged that nothing happened except the enrichment of information technology consultants. But the former is precisely the point—the goal of business continuity is to minimize damage and to recover operations. Y2K was a valuable exercise; it forced organizations to become better prepared for the next business disruption.

One of the lessons learned from Hurricane Katrina and other recent disasters is that credit unions, because of their cooperative nature, have advantages that banks and other financial institutions lack. The people helping people ethos was tested during the hurricane and the shared branching network triumphed. When credit unions in New Orleans were disabled, those on the shared branching network were able to maintain services and communicate with members.

Determining other critical partnerships and relationships is a critical part of the planning mix. Valued partners are those that help to return services to the members and organization as quickly as possible. Recent disasters indicate that community organizations—Red Cross and Salvation Army to name two—often take the lead in recovery when government efforts falter.

NCUA does not have a business continuity regulation at this time, although it may issue one in the future with the increased focus on preparing for catastrophic events.

Regulatory guidance has been in the form of alerts, examiner questionnaires, and letters to credit unions. So, it would be more accurate to say that NCUA requires certain actions in business continuity and recovery.

NCUA requires all federally insured credit unions to have comprehensive, written, updated, and tested disaster recovery and business resumption contingency plans—collectively referred to as contingency plans—for all critical resources. The latter includes everything from power sources and information systems to the credit union's physical offices and its employees.

The credit union's board of directors and senior management are responsible for developing the appropriate contingency plans, or assigning this task to a work group representing all areas of the credit union. The credit union is required to perform a business impact analysis to determine the impact certain events would have on the institution's critical resources.

During times of disaster, members want two things from their credit union—cash to fund emergency needs and assurance that their money is safe. When telecommunications and electricity are down, ATMs and debit or credit cards become worthless and the disaster areas quickly revert to cash economies. Members need large amounts of cash to pay for critical goods and services. Lending takes on a new logarithm, one that focuses on the primary needs of the member.

The call list or phone tree was cited by most of the individuals interviewed for this report as the crucial part of the business continuity planning. Phone trees, though, take time and the message often become distorted as it passes from person to person. And with recorded announcements, there is no method to know if the message has been received. Some companies are using automated systems that can send messages to large groups that use different devices—cell phones, pagers, or e-mail. And the systems are able to tell if the message has been received.

Remote access becomes a valued asset during a business disruption. Employees can attend to critical tasks and access important data while facilities are disabled. Some organizations are issuing laptops to key employees and provide secure access to corporate networks via virtual private networks. These companies are also using online collaboration tools that allow remote workers to communicate and share files with colleagues. These options can be expensive, but some vendors are experimenting with software that will allow access only during an emergency, similar to shared networks offering emergency use.

Introduction

June 2006

One hot, summer day in the French Quarter of New Orleans, a distraught man walked into the Mississippi River and tried to drown. As the waters overtook him, he fought his rescuers and was finally pulled in against his will. The man had lost everything in the storm and no longer wanted to live. Another resident, Gina Barbe, survived Hurricane Katrina at her mother's house near Lake Pontchartrain and said that she has been crying every day since the storm.ⁱ

"I thought I could weather the storm, and I did—it's the aftermath that's killing me," said Barbe. "When I'm driving through the city, I have to pull over to the side of the road and sob. I can't drive around this city without crying."ⁱⁱ

These two stories illustrate that the anguish caused by disasters has a life that endures long after the event. Like a parent grieving for a lost child, emotional recovery from a disaster follows no organizational timetable. Financial institutions have come to realize that planning for disasters has to focus on people first. Computers, buildings, and *yes, cash*, can be recovered, but people cannot.

Business continuity planning has changed radically in the last decade due to a confluence of events—both man-made and natural—as well as technology advances. Business continuity previously consisted of ensuring that the credit union's core processor would be up and running during a disruption of services.

Y2K: A Tipping Point

Y2K was the tipping point; billions of dollars were spent in preparation of a worldwide computer shutdown. When January 1, 2000 passed with few incidents, critics charged that nothing happened except the lining of the pockets of well-paid consultants. But the former is precisely the point—the goal of business continuity is to minimize damage and to recover operations. If nothing happens, that's a desirable outcome.

Thanks to Y2K planning, organizations were forced to upgrade systems and plan for worse case scenarios. Y2K was a valuable exercise; organizations became better prepared for the next business disruption.

A series of events—the Oklahoma City bombings, 9/11, and Hurricane Katrina—provided financial institutions with first-hand knowledge of disasters that were unimaginable a few years ago. They *were* worse-case scenarios.

Definitions

There is a difference between business continuity and disaster recovery. *Business continuity* is the ability to continue delivery of services in the event of any unplanned disruption. *Disaster recovery* is the ability to restore critical business systems at the time of a disaster.ⁱⁱⁱ

This white paper will focus on planning as well as trends that have colored the business continuity landscape. It is the first white paper that is sponsored by all six of the CUNA councils, which represent the major credit union disciplines.^{iv} This is apt since business continuity planning has evolved into an organization-wide exercise, one where all employees must participate as a fully functioning team to be effective. More than 30 people were interviewed, including council members, credit union professionals, and vendors (their names are listed on page 30).

An organization can't plan for all disasters, of course, or every disruption that occurs. Effective business continuity planning, though, can provide a general roadmap to guide employees. Flexibility and quick actions are the guiding principles during business disruptions. Organizations and individuals must make correct decisions during "the golden hour," a term that originated in combat medicine to describe the time when "acting fast may save those in jeopardy."^v

While this white paper is a report of business continuity planning and trends, it's not intended to be a comprehensive guidebook. Additional resources are located at the end of this paper to help in planning. The subjects discussed include:

- Effect of recent disasters
- Importance of partnerships
- Shared branching
- People needs
- Planning for NCUA requirements and regulations
- Testing and training
- Financial management and systems planning
- Communications
- Avian flu and other pandemics
- Concluding thoughts

Recent Disasters

“Normal as we knew it will never return; normal ceased to exist.”

—*Charles Elliott, president of the Mississippi Credit Union Association, August 2006*

Hurricanes Katrina and Rita

It’s instructive to heed the lessons of recent disasters since they have changed the way financial institutions regard business continuity. One of the most important lessons to be learned is to expect the unexpected. An obvious point, perhaps, but one that was endlessly repeated—and often forgotten—as Hurricane Katrina damaged 70 credit unions in Louisiana on August 29, 2006. A month later, Hurricane Rita affected 40 additional credit unions in the state. Credit unions in Florida, Mississippi, Florida, Alabama, and Texas were also hit.

“The most important lesson from the two hurricanes is that it took longer to get back to normal,” said Vince Liberto, VP of marketing and sales for the Louisiana Credit Union League. “Hurricane Katrina lasted 8 to 12 hours, and then it took some credit unions from 24 hours to five days to get back to normal. For the majority of credit unions it took about a month to become operational again.”

Liberto advises that business continuity plans provide for operating a credit union at an alternative site for an extended period of time. Another problem that surfaced during the hurricane aftermath was the failure of backup facilities for data processing.

“Many credit unions couldn’t find their data processor provider and didn’t have proper backup,” said Liberto. “The backup was located in New Orleans, and the backup tapes often didn’t work because the tapes were corrupted.” Because of this event, some unions are using encrypted data and sending it via the Internet to the backup site—a virtual backup. Additional information on data recovery is discussed later in this report.

The reality that much of New Orleans was underwater complicated recovery efforts. This meant that communications were down and many credit union offices were unusable. The Federal Reserve Bank of Atlanta has a branch in New Orleans. After Hurricane Katrina struck, offers of a mobile branch were made for the Fed’s branch. The offer was turned down since the branch office and safe were underwater. There was no land or space for the mobile branch to be placed.

Key Challenges

Some of the key challenges faced by financial institutions after Hurricane Katrina included:^{vi}

- Communication outages made it difficult to locate missing staff. Employees lacked access to working land-line or cellular phones.
- Access to reliable transportation into restricted areas was often unavailable. Some financial institutions arranged alternative transportation methods—bus services, car pools, and air connections.
- Lack of electrical power or fuel for generators made computer systems unusable. Some financial institutions had all of their facilities on one power transmission grid. With power shortages, some financial institutions had to resort to manual transactions.
- Multiple facilities were destroyed outright or sustained significant damages. Data recovery was hampered by limited access to backup sites that were in the same city and unusable.
- Some branches and ATMs were underwater for weeks. Currency was damaged by water and pollutants. Members remaining in the area could not access branches or ATMs and needed cash for goods and services.
- Mail service was interrupted for months in some areas. During Hurricane Katrina, members with automatic deposit and bill payment experienced fewer difficulties in maintaining their accounts.

