Continuity Planning

There are few things as under-planned-for, yet as critical as business continuity planning. This course reviews the importance of continuity planning, provides detail on both operational and key-person continuity planning and reviews how to communicate and test your continuity plans. It's important to note that continuity plans are for incidental events, such as a snow day, COVID-19 or a death, not for normal planned business succession.

Overview:

Continuity planning is both necessary and the right thing to do in any type of financial advisory firm. The goal of continuity planning is to limit the negative outcomes of "events" on the efficient and effective running of the advisory practice. What happens if you and your team suddenly can't get into the office due to natural disaster or something like a COVID-19 pandemic?

If you can't get into the office, can you still access client information, can you make trades, can you communicate with clients and your team? What will you do if there is a fire in your building or a fire that decimates an entire town? Alternately, what happens if you, the CEO/Advisor are hurt or killed in an accident? Is your plan documented and well-known by your entire team? Have you done a "dry run," simulating versions of the above (hopefully not due to an actual accident)? All of these questions are covered in this course.

There are regulatory, practical, and ethical reasons to create, document, communicate and test continuity plans. Continue to the following lessons to learn more about the steps you should take to have a solid set of continuity plans. The steps are:

- **Step 1:** Understand the two categories of continuity plans and why they are important.
- **Step 2:** Put an operational continuity plan in place.
- **Step 3:** Put a key-person continuity plan in place.
- **Step 4:** Test, reinforce and communicate your continuity plans.

Step 1: Understand the importance of continuity plans and the two types of continuity plans.

Continuity plans involve preparation for relatively low-probability events that can have a significant impact on your clients, your family and your team. Unfortunately, an SEI study found that only 45% of advisors have a written continuity plan. There are many reasons that you should have continuity plans in place.

The first reason is regulatory consideration, where lack of planning can result in action against the advisor/firm.

The North American Securities Administration Association (NASAA) Model Rule 203(a)-1A (Adopted April 13, 2015) indicates the following:

Every investment adviser shall establish, implement, and maintain written procedures relating to a Business Continuity and Succession Plan. The plan shall be based upon the facts and circumstances of the investment adviser's business model including the size of the firm, type(s) of services provided, and the number of locations of the investment adviser. The plan shall provide for at least the following:

> *1. The protection, backup, and recovery of books and records.*
>
> *2. Alternate means of communications with customers, key personnel, employees, vendors, service providers (including third-party custodians),and regulators, including, but not limited to, providing notice of a significant business interruption or the death or unavailability of key personnel or other disruptions or cessation of business activities.*
>
> *3. Office relocation in the event of temporary or permanent loss of a principal place of business.*
>
> *4. Assignment of duties to qualified responsible persons in the event of the death or unavailability of key personnel.*
>
> *5. Otherwise minimizing service disruptions and client harm that could result from a sudden significant business interruption*

(Found at: https://www.nasaa.org/wp-content/uploads/2011/07/NASAA-Model-Rule-on-Business-Continuity-and-Succession-Planning-with-gu....pdf on 9/24/20.)

The SEC has a similar rule: (206(4)-7) and FINRA does as well: 4370.

As you can see, there are regulatory reasons to have a continuity plan in place. Alternately, you can look at it from a positive perspective. How do you want a continuity event to affect you, your clients, your team and even your family? This is partially an ethical question, "What is the right thing to do?"

It is also a practical question, because contingency events such as a pandemic (like we saw with the COVID-19 virus), floods, etc. can have a real effect on the mental and financial well-being of your clients and your team. As they say, "If you fail to plan, you plan to fail."

Contingency planning is challenging because there are so many possible events to plan for. To simplify the planning process, there are two categories of contingency planning, both of which are addressed in the NASAA guidelines:

- **Operational:** technology, communication, trades, etc.
- **Key-person:** death or disability of the advisor/CEO or a key team member.

