

*Testimony of*

Edward L. Yingling

*On Behalf of the*

AMERICAN **BANKERS** ASSOCIATION

*Before the*

Subcommittee on Oversight and Investigations

*Of the*

Committee on Financial Services

United States House of Representatives

June 29, 2006



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Madam Chairwoman and members of the Subcommittee, my name is Edward L. Yingling. I am President and CEO of the American Bankers Association (ABA). ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

Thank you for the opportunity to present the views of the ABA on the pandemic preparedness efforts of the financial services industry. Banking institutions have significant business continuity programs in place designed to maintain and recover their critical operations if any disruptive event occurs. Over the course of recent years, these plans have evolved to cover low-probability, high-impact events such as terrorist attacks, wide-scale natural disasters, and other significant disruptions that might affect specific institutions, an entire financial district or metropolitan area, or particular segments of the economy. A pandemic falls into this category of potential events, and preparations are currently underway.

No one knows whether the virus currently infecting birds, commonly known as the avian flu, will mutate into a strain communicable from human-to-human. What we do know is the value of planning ahead, even for remote events. Moreover, the current avian flu is not the only threat. As Secretary Michael Leavitt of the Department of Health and Human Services recently noted, it is highly likely that at some point in the future a virus will trigger pandemic flu.

In my statement today, I would like to make three points:

- **Banks have a proven record of effective disaster recovery.** Over time, bankers have successfully coped with a wide variety of business disruptions and will continue to deal with such disruptions effectively in the future. Banks have well-tested procedures for developing and revising their disaster recovery and business continuity plans based on changing events and new risks. The ability of banks to withstand events such as 9-11 and Hurricane Katrina is a testament to their preparedness.
  
- **The banking industry is undertaking significant preparations for a potential pandemic.** Our industry has already completed a great deal of work to assist financial institutions in their preparations. Through our recently completed Emergency Preparedness Toolbox, which I will discuss in greater depth later in my testimony, the ABA has provided each of our members with resources to assist their pandemic planning. This resource is based, in part, on the collaborative efforts underway across the entire financial services industry to address this issue. The Treasury Department and the federal and state financial institution regulatory agencies are active partners in this collaboration.
  
- **Industry preparations are taking into account how a pandemic differs from other events.** While existing bank disaster recovery and business continuity plans will be relevant during a potential pandemic, institutions are isolating those issues that are distinct to pandemics. Our ultimate goal, as always, is to ensure we can provide the critical banking services we offer to our customers as our customers deal with and recover from any emergency.

I will discuss these points in more detail.

## **I. Banks Have a Proven Record of Effective Disaster Recovery**

Recent history shows that American banks have been prepared for and effectively responded to disasters. When faced with natural disasters, banks have a proven record of operating smoothly,

protecting consumers' deposits and providing continued access to their funds. Banks are also required by law and regulation to have extensive disaster recovery plans in place and state and federal regulators routinely examine each bank on their preparations.<sup>1</sup>

Disaster preparedness and business continuity plans are generally focused on restoring a bank's ability to operate regardless of the nature of the disruption. The objective of these plans is to allow the institution to continue to serve its customers, minimize financial loss to the institution, and also mitigate the negative effects disruptions can have on an institution's overall operations.

There are several distinct components to a bank's disaster preparedness and business continuity planning process:

- ***A business impact analysis*** that identifies the bank's critical business functions and prioritizes them;
- ***A risk assessment*** that prioritizes potential business disruptions based on severity and likelihood of occurrence; and
- ***A risk management process*** that documents strategies and procedures to maintain, resume, and recover critical business functions.

These components are continually reviewed within banks to ensure that they accurately reflect the institution's current critical functions and the potential disruptions to those functions. It is only through active and ongoing review that an institution can ensure that it has an appropriate risk management process that addresses current threats to the institution.

This continuous review process has recently been "battle-tested" as a result of the hurricanes of 2005, in particular Hurricane Katrina. We may be in a weather cycle wherein storms of significant magnitude will be more likely than in the most recent past. Banks in hurricane-prone zones have reevaluated their risk assessments and amended their disaster recovery and business continuity plans in light of the increased threat, and will continue to do so going forward. The review process these institutions are going through today will allow them to withstand the storms of the future better.

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<sup>1</sup> The Federal Financial Institutions Examination Council (FFIEC) *Business Continuity Planning IT Examination Handbook, March 2003*, details many of the pre-Hurricane Katrina disaster preparedness and business continuity planning regulatory expectations of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Many of the lessons from Hurricane Katrina and the other storms of 2005, as well as recent earthquakes, floods and fires, tornadoes and 9-11, are applicable to banks no matter where they are located. It is for this reason that, in October 2005, ABA Chairman Harris Simmons appointed a special joint task force of ABA member financial institutions and state bankers associations to apply the lessons we have learned from such emergencies so that the banking industry will be even better prepared to protect the financial assets of our customers, provide banking services as quickly as possible, and speed relief to help rebuild our communities.

The task force recently completed work on the ABA Emergency Preparedness Toolbox. This resource assists banks across our nation in refreshing their disaster preparedness and business continuity plans as a result of recently experienced threats. It also is designed to help institutions modify their existing plans to deal with the avian flu and other potential pandemics.

## **II. The Banking Industry is Undertaking Significant Preparations for a Potential Pandemic**

Central to the efforts underway to assist banks in their pandemic preparations is the work of the Financial Services Sector Coordinating Council. The Council is essentially an “association of associations,” consisting of all the major national financial trade associations, financial utilities, and other important financial service organizations across the banking, insurance and securities industries, including the ABA. The Council’s purpose is to coordinate critical infrastructure and homeland security activities in the financial services industry, and toward that end it works closely with the U.S. Department of the Treasury and the financial institution regulatory agencies on these issues.