The lack of housing for employees became an immediate and long-term problem. For many employees, the housing shortage made it difficult to work in New Orleans. New Orleans Fire Department Credit Union turned a boardroom into a dormitory for employees and installed a bathroom and shower. A substantial number of credit union staff settled in other parts of the United States; many will not return.

An estimated 800,000 of the 1.2 million that fled southeastern Louisiana before and after Hurricane Katrina have returned, according to federal government officials. Those interviewed for this report suggest this number is high. Of that number, government officials estimate that some 96,000 may not be able to evacuate on their own in the event of another major hurricane.^{vii}

Louisiana Credit Union League president and CEO Anne Cochran was one of those citizens left homeless. Her home in Slidell in St. Tammany Parish suffered minor water damage but serious hurricane wind and tree damage. The league headquarters was also relocated to Baton Rouge and a credit union offered a branch for league headquarters.

“I was affected personally; my house had water damage,” said Cochran. “One of the lessons learned is to have a disaster plan that is reviewed weekly. Disaster planning may not be fulfilling like helping members, but it is necessary.”

Mississippi Credit Union Association president Charles Elliott witnessed the widespread devastation of Hurricanes Katrina and Rita that destroyed much of his state’s beloved coast with its antebellum homes and architecture. His courage and leadership was recognized as he represented the national movement in his testimony before Congress on September 14, 2005 on the financial services industry’s response to the disaster.

“People lost their past, present, and future,” said Elliott. “They lost evidence that they ever existed. They had nothing to prove who they were or that they existed. It will take 10 to 20 years to recover.”

After effectively destroying the gulf coast, Katrina continued north causing severe damage up to 150 miles inland. It was estimated that three out of four dwellings in the six county coastal area of Mississippi were left unlivable, with an additional 3,500 destroyed in other parts of the state. More than 70 of Mississippi’s 105 credit unions were without electricity for three or more days, and the dwellings of more than 150 credit union employees were destroyed.

Critics charged a failure of local, state, and national governmental response. Elliott declines to assign blame. “Everybody could have done better; nobody was prepared for this, we all failed to meet expectations,” he said. The lesson learned was the need for preparation and a rethinking of scenarios.

“Credit unions need to rethink worse case scenarios,” said Laurin Avara, EVP, Navigator Credit Union, Pascagoula, Mississippi. Avara lost his home in the storm and the credit union lost data processing, a 21-line phone system and lacked phone service for weeks. One branch was completely destroyed and others sustained severe damage.

Fuel was a problem for Mississippi credit unions. Some of the credit unions had generators, but no fuel for two weeks. The gas pumps failed when electricity was unavailable. In Jackson, there were five-mile-long lines for gas and Wal-Mart shelves were bare. The debris will first be cleared up by December 2006—1.5 years since the hurricane hit land.

Fuel was a problem for Florida as well during Hurricane Ivan in 2004. Credit union employees had trouble getting to work because of a lack of fuel. Since that time, it is now a state of Florida requirement for gas or fuel companies with 12 or more stations to equip these stations with generators. This law, which started to be implemented in 2006, will ensure that the large gas companies will be able to pump gas even when the electricity is down, said Guy Hood, president of the Florida Credit Union League.

Partnership Power

Shared Branching

One of the lessons learned from Hurricane Katrina and other recent disasters is that credit unions, because of their cooperative nature, have advantages that banks and other financial institutions lack. The people helping people ethos was tested during the two hurricanes and the shared branching network triumphed. When credit unions in New Orleans were disabled, those on the share branching network were able to maintain services and communicate with members.

“Shared branching was the lifeblood of the recovery efforts,” said Vince Liberto. “A lot of the credit unions were not part of the shared branching network; those that were part of the network were able to provide cash to members and serve as a communications link with their credit union.”

The credit unions that were not members were given the opportunity to join on a temporary basis. Liberto said that an additional 21 credit unions in the New Orleans area joined a shared banking network immediately after Katrina. Many of the evacuees traveled to Arkansas and Texas and were able to access their accounts and receive cash. The credit unions that did join were able to be operational in two to three days.

The three shared branching networks have a combined total of 1,200 participating credit unions in the United States. The three networks share a common logo and have reciprocal agreements, so that a member of one network can access any participating branch.

Most of the shared branch network credit unions in the gulf states are members of the Credit Union Service Corporation (CUSC) based in Atlanta.^{viii} Before Katrina and Rita, about 620 credit unions were members of CUSC—in August 2006 that number jumped to 737 and is climbing fast. The shared branching message is gaining purchase.

The advantages of shared branching to the member during an emergency are numerous: access to cash and accounts, ability to use a line of credit, a means of communicating with one’s credit union, and access to branches nationwide. There are benefits to the credit union as well, according to Carroll D. Beach, president and CEO of CUSC and well-known pioneer of the modern movement.

“Shared branching gives the credit union the ability to always service the member,” said Beach. “It expands the capabilities and provides an opportunity for the credit union to have a stand-in.”

Credit unions have the option of sending their positive balance file to CUSC on a daily basis, which serves as means to monitor account balances. This serves as a deterrent to over drawing accounts, which happens during disasters. Another benefit is that it allows credit unions to compete with the large bank networks like Bank of America with 6,600 branches. The shared branching network has 2,257 branches in the United States.

“Times have changed and the competition is fierce; credit unions are trying to meet the competition,” said Beach. “The cost of joining a shared branch network is a lot less than building a new branch.”

It would be hard to find fault with that notion. Credit union margins are declining and credit unions are scrambling to find ways to decrease costs and gain competitive advantages.^{ix} As branch expansion continues (and research indicates that this will continue^x), shared branching costs are far less than building a new branch. It costs an

average of \$2 for a cash deposit with no cost for member verification, and about 3 ¾ cents per transaction, according to CUSC numbers. “Hurricane Katrina was a trigger for shared branching,” said Bonnie Kramer, COO of Financial Service Centers Cooperative, Inc. (FSCC), one of the three shared branching networks available to credit unions. “The key concern for members was access to cash. Members needed reassurance that their money is safe even though the building may have been destroyed.”

For members who lost their papers, identification was not a problem if they were a member of a shared branch network. They were able to access their accounts on the shared network by answering three to five questions—including social security number, telephone number, street number, or the name of their loan account.

One of the reservations about shared branching is the fear that the host credit union will pirate members. And for smaller credit unions, shared branching may be costly. For business continuity planning, joining a shared branch network is a wise strategy. If the cost is a factor, a credit union can join for the duration of the recovery, which is an offline procedure. Another option is the use of the kiosk as a mini-branch. The kiosk is essentially a self-service branch with a wireless router and wireless connection. It can be deployed to a disaster area. Members can perform most transactions that would do at a branch, with the exception of money orders.

Business Continuity and Disaster Recovery CUSO

Six Washington, D.C. area credit unions formed a CUSO, Ongoing Operations, LLC, in March 2005.^{xii} Each credit union invested \$150,000 in the enterprise; since that time, four additional owners were added and a total of 16 credit unions now use the CUSO’s services. Five of the original six founding members consisted of government employees credit unions; a complication was the use of hot sites during emergencies. During Code Orange or Red disruptions, relocation of employees and facilities could be a problem if the area is shut down. If the hot site is located in government facility, the site may be closed down.

Ongoing Operations offers a remote phone center that allows credit unions to route some or all of their calls in a service disruption. It also provides connectivity to the member credit union as well as work stations, servers, equipment, and PCs in a 32,000-square-foot facility in Hagerstown, Maryland. The site has access to a variety of transportation routes to the member credit unions, and there is sufficient distance from coastal areas that may be affected by flooding.

Mobile branches are available and can be set up within 48 hours, which includes a trailer and a satellite dish. Credit unions pay a monthly fee to reserve the space. When a disaster strikes, the credit union can move into a fully operational office.

The most popular services, according to Drake, are the data center and hot site for disaster recovery, followed by business continuity planning, business impact analysis,

work space, and data vaulting. “Business continuity can be viewed as a pyramid of recovery,” said Drake. “First the business impact analysis, secondly the plan to put into effect and finally the funding of the plan.”

Ongoing Operations offers software that assists in the planning and updating of the business continuity planning. Encrypted data can be sent via the Internet to the backup site—a more efficient process since it eliminates the handling of tapes, according to Chris Meese, CIO of Northwest Federal Credit Union. If a disaster strikes, your last data is available to you at the backup site because it was sent via the Internet, said Meese.