Clearly, both can disrupt normal service to your clients and affect your team. Making plans for what will be done in various situations, documenting the plans, communicating the plans, and even testing the plans is all part of a comprehensive contingency planning process. Thinking about all the potential "events" that you should plan for can be daunting. However, if you look at planning categories instead of all the individual events, the planning process becomes more manageable.

As you can see, CEO/Advisors need to have a plan for what to do in each situation, so clients and staff are cared for. The next lesson covers planning for operational contingencies.

Step 2: Create an operational continuity plan.

The last lesson reviewed the reasons that contingency planning is important: it allows you operate your business as close to “normal” as possible, serving your clients and taking care of your team in the case of a disruptive event of some kind. This lesson covers how to put the components of an operational contingency plan together.

COACH TIP: contingency planning will vary based on the size of the practice (specifically the size of the staff) and distribution channel. Some Wirehouses and B/Ds have contingencies in place to smooth out some advisor-based contingencies, such as what happens to clients whose advisor passes away suddenly. However, most RIAs will need to contingency plan for all possible events on their own.

Operational contingency planning includes plans for when you are not able to access:

- The office (fire, flood, pandemic)
- Your team (pandemic, illness, death)
- Technology (IT) (computers, client information, trading, phones)

In many situations, all the above need to be considered, because they go hand-in-hand. A good example is the COVID-19 pandemic, which resulted in most of us not being able to use the office for some time, which resulted in more complicated access to our teams, and our in-office technologies.

The good news is that advances in technology have made operational contingency planning far easier than it used to be. The plan should account for minor, short interruptions, such as snow days; longer interruptions, such as COVID-19-type situations; and natural disasters, such as wildfires and hurricanes.

Here is an outline of the components of an operational contingency plan.

- Communications Plan: In the not-so-distant past, these used to be *calling trees* (meaning that the main way to disseminate information was to plan who would trickle down information to whom via telephone). Now it is a plan for *who* is communicating *what* with *whom* and by *what method* (phone, text, email…) if the office is closed or tech is down. The key is to let everyone know that you are on top of everything. Plan for communicating with your:
    - *Team:* The first layer of communications needs to be with the team, so everyone is on the same page and comfortable with the next steps in the plan.
    - *Clients:* You might choose to provide different client segments with different treatment. For example, A and A+ clients might get a call and email from the advisor, B clients get a call and email from an associate wealth advisor or operations manager and C/D clients get an email.
- Critical functions (timeliness is important) -- How do:
    - Clients get to you and your team
    - Clients get access accounts

    - You and your team place trades
- Books and Records – including backups
    - Stored in encrypted cloud accounts (not just paper)
    - How does team access client information?
        - CRM
        - Accounts
        - Trading system

See the attached FINRA Business Continuity Plan Template for ideas on creating your own plan.

The plan needs to be clearly documented in a way that is easily implemented. Remember, these plans will likely have to be implemented during times of stress and fatigue. A complicated or confusing contingency plan is more difficult to implement in a crisis. Many operational continuity plans look like they were created by lawyers. That's fine to meet regulatory guidelines, but a clear, simplified operational continuity plan that you will use during a disruptive event is critical!

In addition to planning for office and access issues, advisors should have a plan for what to do if a team member has an illness (short or extended) or passes away. Key functions, especially ones that require licensing should have a backup person assigned and trained. In a small office, the backup may end up being the advisor. In larger firms it is easier to spread the work because there is team bench depth.

Coach Tip: When communicating to clients about an extended absence of a team member, it's fine to say the person is out for "medical reasons," but don't say what the reason is.

Don't forget to connect with the team. If the office is closed, continue to have your weekly update/progress meetings (see the CCO course on team meetings to refresh your knowledge of team meeting best practices.) Additionally, check-in with team members you are worried about. Some people thrive during times of uncertainty, while others feel stress that can affect their work and lives. Caring for your team is part of the execution of a good contingency plan.

The next lesson covers what to do in the event of the death or disability of a key-person in the firm.

