Staying Disaster-Ready in Treasury

A KEY ASPECT OF ANY BUSINESS CONTINUITY PLAN

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All businesses are vulnerable to disasters. In the United States, companies in coastal areas bear the risk of hurricanes, in the West there are wildfires, and Midwestern businesses face tornadoes. In addition, there are events that can strike an organization regardless of location or season, such as cyberattacks, terrorism, labor strikes, power outages and outbreaks of illness. All companies face potential disruptions that could threaten to interrupt their business operations and play havoc with their cash flow.

The key to your organization surviving such disasters could very well be the resiliency of your treasury management function. According to the Association for Financial Professionals (AFP), it’s vitally important that treasury managers take a leadership role in business continuity planning and develop detailed contingency plans for their departments.1

Indeed, a well-documented treasury continuity plan can help organizations anticipate likely scenarios, outline response actions and react rapidly, increasing the likelihood of resuming a company’s normal operations – and reviving its cash flow – in a timely manner. This paper suggests some key considerations for financial executives as they build their treasury business continuity plans.

Where to Start?

One of the first steps in developing a treasury continuity plan is to conduct a detailed review of operations and document all cash flow-related processes and how different disasters would impact them.

Another early step is to define all mission critical treasury activities – those you could not live without for several days – and determine how you could work around them if they were interrupted. You want to be able to answer questions such as:

■ In the event of a disaster, how will you fund payroll and time-sensitive trade payment disbursements?
■ How would you bring in money from your cash concentration system?
■ How would you manage your cash position?

1 Business Continuity Planning: Why Treasury Needs a Plan B, a March 2016 special report from the Association for Financial Professionals.
A formal treasury continuity plan should define a specific response for each possible problem stemming from various disaster types, particularly the most likely ones given a company’s geographic footprint. Each response should address implications related to both employees and infrastructure (i.e., hardware, facilities, software).

It’s wise to develop informational matrices to support your plan. You could have separate matrices for various treasury components, such as staffing, facilities, telecommunications, hardware, software and processes. A treasury staffing matrix, for example, might list each treasury staff member and a primary backup person in short-, medium- and long-term disaster scenarios.

**Communications in a Crisis**

Plan to keep the lines of communication open during times of disaster. It’s critical to recovery.

First and foremost, you want everyone on the treasury team to be able to stay in contact with one another. That means members of the treasury staff should have each other’s mobile numbers and even personal email addresses.

It’s also important to have similar contact information for external partners that treasury works with regularly, including your bankers. Although part of your business continuity plan will include treasury employees working remotely when getting into the office isn’t possible, there may be times when they don’t have working internet connections at home and have to telephone the bank to, for instance, request balance information.

**Partner with Your Bank**

It’s important to partner with your treasury management bank on contingency planning. You can discuss with your bank relationship manager the unique circumstances of your business, its particular vulnerabilities where disasters are concerned and your treasury continuity planning priorities. You and your banker might also want to review difficulties you have experienced in past disasters. Some areas where your bank can undoubtedly help bolster your continuity capabilities and planning, through various treasury management solutions, include:

- **Making timely payments.** Of all the potential adverse consequences of a disaster, few could hurt your business and its reputation as much as an inability to initiate normal daily payments in a timely manner.

  Be sure to discuss with your banker the important role online and mobile banking applications can play in the event of a disaster. Using your smart phone or other mobile device, in conjunction with these banking applications, you and authorized staff members can review information, initiate and approve transactions, pay bills and manage accounts anywhere you have internet access.
Should You Buy Business Interruption Insurance?

Another essential part of preparing for a disaster from a financial perspective is being properly insured. Standard property insurance can help a business pay to rebuild or replace property damaged in a disaster, but what about the money your company would lose if it was forced to close for any length of time?

For that, there’s business interruption insurance – and here are some important facts about such coverage from the Insurance Information Institute:

■ Business interruption coverage isn’t sold as a standalone policy. It is generally added to a property insurance policy or a commercial package policy.

■ What it can cover: Revenue lost due to a business closure, fixed expenses such as rent and utilities, and costs associated with operating from a temporary location.

■ What it won’t cover: If you buy business interruption coverage as part of a commercial property policy, it only extends to events stipulated as part of the core coverage. So if your property insurance doesn’t cover wind damage, for instance, you won’t be able to build into it protection against business interruption losses from a windstorm.

1 https://www.iii.org/article/covering-losses-with-business-interruption-insurance

In a disaster, you also will benefit from the full array of electronic payment origination capabilities your bank can provide. Wire transfers and Automated Clearing House (ACH) payments allow you to deliver critical trade, tax and other time-sensitive payments without concern for disaster-related Postal Service delays that can slow check payments. What’s more, recently introduced, same-day ACH capabilities enable companies to make urgent payments at a lower cost.

And don’t forget the importance of keeping payroll on track. By adopting direct deposit of payroll, you can use the ACH to electronically deposit pay into employee accounts and avoid disaster-related delays in distributing payroll checks.

■ Collecting payments. Similarly, talk to your banker about treasury management solutions that can help you avoid disaster-related delays in incoming cash flow. One bank service that can help is remote deposit capture, which can enable staff to deposit checks into a bank account online, when physically transporting them to a bank branch would be challenging or impossible.

■ Meeting temporary financing needs. By slowing incoming cash flow, disasters can create short-term financing needs. For instance, a natural disaster in your area could result in many of your local customers experiencing a business interruption, which could lessen their need for your products – or put a crimp in their cash flow, making it difficult for them to pay trade creditors like your business.

To be prepared for such a contingency, talk to your banker about establishing a line of credit that will be sufficient to keep your business afloat if cash flow from customer payments were to temporarily dwindle.

■ Keeping cash on hand. If you are a retail business with a lot of cash receipts, and you must be able to make change, plan to order extra coin and currency from your bank in advance of forecasted bad-weather events.

■ Making emergency purchases. Commercial cards available from your bank can enable essential personnel to cover emergency business expenses. For instance, what if you had to send employees to work in another office in the region, and they had to stay in a hotel and pay for meals?
Card program administrators can use online and mobile card management programs to adjust parameters such as spending limits in real time to respond to a disaster event.

- **Protecting critical business documents.** Talk to your bank about how its safe deposit box services can help you protect important financial and other business documents from being destroyed in a disaster.

**Test to Evaluate Preparedness**

It’s not enough to draw up a good plan and detailed matrices and adopt banking products that are useful in disaster situations. You also need to train all your treasury staff on every facet of your plan, so they know what to do and how to use the tools at their disposal.

The simplest way to test your plan is a walk-through tabletop exercise. Sit your key treasury people around a table with their planning documents and put them in a state of emergency. You might tell them there’s a tornado resulting in a power outage at a certain time of day, for instance. And then you make them think through the recovery process. Generally, this exercise will result in some plan improvements.

A higher level of testing is an actual hands-on recovery exercise, where you relocate your treasury people to an alternate site and ask them to perform their daily functions from that site. Be sure to test system backup and redundancy plans under different scenarios, and have employees simulate and test working remotely using their mobile and online banking applications.

You don’t want to wait until a disaster actually strikes to learn if your treasury continuity plan works, so test your plan on a regular basis. And whenever your organization experiences significant change, such as new technology, a new business line or an acquisition, update the plan to reflect that change.

*For additional planning tips and suggestions, talk to your BB&T relationship manager or Treasury Management representative.*

**Online Planning Resources**