Treating Partners and Vendors Well

A partnership is like a marriage—it can make life blissful or miserable, or more likely somewhere in between. For business continuity planning, valued partners are those that help to return services to the members and organization as quickly as possible. For information technology, the goal is to restore connectivity of systems back to the credit union.

One message that was repeated throughout the interviews: develop and nurture relationships with partners and vendors before the disaster. When the business disruption occurs, vendors and partners will have their own difficulties and their current customers will be at the top of the list. They may not have time to service new customers. One of those interviewed, who asked to remain nameless, said credit unions are sometimes noted for treating vendors poorly.

The importance of finding quality vendors was brought home by a 1997 snowstorm in Michigan. T & C Federal Credit Union’s server lacked power for five days.

“Today our data center and our key branches are protected by natural gas generators,” said Jackie Buchanan, VP of information technology for the credit union. “We will not contract with a vendor who lacks a fully tested backup system.” The pertinent information on vendor backup systems can be examined in the SAS 70 report, which the vendor details their business continuity plans.

SAS 70

The Statement on Auditing Standards No. 70 (SAS 70) reports on a service organization’s internal controls and safeguards, when they host or process data belonging to their customers. The SAS 70 is performed by an independent third party and offers an assessment of the control's effectiveness.

A Type I report includes the service organization’s description of its controls and objectives, and an auditor’s opinion on the suitable design of the controls in meeting the specified objectives. A Type II report, in addition to the Type I components, includes a test and evaluation of the effectiveness of the internal controls.

Each discipline in the credit union needs to examine their third party's business continuity plans and understand potential vulnerabilities. If your credit union is planning to use a partner for information technology services, consider the following checklist to understand vendor and credit union responsibilities in Figure A.^{xii}

Figure A: Outsourcing technology services checklist.

- ? **Staffing.** Provider should have sufficient and knowledgeable staff available to provide onsite technical support to ensure resumption of services at the recovery site.
- ? **Processing Time Availability.** Provider should allocate sufficient processing time, resources, and security controls for multiple clients. Provider should have the ability to process normal volumes of work within appropriate time requirements.
- ? **Access Rights.** The provider should disclose any access limitations and should guarantee the credit union's right to use the facility in an emergency. The credit union should understand priority arrangements, such as a first-come, first-serve basis.
- ? **Hardware and Software.** The recovery site should have software and hardware that is compatible with the credit union. The credit union should monitor the compatibility of the site to ensure software and hardware compatibility. The vendor should be required by contract to notify the institution of any changes in the hardware, software, and equipment at the recovery site.
- ? **Security Controls.** The credit union should ensure that it is able to maintain adequate physical and logical security controls at the recovery site.
- ? **Testing.** The provider contract should allow access to the recovery site for periodic testing. At a minimum, the recovery site should have one full-scale test annually, including verification of telecommunications capabilities. The credit unions should ensure that the provider also performs periodic tests of its own business continuity plan and submits test results to the credit union.
- ? **Confidentiality of Data.** The credit union should ensure the provider can maintain the confidentiality of its business and member data. The provider should maintain controls sufficient to ensure the security and confidentiality of the information assets consistent with the credit union's information security program.
- ? **Telecommunications.** The credit union should review the telecommunications redundancy and capability at the recovery site, including how communications from the credit union to the recovery site will be established. The provider will take necessary actions to ensure that adequate telecommunications services—voice and data—are available for all its clients.
- ? **Space.** The recovery site should have adequate space to accommodate the affected credit union's recovery staff.
- ? **Printing Capacity and Capability.** The recovery site should maintain adequate printing capacity to meet the demand of the affected credit union under acceptable levels of services.
- ? **Contacts.** Credit union management should know the procedures for declaring a disaster, including who has the authority to declare a disaster and initiate a recovery site. The credit union should maintain an updated list of contact names and phone numbers for the recovery site provider.

Developing Community Partnerships

Recent disasters indicate that community organizations often take the lead in helping a community recover, especially when government efforts falter. Non-profit organizations such as Red Cross and Salvation Army play a major role in these efforts. Developing working relationships with non-profit organizations and identifying community resources makes good business sense and helps business continuity planning.

“The more involved in the community, the better for the credit union and the community,” said Michael Hiller, VP administration, Stanford Federal Credit Union, Palo Alto, California. “Belong to the chamber of commerce and establish relationships with someone in the health department and you get an idea of what is coming down the pike in health issues, such as avian flu.”

The credit union has a history of building solid relationships within the Stanford University community. In addition to being a part of the academic community, one can become a member of the credit union by joining the “Friends of Palo Alto Library.”

Hiller said that local community resources, such as Palo Alto Neighborhood Disaster Activity (PANDA) are a city resource that offers training in first aid, earthquake preparedness, and other natural disasters. In his role as vice president of administration, Hiller is safety officer and second in responsibility to the CEO for business continuity and disaster recover.

After a visit to the PANDA website^{xiii} the reader would likely agree with Hiller about the utility of community resources in business continuity planning. Among other offerings, it provides individual and business checklists for pandemic flu, fire, flood, and terrorism. In the summer of 2006, it offered classes on introduction to disasters, disaster medical operations, fire suppression, terrorism, search and rescue, and disaster psychology.

The PANDA website poses a question that is relevant for families and organizations alike: During a time of emergency the city's primary duty is to ensure public safety. In a catastrophic event, city resources may be overwhelmed. Are you ready to organize your family and assist your neighbors for the first three days?

Hiring a Vendor

Many organizations are opting to hire business continuity firms or consultants as systems and operations become increasingly complex.

“The benefit to hiring a business continuity consultant is that they can start with a template of what a typical continuity plan would need for the lending area, the call center or the accounting department,” said Jennifer Lehn, EVP, Numerica Credit Union, Spokane, Washington. “The important factor to look for in a business continuity consultant is extensive financial institution experience.”

Sometimes the business continuity or disaster recovery businesses can provide subtle assistance that organizations neglect to consider. After the Oklahoma City bombings, for example, Oklahoma Federal Credit Union hired a company that managed all of the disaster recovery. One of its first actions was to give cell phones to all officers and directors.^{xiv}

Vendor Contracts

When NCUA examiners consider vendor relationships they check to see if your vendor contracts contain the following. While the elements pertain mostly to information technology, some of the elements are relevant to all contracts.^{xv} Figure B lists points to consider in vendor contracts.

Figure B. Vendor contracts.

- ? Does the contract specify confidentiality requirements for member information? (Gramm Leach Bliley Act)
- ? Does the contract document the ownership of data and processes by each party entering into the contract?
- ? Does the contract outline the responsibilities, duties, and liability of each party?
- ? Does the contract address software details such as source code agreements, escrowing software?
- ? Do contracts identify the roles, responsibilities, and controls for exchange of information between external parties?
- ? Does the contract address minimum service levels for each service provided by the vendor?
- ? Does the contract identify the monthly, quarterly, and annual reports which will be provided to the credit union to evaluate the vendor's adherence to service levels identified in the contract?
- ? Does the contract address minimum security procedures to protect member and credit union information?
- ? Does the contract address encryption for sensitive data on backup tapes and storage facilities?
- ? Does the contract identify services to be performed by the service provider including duties such as software support and maintenance, training of employees?
- ? Does the contract outline the obligations of the credit union?
- ? Does the contract address parties rights in modifying existing services performed under contract?
- ? Does the contract provide guidelines for contract re-negotiation?
- ? Did the credit union submit the contract to legal counsel for review prior to signing the contract?

Leagues

Credit union state trade associations are valuable resources for business continuity planning as well as disaster recovery. The Florida Credit Union League provides an able example of keeping purpose constant in a state where hurricanes are a way of life. That state of Florida is also a model of business continuity and disaster preparedness. The state government spends the necessary resources to make sure citizens are evacuated and communications are accurate and effective.^{xvi}

“The league is a central place for information and resources,” said Marvin Garland, CFO. “This information can be critical to keep communications open and assist the credit union

as needed in a timely manner. If something happens to the CEO or a key person, we are prepared to help the credit union directly.”

The Florida league provides cash grants to employees who are victims of a disaster. Through the Florida Credit Union Foundation, employees can receive a grant of \$500 immediately after a disaster. This is coordinated by the foundation through the CEO of the affected credit union.

