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Test Drive Your Disaster Recovery Plan What Other Advisers Learned About Disaster Recovery – and You Should Know

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While SEC regulation* instructs advisory firms to conduct an annual review of their compliance policies and procedures (to include in their business continuity plan), no later than April, 2006, many advisers have not yet formally tested their disaster recovery plan. We spoke with several financial service firms who have either implemented or tested their disaster recovery plans to find out what they learned and what they would do differently.

Though George Young, of Villere & Company in New Orleans, La., and his three partners had prepared for hurricanes many times before, the extensive devastation caused by Katrina last year made portions of their disaster recovery plan obsolete.

In the first few days following Katrina, Young said the four partners shared a singular focus: "find the clients, find the clients." Because Young's firm has worked with several generations of the same families since 1911, knowing the extended families of their clients made them easier to locate. Nevertheless, says Young, "now we have emergency contact information for all of our clients."

Young says at the time Katrina hit, they did not have a plan to relocate employees. While the partners relocated to Houston and sublet office space from another advisory firm, "it took three weeks for us to find all the employees." In the ensuing three months, the partners performed many of the duties of their five back office employees. During this time, Young states, "One difficult thing to learn was how to send out wires quickly. Some clients needed accounts to be opened elsewhere and have money wired to them to buy a car or a house."

Dan Skiles, vice president for technology at Schwab Institutional, confirms that executing trades continues to be an extremely important function of servicing clients during a disaster. Skiles emphasizes that performing a test to recover your data is not an adequate test of your disaster recovery plan. Rather, "you need to conduct a drill as though you are unable to access the office. This includes taking calls from clients, conducting a trade, sending a wire to a client in two hours ... performing downloads for more than one day." Skiles stresses, "It's not about seeing the data on your screen, but conducting business."

While Young and his partners were able to quickly get up and running in Houston, it took their phone provider three weeks to forward their New Orleans office number to their new number in Houston. This isn't surprising in hindsight, considering the recovery process for the phone company and that Young's firm was one of many thousands of businesses clamoring for service.

With regards to phone transferability, Kurt Johnson, director of network technology for Northstar Financial Services Group, LLC, in Omaha, Neb., made a very useful discovery when performing a disaster recovery test. As the parent company of Orion Adviser Services, LLC, an outsource provider of portfolio management back office services with nearly \$10 billion in assets under management, Northstar's disaster recovery plan is an important component to attract new advisers to the idea of outsourcing.

After performing a detailed analysis of the types and scope of disasters likely to cause business disruption (tornados being at the top of the list), Johnson opted to lease a "hot site" located 30 miles from their current office. Set up in a warehouse that has a secure data room, the hot site contains duplicate servers to which they replicate critical data and mirror their Web site. The hot site is already set up with enough computers and Internet-enabled phones to accommodate up to 50 employees in two shifts. An important component of the site selection, says Johnson, was that it be on a different power grid than their current location. During a dry run of transferring the phone and other critical data functions to the hot site, Johnson found he ran into too many hurdles dealing with the phone company — responses such as you're not authorized to make this change; we'll have to get a supervisor's approval.

"It would have been at least a day — or maybe three weeks — for call forwarding [to get activated] ... we need to cut over quickly. Our critical systems need to be up within two hours," Johnson said. Consequently, he purchased a "remote forward" service from the phone company to allow any of the phone lines in his existing office to be forwarded to a new extension at the hot site, the employees home or cell number without involving the phone company.

Nic Drezins, chief administrative officer of Keystone Capital Management, Inc., in Gulfport, Miss., experienced a similar phone service problem during Katrina. Despite their staff having different cellular providers from Mississippi, Louisiana and Alabama, office employees lost total phone and e-mail communication (surprisingly, text messaging did work), when the Southern Gulf region was impacted by Katrina. Drezins quickly relocated to Arkansas to re-establish communication with his employees.

While Young's firm had access to client e-mail addresses, most of his clients' e-mail addresses were hosted by the same large provider, which was down for three to four weeks. An upside for the firm, according to Young, was that "our Web site was hosted in California by Schwab, so we posted on our site how to get in touch with us. The Web site was the perfect billboard." Young now hosts their e-mail out of Birmingham, Ala., (some 250 miles inland) to reduce the risk of e-mail outage by a hurricane.