This collaborative effort is of great assistance to our industry. In January of this year, the Council completed some important work on pandemic preparations, issuing a paper entitled *Issues for Consideration Regarding Preparations for “Avian Flu.”* The paper is intended to assist financial institutions in thinking through and addressing the issues posed by the potential for a serious influenza outbreak in the United States in the next several years. As I noted earlier, the pandemic preparedness portion of ABA’s new Toolbox draws upon the collaborative work of the Council. The ability to distribute such resources broadly throughout the financial services sector is an important component of our overall preparedness efforts.

The ABA is also a member of the Council’s Infectious Disease Forum. Many of the Council’s efforts to assist financial institutions in their pandemic preparations will be accomplished through the

Forum. The goals of the Forum include:

- Develop a repository for best practices and other planning information for Council member firms and their member organizations relative to infectious disease;
- Collaborate and coordinate with:
  - Public sector partners to develop a common set of planning assumptions to use in developing individual company plans;
  - Other financial sector infectious disease working groups to facilitate information sharing and ensure a consistent approach to planning;
  - National government agencies/health organizations to understand their response plans and trigger points; and
  - Other sectors upon which the financial sector is dependent for the purpose of determining their readiness and identifying issues for further study.
- Develop personal preparedness guidelines that Council members and their member organizations can provide to employees;
- Explore the feasibility of conducting an Avian Flu tabletop simulation exercise; and
- Develop relationships, contacts and protocols among Council organizations that will facilitate collaboration and coordination during an actual event.

Importantly, much of the future work of the ABA and the Council will be accomplished in conjunction with the Financial and Banking Information Infrastructure Committee, which has organized an Avian Flu Working Group. The Committee consists of the federal and state financial regulatory community across banking, insurance, and securities, and is charged with enhancing the resiliency of the financial sector, particularly through improving coordination and communication among financial regulators and the institutions that they oversee. The Department of the Treasury's Assistant Secretary for Financial Institutions, Emil Henry, chairs the Committee.

Coordination between the Council and the Committee on financial resiliency issues has been a cornerstone of the partnership between the industry and the regulatory agencies since 9-11, was vital during the storms of 2005, and will be an important component of private sector preparations associated with a pandemic.

### III. Industry Preparations are Taking Into Account How a Pandemic Differs from Other Events

While much of a financial institution's existing disaster recovery and business continuity plans will be relevant during a pandemic, banks are currently adjusting their existing plans to address this new threat. The section of the ABA Toolbox entitled *Preparing for the Avian Flu and Other Potential Pandemics* is designed to help banks adjust their plans, focusing on the avian flu to illustrate the considerations for all potential pandemics.

Unlike other disaster events, it is not likely that a pandemic will directly affect the physical infrastructure of an institution, but high levels of absenteeism need to be assumed. Another notable difference is that a pandemic will not be limited to a specific geographic area, which means that assistance may not be available from other parts of the country. A third difference is that key sectors of the economy, that banks rely on for support, may be affected by a lack of available personnel, meaning that supplies may not be available. For example, will gasoline be available if many refinery workers are not at work for long periods of time.

Therefore, banks and other key sectors need to plan for these differences. Much of the planning associated with the pandemic is to ensure that banks have an effective communication program in place for employees and customers. Reviewing any current procedures to share pandemic-related information with local health and emergency management organizations is also advisable as part of a bank's preparations. There are a variety of employee health and safety issues that we have advised our members to consider as they go through the process of revising their plans, as well.

As a pandemic has distinct phases, we have recommended that our members develop a specialized business continuity plan for such an event that is structured accordingly. In reviewing their current plans, we have advised our members to consider taking the following steps during this planning stage:

- **Identify a Coordination Team** – Identify a pandemic coordinator and team with defined roles and responsibilities for preparedness and response planning.
- **Identify Critical Operations** – Review current business continuity plans to determine how they can better take into account the potential difficulties posed by a pandemic. Communicate with third-party service providers of these operations to ensure they are aware of your plans.

- **Identify Operations that Could be Suspended** – Review existing business continuity plans to identify activities or functions that could be suspended during a pandemic.
- **Plan to Split Critical Staff** – During a pandemic, split critical staff into two or more teams operating out of different locations.
- **Expand Telecommuting Capabilities** – Determine the level of telecommunication capacity necessary. Evaluate the need to upgrade telecommunication systems to maintain critical operations.
- **Address Local Transportation Issues** – Make special transportation arrangements if necessary for critical employees who would need to report in person to a facility during a pandemic.
- **Address Security Needs** – Evaluate whether in-house or contracted security need to be enhanced to the extent that police and other security services are depleted during a pandemic.
- **Have a Crisis Information System** – Have an automated system in place for management to track how the event is affecting employees and the institution.
- **Phase Your Implementation Plans** – Develop a business continuity plan for a pandemic that is structured to phase in escalating responses as the developments warrant.
- **Coordinate with Local Emergency Management** – Have the bank’s escalation plan coincide with any plan that exists in jurisdictions where facilities are located.
- **Test the Plan** – While comprehensive testing of the pandemic response plan may be unrealistic, testing discrete portions of the pandemic response plan, such as the ability to handle a high volume of telecommuting or teleconferencing, is advisable.

In closing, I would like to stress that we in the banking industry have always recognized the essential services we offer and the critical role we play in our communities and in the national economy, particularly during emergencies. Disaster preparedness is a well-known notion to financial institutions, and when new threats, such as a potential pandemic, present themselves, our experience gives us confidence and commitment to deal with them successfully going forward as we have done in the past.