“We give a grant of \$500; it’s not a large amount, but seems to work,” said Garland. “It helps employees get on their feet for a few days. After the dust settles, we may give more, for example, \$1,000 or \$1,500.” The amount of \$500 for a grant is also being adopted as part of new rules for the Department of Homeland Security. Emergency aid was previously \$2,000 per family and contributed to fraud and abuse of up to \$1.4 billion in assistance during hurricanes Katrina and Rita. To obtain grants under the new rules, applicants will need to be registered with the Federal Emergency Management Agency.^{xvii}

The Florida league has a phone system that is set up prior to a storm. The credit union can obtain a separate phone line whereby they can record messages for staff and members, which is a practical and inexpensive means of maintaining communications. The league also has corporate relationships with large companies, like Office Depot, to provide supplies for credit unions during times of shortages.

Even though the Louisiana Credit Union League had to surmount formidable barriers with only 20 employees, they were able to provide a multitude of services. Anne Cochran views the league’s role as one of coordination with other organizations. Mid States Corporate, for instance, wanted to adopt a credit union; the league helped to make that happen.

“We coordinated credit union foundation and other foundation efforts,” said Cochran. “We identified credit unions that had needs and worked with partners like CUNA. We held a credit union job fair.”

After the recent disasters, the Texas Credit Union League developed innovations that bear notice. According to COO Bob Gallman, the league is preparing server capacity that will host their credit unions’ disaster recovery plans. The server will be password protected and available to credit unions as a back-up site during a disaster. The league will also request access to the plans to assist credit unions in their recovery.

The league is also investigating a plan whereby each credit union CEO in the state would be issued a “Push-to-Talk” phone, similar to a “walkie-talkie.” During emergencies, this would give the league the ability to communicate with all credit unions through this system, since they have different broadcast systems than land or cell phones. This system, developed by Sprint-Nextel, was invaluable to Louisiana Credit Union League CEO Anne Cochran’s efforts to keep in touch with staff and credit unions in that state during the hurricane aftermath.

“The lesson learned is that communications is the key to disaster recovery,” said Gallman. “You need to keep in contact with your various constituencies—members, staff, regulator, insurance, and data processor.” The league also developed the “Disaster Planning Guide” for its credit unions.

Credit Union National Association, Inc.

The outpouring of help during the hurricanes of 2005 was heart rendering; credit unions contributed \$3.4 million to gulf state credit unions. CUNA role’s is one of coordination of the national movement’s response in emergencies to ensure continued service and confidence to members from their credit unions.

“Adopt a Credit Union” was a program whereby credit unions could “adopt” and help credit unions in the gulf states. Some 21 credit unions participated and the assistance included funding, staffing, and equipment. Within the first few weeks of Hurricane Katrina, CUNA received offers from 131 credit unions to provide assistance.

The Disaster Preparedness Committee was formed under chairman Guy Hood, president of the Florida Credit Union League. The goal is to recommend to CUNA’s board of directors a plan to coordinate the “essential and appropriate responses to the significant financial, operational, legal, political and public relations challenges created by a national catastrophe or emergency,” according to the committee’s vision statement.

“We are trying to get all of the players in the system—leagues, CUNA, foundations, corporates—to provide a coordinated response,” said Hood. “There is a need for credit unions to be prepared, not just by developing a business continuity plan, but rehearsing and practicing that plan. We also need to match needs with movement resources in a time of disaster.”

The Disaster Preparedness Committee will examine issues that surfaced during disasters like currency supplies and difficulties in replenishing cash. Armored cars, for instance, were prevented from entering New Orleans and other gulf coast areas because of a lack of security. “We are asking the corporates to develop a secure method of replenishing suppliers. During a disaster, cash is king—you have a cash economy,” said Hood.

The Disaster Preparedness Committee gave CUNA Strategic Services the charge of developing an array of services that would help credit unions in future disasters. Wes Millar, SVP said that “Katrina was the wake up call. It revealed the need for complete, up-to-date credit union disaster plans and demonstrated the competence that some providers had in delivering services to the affected credit union clients. Since then, CUNA has assembled an array of providers offering products and services that range from business continuity planning to backup systems, and mobile facilities to telecommunications recovery.”

“The time for credit unions to establish relationships with disaster recovery providers is before a disaster strikes,” Millar continued. “When the phone system goes down and the

water is rising and you can't communicate with your suppliers, you want to have confidence that your recovery program will protect you.”

People Needs

“I believe that man will not merely endure: he will prevail. He is immortal. . . . because he has a soul, a spirit capable of compassion and sacrifice and endurance.”

—*William Faulkner's acceptance speech for the Nobel Prize for Literature, December 10, 1950 in Stockholm, Sweden. Faulkner was a resident of Oxford, Mississippi.*

According to a report in the *New York Times*,^{xviii} New Orleans is experiencing what appears to be a “near epidemic of depression and post-traumatic stress disorder, one that mental health experts say is of an intensity rarely seen in this country. It is contributing to a suicide rate that state and local officials describe as close to triple what it was before Hurricane Katrina struck and levees broke 10 months ago.”

The local mental health-care system is close to collapsing, and emotionally disturbed residents are being left to the devices of the police department, which has crisis management skills but no medical background. The police department's mobile crisis unit answers some 150 to 180 emotional distress calls a month—many are suicide attempts.^{xix}

Employee Mental Health

As the situation in New Orleans indicates, emotional trauma is a malady that lingers on long after the disaster passes. Adding to the mix is the reality that many American organizations tend to ignore emotional and mental problems, hoping they will fade away. They will ensure proper treatment for a broken leg, but anxiety or depression is ignored, even when it gets in the way of work. The emotional well-being of employees and management is one area of business continuity planning that is frequently overlooked.

The CEO can be the focal point of an inordinate amount of stress. After the Oklahoma Federal Credit Union was destroyed in a bombing, a board member walked up to CEO Florence Rogers and asked how quickly the branch would be operational. The board member was inconvenienced by having to travel the extra distance to another branch. Fortunately, the credit union was able to resume operations within three days at Tinker Federal Credit Union, said Mike Retelle, divisional claims manager for CUNA Mutual Group.

“The impact of the disaster can be felt for many years later,” said Retelle. “Many CEOs left because of stress—there is too much pressure on the CEO.”

The board can take measures to alleviate some of the duress. The CEO may lack adequate authority to make quick decisions on money—he or she may have a spending limit that limits quick decisions, such as the purchase of the mobile unit.

“The responsibility in a disaster has to be shared by a core of people with equal power, so more than one person can make a decision,” said Retelle. “The best made plans don’t always work, you need the ability to adapt, to use common sense.”

Counseling Services

More than 100,000 children in Mississippi suffer from post-traumatic stress syndrome after the hurricanes Katrina and Rita, according to Charles Elliott. “The human dimension is the number-one issue in a disaster,” said Elliott.

The Mississippi Credit Union Association (MCUA) made a concerted effort to help employees to cope with the emotional distress from the hurricanes. The MCUA organized group counseling for credit unions and their employees. The sessions typically served 10 employees; the “most important thing to convey is what they were feeling was normal.” For planning purposes, making sure credit unions have access to employee assistance programs is critical, said Elliott.

“Every day they drive through debris that used to be their home,” said Elliot. “They lost control of their lives. We help them understand the effect of stress on their body. The most important goal is not to lose hope.”

As public and visible community financial institutions, credit unions are vulnerable to a garden variety of traumatic events. Robberies are the most common occurrence that can open a floodgate of emotions. DuTrac Community Credit Union, Dubuque, Iowa, had two robberies several years ago and in a separate incident, an employee was attacked by knife-wielding, deranged individual. The credit union used the services of an employee assistance program for on-site counseling.

“The EAP counselors came in after the robberies and had group counseling where people talked about the experience and their role,” said Sarah Yoder, SVP of human resources. “The counselors talked through the emotions, gave assurances that emotions are valid, feelings are okay.” Employees and management need the reassurance that feelings of sadness and depression are normal and acceptable.

Follow-up individual counseling was offered, but the employees passed on the offer. “In hindsight, we should have required one-on-one counseling for some of the employees that were struggling with the robbery,” said Yoder. Organizations are typically reluctant to require counseling; management often fails to act hoping the problem will recede with time. There is general agreement among human resources professionals when management should intercede.

“Management should get involved when it affects work performance and can affect morale,” said Kent Streuling, VP of human resources, America First Federal Credit Union, Riverdale, Utah. “Emotional problems should be documented, tied to performance, and measurable.”

Organizations are loath to intercede with employee emotional problems because of fear of litigation, and fears of running afoul of laws, which Streuling calls the “Bermuda Triangle” of laws and regulations—the American with Disabilities Act, Family Leave Act, and Workmen’s Compensation.