Young said while they had back up of their client data, they still had to get back into the city to get their equipment, which was thankfully undamaged on the eighth floor. A week prior to the hurricane, Young signed up for a service that would rebuild their office (within one week's notice) anywhere in the country. Instead Young bought the equipment they needed in Houston within a couple of hours. Young has scrapped this re-build service, and plans to have both on-site and off-site servers.

Drezins' firm didn't have duplicate computer systems at the ready for quick data recovery, though they had data backed up off-site. Since most of Keystone's independent representatives are located throughout the country, Drezins now hosts their server with a company in the Washington, D.C., area, which employees access via terminal server. "In case of a hurricane this year, employees need Internet access. It's the ultimate disaster preparedness plan, because if they go to any hotel, [outside the affected area] they can connect," Drezins said.

While Johnson's firm hasn't experienced a major disaster, his testing efforts helped him rethink his disaster recovery approach. He is considering targeted outsourcing of specific systems — such as Web-based applications for contact and document management — rather than tackling the Herculean task of setting up and maintaining the systems necessary to operate following a disaster. He will focus on the firm's core competency of investment management and selectively use other providers to get them back in business. That will reduce the risk of all of the systems being down at once, he said, plus he likes the idea of "spreading the risk" across other providers. And he intends to perform due diligence of those providers' respective disaster recovery plans.

The good news that Young learned from the recovery effort — besides not losing any clients or data— is that "the advisory business is very portable. You don't have inventory, and you can move relatively easily."

His caveat, however, is when most firms prepare for a disaster they think of an isolated incident "such as a fire in your building or electricity cut by a jackhammer, when really, a firm's disaster plan] needs to address a widespread area."

So, depending on the nature of the disaster, relocating employees to different office space may not be a realistic option. If the disaster is widespread (Katrina flooded roughly 80 percent of the city and many areas of neighboring parishes), many employees' personal lives will also be upended — meaning their homes may be destroyed or damaged and their children out of school.

Relocating employees or commuting to a different location may not be feasible. Some workers, depending on their family situation, may not be able to continue working full time while getting their personal lives in order.

A flu pandemic, which Johnson says "is probably the biggest thing going right now in disaster recovery," is a good example of where relocation doesn't make sense. According to U.S. Department of Health and Human Services, employers should expect 40 percent absenteeism at the peak of a pandemic due to illness, caring for or grieving for family members, and fear of coming to work. Trying to connect your employees from their home into your office phone and computer systems for an extended period represents a different kind of challenge, particularly since the World Health Organization listed potential power problems as one of its top concerns during a pandemic.

Notably, each interviewee stressed the need to test not only the electronic part of recovery (phones, computers), but the human side as well. Considering how much each firm has altered its recovery plans since either testing or implementing those plans, don't take their word for it — it's time to take your own plan for a test drive.

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*http://www.sec.gov/rules/final/ia-2204.htm#P229_86160

Lessons Learned: A Tip Sheet from Practitioners

- Create a wallet-size card of your firm's call tree with employee phone numbers and update periodically, suggests Matt Norton, IT director of Sullivan, Bruyette, Speros & Blayney, Inc., in McLean, Va. Almost everyone has their wallet or purse with them, making it easy to enact the call plan in the event of a disaster.
- Ensure you ask the following questions of new and existing clients:
 - A. Please provide us with your emergency contact information
 - B. In the event of a widespread disaster, please provide us the contact information of where you plan to relocate
- Reduce the fallibility of key resources in a disaster by contracting with a Web or e-mail hosting service provider that is not local to your geographic area.
- Ensure you have enough control and knowledge of your Web site that you can quickly update your Web site yourself in the event of a disaster.
- Communicate to clients in advance how to reach you in the event of a disaster — especially your Web site.

- Set up a password-protected portion of your Web site for employees to use and post to during a disaster as a back-up to phone systems not working.
- Pay extra for services that give you more control — such as activating call forwarding on your office phone — without having to rely on the service provider.
- Establish and communicate in advance a disaster recovery payroll plan for employees who may be unable to work full time during the disaster recovery period.
- Test a plan under which you successfully get your phone and key computer functions up and running within 48–72 hours of disaster.
- Be prepared to wire money to clients and provide emotional support during a stressful time. "Many clients needed us to help them make long-term decisions," said Young, and at that point, "they treated us as psychologists, not just advisers."
- Review business continuity planning for a flu pandemic, suggests Johnson. See www.shrm.org/hrmagazine/articles/0506/0506cover.asp.