Trauma Team

One of America First’s branches had the unusual experience of three employee deaths occurring within a short time span—six months. The credit union has a trauma team that is dispatched to branches for these circumstances. The trauma team, usually used for robberies, consists of six to eight people. Each member of the team has specific assignments: media relations, auditing, police and FBI liaison. A vice president leads the team. The credit union also has a separate team to handle earthquakes that also serves as the first response for fires.

Effective planning can mitigate the effects of traumatic events. Managers should be trained to look for signs of emotional distress. “EAP is a good resource; it’s not just for problems when they occur,” said Streuling. “You can use it in training programs before the problem becomes too serious.” Leagues and the credit union’s insurance carriers also have good training programs, some at no cost to the credit union, said Streuling.

The primary focus of business continuity efforts is to “do everything in your power to take care of your people, and define that term broadly,” said Dave Savoie, CEO of Louisiana Corporate Credit Union. “It might include spouses, children, siblings, parents, even pets. Cast a wide net. People cannot focus when they are unsure about the security of their day-to-day arrangements.”^{xx}

Louisiana Corporate operated remotely for 79 days with the help of U.S. Central and the corporate network. Savoie said that credit unions need to communicate business continuity goals as well as the importance of their jobs during contingency operations. In a time of disaster, the continued operation of the American financial system is as “vital to civil order and people’s welfare as standing in the disaster area handing out food and water,” said Savoie.

“When credit union employees do their individual jobs, members can access their accounts and send cash to loved ones,” said Savoie. “In a disaster area cash can equal survival. Our staff understood that the work they were doing was just as important as handing out ice and blankets, they were enabling people to take care of their needs.”

Planning for NCUA Requirements and Regulations

Planning Focus

Business continuity planning has become more complex with technology, regulations, and complex operations. But the central focus is still the member and if you follow that reasoning it will benefit both the member and the credit union.

“What is the core member need in the event of a disaster?” said Joe Brancucci, VP of lending and chief lending officer, Boeing Employees Credit Union, Tukwilla, Washington. “If you are ready for these moments, you will build a relationship. The analogy is seeing someone in the street about to run over by a car. You run and save their life and you form a special bond with that person.”

All business continuity planning flows from the central focus of the member’s need, said Brancucci. Some members will need food, others will need clothing, others housing. The key is to process this immediately. “Your main concern in planning is to make the member comfortable,” said Brancucci.

There are five primary issues for business continuity planning, said Brian McVeigh, SVP and CFO of NuUnion Credit Union, Lansing, Michigan:

- Cash availability for members
- Credit availability for members and the credit union
- Records security
- Facilities
- Restoration of credit union operations

NCUA Requirements

The member focus should be followed when considering NCUA requirements as well.^{xxi} NCUA lacks a business continuity regulation at this time, although it may issue one in the future with the increased focus on preparing for catastrophic events. Regulatory guidance has been in the form of regulatory alerts, examiner questionnaires, and letters to credit unions. So, it would be more accurate to say that NCUA requires certain actions in business continuity and recovery. Recent communications from NCUA and FFIEC have informed credit unions of the new requirements.^{xxii}

NCUA requires all federally insured credit unions to have comprehensive, written, updated, and tested disaster recovery and business resumption contingency plans—collectively referred to as contingency plans—for all critical resources. The latter includes everything from power sources and information systems to the credit union’s physical offices and its employees.

The credit union's board of directors and senior management are responsible for developing the appropriate contingency plans, or assigning this task to a work group representing all areas of the credit union. The credit union must conduct a business impact analysis to determine the impact certain events would have on the institution's critical resources.

From this business impact analysis, the credit union should develop detailed contingency plans and design a validation method to test the plans' effectiveness at least annually. The credit union should determine how to best communicate the contingency plans to staff, and have a strategy in place to notify members, business partners, and the NCUA in the case of an emergency.

To summarize, NCUA expects all federally insured credit unions to:

- Develop, update, and test written business continuity and disaster recovery plans
- Ensure that business continuity is enterprise-wide, not just an IT exercise
- Communicate disaster preparedness and response efforts before, during, and after an emergency to keep members, employees, and regulators informed
- Adopt a process-oriented approach involving business impact analysis, risk assessment, risk management, and risk monitoring.

An "enterprise-wide" plan is a critical element; it recognizes that business continuity is no longer just a recovery of the core processor. Effective business recovery, according to NCUA requires participation of all departments and functional areas of the credit union. The FFIEC's Business Continuity Handbook states:^{xxiii}

"In enterprise-wide business continuity planning an institution 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."

Regulations

Even though NCUA doesn't have a specific business continuity or disaster recovery regulation at this time, Part 748.1 (b) of NCUA's regulations does require federally insured credit unions to notify their regional directors within five business days of any catastrophic act that occurs at its offices. A catastrophic act, according to NCUA "is any natural disaster such as a flood, tornado, earthquake, etc., or major fire or other disaster resulting in some physical destruction or damage to the credit union."

Vital Records

In the computer age, records—especially electronic—have become the lifeblood of the credit union. Management needs to determine what records are "vital." A record is vital if is necessary for current or future operations and can't be reconstructed without serious

loss to the organization. It is also vital if it has proprietary or confidential information and is required by regulations. If the information is unable to be obtained from another source or can't be reconstructed from another source, it is likewise considered to be vital.

NCUA has a definition of what makes for a vital record. Part 748.0 (b) (5) of NCUA's regulations, states that one component of a federally insured credit union's security program is the prevention of the destruction of vital records. Part 749—records preservation program—defines vital records:

“Vital records include at least the following records, as of the most recent month-end:

1. A list of share, deposit, and loan balances for each member's account which:
 - Shows each balance individually identified by a name or number
 - Lists multiple loans of one account separately
 - Contains information sufficient to enable the credit union to locate each member, such as address and telephone number, unless the board of directors determines that the information is readily available from another source
2. A financial report, which lists all of the credit union's asset and liability accounts and bank reconcilements.
3. A list of the credit union's financial institutions, insurance policies, and investments. This information may be marked “permanent” and stored separately, to be updated only when changes are made.”^{xxiv}

NCUA Examination Questionnaire

NCUA recently developed an examination questionnaire to help examiners in reviewing a credit union's business continuity and response planning for technology and information systems. Figure C lists some of the elements that examiners will consider for your business continuity planning.^{xxv} Figure D provides questions for backup and recovery.

Figure C. NCUA examination questionnaire.

- ? Has management established and documented a business continuity plan to ensure that all systems—including essential non-systems—and related business processes can be recovered in a timely manner?
- ? Does the credit union's business continuity and/or disaster recovery plan (BCP/DRP) address the timely recovery of its IT functions in the event of a disaster?
- ? Is the BCP/DRP appropriate for the size and complexity of the credit union?
- ? Does the plan identify critical plan personnel, their backups, a command center site, and an alternate command site?
- ? Are critical business functions identified and prioritized?
- ? Is the BCP/DRP tested periodically, and what was the date of the last test?
- ? Has the credit union performed a business impact analysis (BIA)?
- ? Has management established maximum allowable down times for the critical business functions identified above?
- ? Does management review its plan at least annually or whenever there are significant changes in the technology, infrastructure, or IT services of the credit union?

Figure D. Backup and recovery.

- ? Has the credit union ever invoked its disaster recovery plan? If so, was the plan modified based upon lessons learned?
- ? Does the BCP/DRP take into consideration those services provided by outsourced vendors?
- ? Has management established appropriate backup policies and procedures to ensure the timely restoration of critical services?
- ? Are BCP and recovery procedures maintained at the alternate site and off-site storage locations in a secured manner?
- ? Is security at the recovery site adequately addressed?
- ? Does management schedule the backup and retention of data as well as the erasure and release of media when retention is no longer required?
- ? Are updated hardware and software inventories maintained, including version numbers for software?

Policies

It's a fool's errand to develop a policy that is a long, drawn-out document that collects dust in the boardroom and remains unused. This is rarely the intent of the staff charged to develop policies, of course, but it is too often the result for many policies and planning exercises. Stanford Federal Credit Union offers a brief and readable backup facilities policy in Figure E that bucks this trend.

Figure E. Backup and recovery policy.

Level 1 – An emergency affecting one or more individual branches.
In the case of an emergency involving a single, non-headquarters branch, which renders that branch unsafe or inaccessible for more than two hours, that branch shall be closed and secured by the branch manager or his/her backup and traffic shall be routed to other branches.

Level 2 – An emergency affecting SCFU headquarters.
In the case of an emergency affecting SFCU headquarters, which renders headquarters unsafe or inaccessible for more than four hours, the affected buildings shall be closed and secured by the department managers and SFCU facilities. Temporary HQ operations shall be established at the Pampas Lane Branch until HQ access can be restored.

Level 3 – An emergency affecting all SFCU facilities.
In the case of an emergency affecting all SFCU facilities, The CEO and all vice presidents shall assemble as soon as safe and practical at the following location to assess damage and plan for coordinated response.

Assembly Location:
Off-site storage location at 1600 Plymouth
Behind Golden Bay Federal Credit Union
1600 North Shoreline
Mountain View, CA
[take Shoreline exit from U.S. 101 freeway]

Assembly Instructions:
Assemble within 30 minutes of emergency event, if possible and safe to do so.
If you cannot reach the assembly location, call in as detailed in the Quick Guide.
Bring cell phone and department copy of emergency response plan.
Bring department emergency supplies bucket and backup office supplies box if safe and reasonable to do so.

NCUA suggests that credit unions develop policies that will provide direction for management and staff in their business continuity planning. Some of the recommended policies: vendor oversight, physical and data security, e-commerce, computer use including e-mail and use, networking, firewalls system acquisition and change management, software development and maintenance, capacity planning, auditing and monitoring, backup recovery and records preservation program, disaster recovery, and business continuity.

Liquidity Policies

Since cash availability is a critical concern in disaster recovery, liquidity planning and policies are central to business continuity. Policies should outline the lines of credit that are available to the credit union—the Fed, corporates, banks—and make sure these lines will be available in an emergency. A disaster is akin to rate shocking the balance sheet.

“This is a shock that is happening to your credit union—you need to make critical and quick decisions,” said Brian Smith-Vandergriff, strategist, CNBS. “Your liquidity policy becomes a featured part of your business continuity efforts. Ensure that documentation of lines of credit is readily available. Develop contingency plans if the need arises to generate funds through selling CDs or selling part or the entire loan portfolio.”

Business Impact Analysis

This type of analysis examines the business units of the credit union by determining what is critical to the operation of the credit union as well as their timelines. For example, payroll may occur twice a month; ACH may take place on the 15th of each month. Each critical function is assessed and prioritized as to the impact on the viability of the organization. If the website goes down, for instance, or if a branch has no coin or currency, determine the impact and importance.

A business impact analysis (BIA) is a method of first assessing risks then determining what the effects of the risk might be. The BIA determines the degree of advance warning, what measures could be taken to lessen or eliminate the event, and the cost. And an estimate of the time the credit union operations will be interrupted is made.

A credit union’s business impact analysis should consider the following elements given in Figure F.^{xxvi}

Figure F. Business impact analysis elements.

- ? List the priorities of potential business disruptions
- ? Conduct a gap analysis comparing the credit union’s existing business continuity plan to what is necessary to achieve recovery time and objectives
- ? Analyze threats based on the impact of the institution, its members, financial markets
- ? Determine financial impacts and exposures—unacceptable deposits, uncollectible loan payments, penalties or fines, overtime, idled employee wages
- ? Determine potential severity of the specific operational concerns and when they begin, how rapidly they escalate
- ? Assess what technology each business area needs to resume operations—computers, servers, telephones, LANs/WANs, third-party providers, special equipment
- ? Determine what resources are needed—staff, work spaces, office furnishings, copiers, fax machines, special equipment

Financial Management Planning

Cash and Liquidity Planning

During times of disaster, members want two things from their credit union—assurance that their money is safe and cash to fund emergency needs. When telecommunications and electricity are down, the affected areas are rapidly transformed into a cash economy. Members may need large amounts of cash to pay for critical goods and services. It makes sense to plan ahead for larger cash amounts.

“In our planning efforts, we worked ahead of time to obtain cash providers—the Federal Reserve, corporate credit unions and larger banks—to make sure cash will be available,” said Brian McVeigh. “We set up potential sources of collateral, a process that started with Y2K.”

The CFO’s responsibilities for business continuity are to “uphold obligations in the financial system—cash letters, transactions, correspondent products, and relationships with the Fed and corporates,” said McVeigh. “We make sure that we have the financial muscle to make it happen for us.”

Cash management during a disaster can bring unexpected results. Members of a gulf credit union in Texas made claims for destroyed homes and received their claim checks. The members deposited the checks in the credit union, but it was difficult to find contractors to do the work. The result was that the credit union had an excess of millions of dollars. “In a case like this, you have to make a decision on what to do with the excess funds,” said McVeigh.

Ensure that denominations are in small amounts. During Hurricane Katrina, members of several credit unions wanted smaller denominations because it was difficult to make change. There were reports of vendors charging—and receiving—\$20 for bottles of coke because they couldn’t change large bills.

Charles Elliott also reminds credit unions to consider that in the next foreseeable event, the need for cash will be *prior* to the event, not just after. “In Katrina, we taught members that full access to their funds may be limited after a disaster,” said Elliott. “It is doubtful they will wait until after the event to access funds next time.”

Lending Requires New Logarithm

In a disaster, lending requires a new logarithm, one that should focus on the primary needs of the member. ATMs and debit or credit cards may be unusable, and members will have to pay for goods and services.

“It is important to put yourself in the member’s shoes,” said Joe Brancucci. “What is it going to feel like as a member in distress? They will need cash in excess of normal needs. You are going to use a form of triage—what can you do to save the member’s financial life?”

Brancucci speaks with an accent of experience. More than 7,000 members of the credit union were affected by Hurricane Katrina. The credit union has also experienced Boeing Aircraft strikes which affected more than 80,000 members. All disaster recovery follows one principle—helping the member. The loans and processing have to be done quickly, said Brancucci.

Boeing had a 50% reserve on its loans during Hurricane Katrina. “We left those members alone; we froze their loans in time. You can’t be concerned about members taking advantage of you,” said Brancucci. “In practice, our disasters haven’t resulted in more than normal losses.”

Member Assistance Program

Boeing Employees Credit Union has a member assistance program that has gained national prominence for its innovative loans to members during a disaster. It is the practical application of the “people helping people” philosophy. The program is activated in response to a strike, natural disaster, or other event. “You don’t respond because you have to; you respond because you want to, it’s in our credit union’s DNA,” said Brancucci.

Once credit union management declares an economic event, extensions and income interruptions loans are available to members that qualify. The income interruption loan is a needs-based loan to help members cover rent, mortgage payments, medical expenses, and food. The amount of the loan depends on the member’s need. The first payment for the loan is deferred for 90 days.

Loan extensions are offered during normal times, but during a disaster, the credit union offers extensions on a broader basis. An extension will not affect the member’s credit bureau rating. Under normal circumstances, an extension is granted at 60-day intervals. When an economic event is declared, the extension is granted for the duration of the event. Brancucci’s advice:

“Every member should have line of credit. We may automatically give members an increase in credit during a disaster. During an earthquake, for example, we give them an automatic 10% or 20% increase in credit.”

Insurance

Many citizens of Mississippi are shaking their heads with sadness and anger when they learned that their home insurance policies did not cover flood or water damage. The damaged homes are not covered because the owners lacked flood insurance; the owners

charged that their insurers said that they didn't need flood insurance. The damages and what will eventually be covered will be settled in court as litigation over the issue is playing out. Senator Trent Lott of Mississippi is one of those affected and is party to a class-action lawsuit.

This example is a cautionary tale for credit unions and individuals to maintain adequate insurance coverage as well as to read the fine print and understand the limits of their insurance. One of the first principles of insurance coverage for the credit union is to base the coverage on replacement cost not assessment values, said Mike Retelle, divisional claims manager for CUNA Mutual Group.

"You'll pay the percentage of loss that you are underinsured. For example, if \$100,000 is the cost of replacement and you have it insured for \$80,000, you are underinsured by \$20,000 which you'll pay."

Retelle said that it was important to determine proper coverage as opposed to "shopping premiums." Many people will take whatever insurance will give them as extra expense; they might pay \$2,000 for \$50,000 of extra expense, then ask how much for \$25,000 extra expense, said Retelle.

The question comes to mind: Where does the credit union go for insurance advice, if the perception is that the insurance company has a vested interest in selling the organization more than it needs?

"Most states don't allow insurance companies to over-insure, or make excessive charges, they will impose sanctions like fines," said Retelle. "It is not in our interests to overcharge. If a building is valued at \$500,000 and we unknowingly allow a credit union to insure it for \$1 million, we may have to pay the \$1 million if it is destroyed, and that is counter to our and the credit union's interests."

CUNA Mutual Group and other insurance companies have tools on their websites that will tell you what the costs are to replace a building and the costs are updated on zip codes, and type of area. "We recommend values, but you have to do the due diligence yourself," said Retelle.

Relaxing Safeguards

When a credit union relaxes its safeguards, or takes shortcuts during times of disasters, "make sure you are willing to accept the consequences," said Retelle. "Some credit unions didn't realize that human nature may equate a disaster as an opportunity. With their systems down, some gulf state credit unions allowed members to make ATM withdrawals for up to \$500 a day. Some members quickly realized that proper safeguards were not in place and pulled out thousands of dollars out creating millions of dollars in losses for several credit unions."

As soon as ATMs were giving excess money, the word on the street was that credit unions were giving away money. “These people rationalize it that the credit union was helping us during a disaster; this was immediate needs fulfillment, like a baby,” said Retelle.

“The credit union has a responsibility to protect the interests of the membership and the credit union,” said Retelle. “Common sense is needed; the plan has to allow for rapid changes in situations.”

Training and Testing

NCUA requires a credit union to develop detailed contingency plans and design a validation method to test the plan’s effectiveness at least annually. Boeing ECU is as close to an automated shop as a financial institution can be—94.9% of its operations are automated. In the event of a disaster, however, the core, member facing staff is trained to do manual transactions.

For Boeing Employees Credit Union and other credit unions, there are a number of reasons to training employees and testing. Regularly scheduled training and testing verifies recovery strategies and capabilities and “tests” the business continuity plan. In essence, testing will show that the business recovery objectives can be met during a business interruption.

All employees have a role to play in both business continuity planning and should be involved in both the training and the testing. The FFIEC identifies the following test process methods:^{xxvii}

- Orientation or walk-through to ensure that staff is familiar with the business continuity plan
- Tabletop or mini-drill, which is more sophisticated than a walk-through and is focused on an event scenario
- Function test, which is an actual mobilization at other sites to establish communications and coordination
- Full-scale test, which implements all or portions of the business continuity plan by processing data and transactions at a recovery site

After the testing takes place, management and staff needs to analyze the results of the testing to check the readiness and capabilities of the business continuity plan. At this point, management needs to determine what worked well, what went wrong or unexpected, and what areas need to be improved. Once the weaknesses are identified, management can direct efforts to improve the plan.

Additional benefits accrue from testing and training that are beyond governmental requirements; one is employee morale. “It’s important that employees trust the credit union that it has a plan and that it works,” said Michael Hiller. “The knowledge that you have a workable plan will help keep employee morale up.”

Stanford Federal Credit Union conducts two drills a year to test its business continuity plan. In addition, they hold tabletop drills, whereby they meet in a room and discuss various scenarios and the credit union's response. "For example, if a plane would crash into a branch, what would we do? We walk through the steps we would take," said Hiller.

As part of its training, Stanford developed inexpensive "earthquake kits," for each department that cost less than \$20. One of the items included is a hand-crank radio, which can operate without electricity. New Orleans Mayor Ray Nagin used a hand-crank radio to maintain communications during Hurricane Katrina, when electricity in the city was down.

Systems

As stated previously, business recovery was traditionally considered to be a function of restoring the core processor. Even though financial services and business recovery have evolved dramatically, restoring the core processor, technology and systems is still a critical function of business recovery. There are three main priorities for technology departments in business recovery—data recovery, telecommunications recovery, and software application recovery, said Jim Morrell.

Backup Recovery

Backup of all network data is completed on a nightly basis at iQ Credit Union. "Our focus is to get the critical infrastructure up and running," said Morrell. Its data processor has multiple locations in different parts of the United States.

Morrell said that having a vendor with multiple hot-site locations in different geographical areas of the United States is advantage for the credit union. Morrell uses the metaphor of Russian Nesting Dolls: After you open one doll up another is waiting, "I've seen some with three dolls, some with 30 dolls inside," said Morrell. "The focus is redundancy—the more redundancy the better. That's important in a vendor."

"Members want to know when the credit union will be operational again," said Morrell. "What is going to instill the most confidence in the organization? In selecting a vendor, you have to make a value judgment based on credit union and member needs. The key with telecommunications is how we bring back connectivity to all parts of the organization. If we can't connect to other parts of the organization, the data is no longer useful," said Morrell.

In assessing technology recovery, it is also necessary to assess third-party relationships. "We have 20 to 25 critical third party relationships out of a total of 50 to 75 third-party relationships, but this number changes in time and for different people on staff, who would choose different partners," said Morrell.

Morrell said that their partner's environments change as well, so they have to continue to work on connectivity with partners to ensure that their partners can still operate. The credit union has to ensure that critical partners have adequate security and recovery plans. Some of the critical partners, said Morrell, include bill payment vendors, ATM networks, debit card processors, and credit bureaus.

Recovery Inventory

A recovery inventory is a practice that will allow the credit union to determine what are the critical assets needed to recover. They include:^{xviii}

- Recovery hardware
- Recovery voice and communications
- Supporting documentation
- Recovery data communications
- Software and data backups
- Special forms
- Vital records
- PC non-standard software and local hard drive backups
- Call lists
- Critical current work
- Recovery supplies
- Policy, procedure, regulatory manuals

Communications

Hurricane Katrina and other disasters indicate that communications with employees and members can become problematic. "Confusion and communication problems can follow in a hurricane's wake," said Eddie Vollenweider, VP systems, Greater New Orleans Federal Credit Union. "For Katrina, the disruption was taken to an unbelievable level."

The communications challenges for Greater New Orleans Federal Credit Union were daunting. The 504 area code was disabled, including cell phones. Postal service and e-mail service were down. It was difficult to contact employees, board members, and members. The credit union's list of communications methods that *did* work is helpful to review:

- The website kept members informed. The website message center replaced direct e-mail, and external e-mail was set up.
- Employees went to the members at tent cities and posted notices at various locations
- Cell phones based out of immediate area worked as did text messaging
- Loan payment dates were relaxed

In the future, the credit union's employee call list will include a relative out of the New Orleans area. And the audio response system will be part of the immediate recovery. The credit union's intranet will be hosted on the Internet. Members will be educated about remote services before the hurricane season.

"Communicating with senior management was a problem," said Anne Cochran. "Our communications system was totally wiped out. I would communicate with some areas in Louisiana, but not New Orleans."

In Mississippi, the league office and five of their seven employee's homes were without power for days after Katrina; communications were uneven. "The first action credit unions should take in a disaster or emergency situation is to contact their league," said Charles Elliott. "That starts a crucial chain of communication and support."

Call List

The call list or phone tree was cited by those interviewed for this report as the crucial part of the business continuity planning. Cabrillo Credit Union in San Diego has a phone tree that has four components, said Ann Legg, VP of marketing. The first two actions are taken by the CEO, who notifies the board members and chair; then he notifies senior management. Senior management notifies middle management and middle management notifies the staff.

Call lists should also include critical vendors, public safety officials, and media contacts. An effective means to inform members is critical. And as mentioned earlier in the regulatory section, NCUA requires federally insured credit unions to "notify their regional directors within five business days of any catastrophic act that occurs at its offices."

Cabrillo Credit Union experienced the "Cedar Fire" in 2003, which forced the closure of the administrative center for a few days. The air quality at the center was poor and ash was found in all surrounding areas. For six months, the credit union offered members in the affected areas \$10,000 interest-free loans.

Automated Call List

Phone trees take time and the message can become distorted as it passes from person to person. Most of us can remember the grade school exercise of starting a message with one student and having each student repeat it to the next. The final message bears little relation to the original communication. And with recorded announcements, there is no method to know if the message has been received. Some companies are using automated systems that can send messages to large groups that use different devices—cell phones, pagers, or e-mail. And the systems are able to tell if the message has been received.^{xxx}

Before Hurricane Wilma struck Florida in October 2006, Carnival Cruise Lines sent automated emergency messages to 900 of its employees. In about 20 minutes, the

company had notified all of its employees and knew who had received the message and how many would show up for work.^{xxx}

Sprint Nextel Corporation used an automated calling system during Hurricane Katrina to reach its disaster response team. Members of the team could confirm if they received the message and automatically join a conference call by pressing a button on their keypad.

CUNA has also developed the “Credit Union National Emergency Information System.” When a disaster occurs, CUNA will receive notification from CUNA Mutual Group and leagues of affected credit unions to activate the system. The member as well as the media can then call a toll free number, 1-877-CULOCATE, to receive information about a credit union.

Remote Access

An unexpected result of the Cedar Fire in San Diego was the value of remote workers. “I work at home two days a week,” said Legg. “If you have remote access, you are able to access important data without going into the office. You can be responsive and work off-site if the main office is down.”

Some companies issue laptops to key employees and provide secure access to corporate networks via virtual private networks. These companies are also using online collaboration tools that allow remote workers to communicate and share files with colleagues. These options can be expensive, but some vendors are experimenting with software that will allow access only during an emergency, similar to shared networks that allow emergency use.^{xxxi}

Media Relations

Disasters can bring out the best and worst in the media. The media is not looking out for the best interests of the credit union. It is not their role to be compassionate or considerate. They want stories, and the more sensational or even lurid, the better.^{xxxii}

It’s prudent business to develop and adhere to a media relations policy. “Identify key people who will speak to the media,” said Mike Weber, VP marketing and public relations for Dupaco Community Credit Union, Dubuque, Iowa. As with other third party relationships, it’s advisable to develop and maintain effective relations with the media before the disaster occurs. “We have a good relationship with the major media outlets; we make it a point to know the people personally,” said Weber.

The relationship building has paid off for the credit union. “We have a high profile in the community and have become one of the top three or four financial institutions in the area,” said Weber. “And that puts us on the radar for local media outlets in terms of news coverage and sponsorship opportunities.”

Avian Flu and Other Pandemics

It is fitting to end this white paper with a review of avian flu and other pandemics, because they represent current threats that organizations face and need to include in their planning. It is a good practice to plan for both the best-case and worst-case scenarios as it is for all of business continuity planning.

Avian influenza has become pandemic and a permanent part of the health environment across parts of Asia. Migratory birds are spreading it internationally. No human-to-human transmissions have been reported. In planning for avian flu and other pandemics, two scenarios come to the forefront. The first and best-case scenario—avian flu fails to become human transferable. The second and worst-case—avian flu becomes human transferable.^{xxxiii}

In the summer of 2006, the worldwide health community was in a state of uncertainty regarding avian flu. A comparable time in history is the early outbreaks of SARS in 2003. Precautionary measures such as border closures put a damper on travel. Reduced labor and shopper mobility could begin to slow economic activity. If it is a mild pandemic, economies should recover quickly and the world health authorities and scientists should be able to master it.

In the worse-case scenario, there would be large-scale supply and demand shortages and global economies would decline; raw material prices would fall along with interest rates. A prolonged period of labor immobility would result in more intensive use of capital and technology, especially Internet-based commerce. The gravest effect would be on economies with low expenditures on health.^{xxxiv}

Recent studies indicate that a new vaccine developed by GlaxoSmithKline is more effective than any previous version and works at a smaller dose. The ability to immunize people with smaller doses increases the potential to make sufficient quantities to protect much of the population if an epidemic occurs. Until these studies, high-dosage requirements have been an obstacle to making a vaccine widely available for avian flu. This is an encouraging development, but it is unknown if the vaccine would be effective if avian flu mutated.^{xxxv}

The World Health Organization in Geneva has 10 points to consider about pandemic influenza as given in Figure G:

Figure G. Pandemic influenza.

?Pandemic influenza is different from avian influenza. Avian influenza primarily affects birds. On rare occasions they can affect other species. An influenza pandemic happens when a subtype emerges that has not previously circulated in humans.

? Influenza pandemics are recurring events. Three influenza pandemics occurred in the 20th century—the Spanish Influenza in 1918, the Asian Influenza in 1957, and the Hong Kong Influenza in 1968.

?The world may be on the brink of another pandemic. Health experts have monitored a severe influenza epidemic—the H5N1 strain, which is an avian virus.

? All countries will be affected. Given the speed and volume of international travel today, the virus could spread more rapidly than previous epidemics.

? Widespread illness will occur. Most people would have not immunity to the virus.

? Medical supplies will be inadequate. Supplies of vaccines and antiviral drugs will be inadequate in all countries at the start of a pandemic and for months after.

? Large numbers of deaths will occur. WHO uses a conservative estimate—from 2 million to 7.4 million based on the relatively mild 1957 pandemic.

? Economic and social disruption will be great. Disruptions could be temporary, but amplified in today's interrelated commerce.

? Every country must be prepared. WHO has recommended a series of actions for responding to the influenza pandemic threat. The actions are designed to provide layers of defense.

?The World Health Organization (WHO) will alert the world when the pandemic threat increases. A worldwide system that can detect emerging influenza strains is essential for the rapid detection of a pandemic virus. Six phases have been defined for planning purposes. The present is phase 3—a virus new to humans that causes infections, but does not spread easily from one person to another.

Concluding Thoughts

Through a close examination of research, interviews, and case studies a new business continuity landscape emerges. There are several lessons to be learned from this white paper:

1. Business continuity planning has changed dramatically due to a confluence of events—both man-made and natural—as well as technology advances. Business continuity consisted of ensuring that the credit union's core processor would be up and running after a disruption of services. Y2K was a tipping point; it forced organizations to prepare for disruptions.
2. Flexibility and quick actions are the foundation of business continuity. Organizations and individuals must make correct decisions during "the golden hour," a term that originated in combat medicine to describe the time when acting fast may save those in jeopardy.
3. One of the lessons learned from Hurricane Katrina and other recent disasters is that credit unions, because of their cooperative nature, have advantages that banks and other

financial institutions lack. Shared branching triumphed during recovery efforts after Hurricane Katrina. A considerable number of credit unions were not part of the shared branching network; those that were part of the network were able to provide cash to members and serve as a communications link with their credit union.

4. For business continuity planning, valued partners are those that help to return services to the members and organization as quickly as possible. It's a good business practice to develop relationships with partners and vendors before the disaster. Credit unions have a mixed record of their treatment of vendors. When business disruption occurs, vendors and partners will have their own difficulties and their current customers will be at the top of the list.

5. Recent business disruptions indicate that community organizations often take the lead in recovery of a community when governments falter. Developing effective relationships with non-profit organizations and identifying community resources is a wise strategy and helps business continuity planning.

6. American organizations tend to ignore emotional and mental problems. They will ensure proper treatment for a broken leg, but organizations often ignore emotional problems, even when they get in the way of work. For large-scale disasters, the trauma lingers on for a long period of time. The CEO may be working under considerable stress, but lacks the authority to make quick decisions on money—he or she may have a spending limit that limits quick decisions, such as the purchase of the mobile unit.

7. NCUA requires all federally insured credit unions to have comprehensive, written, updated, and tested disaster recovery and business resumption contingency plans—collectively referred to as contingency plans—for all critical resources. NCUA's regulations require federally insured credit unions to notify their regional directors with five business days of any catastrophic act that occurs at its offices.

8. A record is considered vital if is necessary for current or future operations and can't be reconstructed without serious loss to the organization. It is also vital if it has proprietary or confidential information and is required by regulations. If the information is unable to be obtained or can't be reconstructed from another source, it is also considered vital.

9. A business impact analysis examines all of business units of the credit union by determining what is critical to the operation of the credit union as well as their timelines.

10. During times of disaster, members want two things from their credit union—assurance that their deposits are safe and cash to fund emergency needs. When telecommunications and electricity are down, the affected areas are transformed into a cash economy.

11. In a disaster, lending requires a new logarithm, one that focuses on the primary needs of the member. ATMs and debit or credit cards may be unusable, and members will need cash to pay for goods and services

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Council Members

Jim Morrell, VP support services and CIO at iQ Credit Union in Vancouver, Washington. Technology Council.

Jackie Buchanan, VP of information technology, T & C Federal Credit Union, Pontiac, Michigan. Technology Council.

Michael Hiller, VP administration, Stanford Federal Credit Union, Palo Alto, California. HR & Training/Development Council.

Bob Gallman, COO, Texas Credit Union League, Dallas Texas. Operations Council.

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Eddie Vollenweider, VP systems, Greater New Orleans Federal Credit Union, New Orleans, Louisiana
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- Accel Members Financial Counseling. Offers confidential financial counseling services.
- Agility Recovery Solutions. Offers a solution to get your credit union back up and running and connected to your members including mobile facility space, computer technology, satellite communication, and portable generators.
- Canon USA. Provides user-friendly document imaging systems.
- Diebold. ATMs, cash dispensers, and special-application terminals.
- Perimeter Internetworking. Offers the ability to securely store and access records from your network on a secure connection anywhere.
- Strohl Systems. Offers an Internet-based business continuity planning tool.
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Additional Resources

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