Step 3: Create a key-person continuity plan.

As you saw in the last step, operational contingency planning is complicated because of the multitude of possible events that can trigger the plan. Alternately, this plan will deal with the two main key-person events that you need contingency plans for: the death or extended illness of the CEO/Advisor or other key person in the firm.

We differentiate the key-person contingency planning based on whether the firm is a single or multiple advisor firm.

Single Advisor Key-Person Contingency Planning

In the event of the death or disability of the advisor in a single-advisor firm, there are several problems that larger, multi-advisor firms don't face.

Single-advisor firms risk ceasing to exist if the advisor passes away suddenly or experiences a sudden long-term disability. The consequences affect:

- Clients who still need service
- Team members who need leadership and a paycheck
- The advisor's family whose lives depend on the business' income.

The first two of the above consequences can be addressed by the advisor's setting up an agreement with another advisory firm to temporarily ensure clients are taken care of and the team is held together. (Although, there is no guarantee that all team members will remain at the firm. They might panic and leave or need to be let go due to the event.)

You need to align with a firm that has a similar business model as yours, especially if you do Broker/Dealer work. The agreement would outline the triggers for activation and the compensation provided to the firm for services rendered.

The consideration for the advisor's family is the same as you would provide to a business owner regarding the need for life and disability insurance. Do a needs analysis for your family's needs and purchase the insurance. The good news here is that this is the simplest part of contingency planning! (The bad news is that you must pass away or become disabled to trigger the contingency plan.)

Multiple-Advisor Firm Key-Person Contingency Planning

There are two categories of multiple-advisor firms that require different key-person contingency planning:

- Partner firms
- Single-Owner firms

Partner Firms:

Larger advisory firms, where at least two of the advisors are relatively equal-share partners, typically put the key-person contingency language in the operating agreement. The key-person planning for firms like this is similar to key -person planning at any closely held firm. The partners will either have a separate buy-sell agreement or the buy-sell language will be part of the operating agreement.

Ideally, the buy-sell agreement would be funded with insurance to minimize the financial effects of the triggering event. Key-person contingency planning for anyone with equity ownership generally requires the remaining partners to buy out the deceased or permanently disabled partner (or the person's family), so having an updated business valuation can significantly smooth the process.

Having a pre-event valuation is important because the equity partners are agreeing to a non-stressed valuation of the business while they are all still "whole and well." Triggering events can enflame emotion that can cause one party to over-value the firm (the owner) while another (the buyer) undervalues it.

Single CEO/Advisor Owned Firms:

These multi-advisor firms could have one or more associate advisors without any equity in the firm. Planning for key-person events in these firms is a hybrid between partnership firms and single-advisor firms. The CEO/Advisor should have appropriate personal insurance to make sure all personal and family funding is taken care of in the case of death or disability. There can be, as with single-advisor firms, an agreement with an outside firm to run things. Additionally, the contingency plan can be written to offer the non-equity involved advisors the opportunity to buy the practice after the event. The problem with this solution is “Where will the associate advisor get the money to make the purchase?”

According to a VP of Carson M&A, the best way to avoid the single owner trap is to begin to transfer fractional ownership to an associate advisor as far in advance as possible. Some advisors worry about transferring ownership to someone they don’t KNOW will work out, but the equity agreement can have a buy-out clause ensuring the majority owner can backpedal if it doesn’t work out as planned.

The equity ownership is important to the key-person contingency planning because funded buy-sell agreements are only available to partners. In these cases, the minority ownership can be gifted, or be seller- or bank-financed. Starting with a small percentage ownership gift is the typical method to start the process, with real buy-in later.

A final point on key-person contingency planning. Many advisors see it as a moral obligation to take care of family, clients and staff, knowing that nothing is guaranteed. Move on to the final step in this course to learn more about communicating and testing your contingency plans.

Step 4: Communicate and test continuity plans

For your continuity plans to succeed if a planned-for event occurs, you need to do two things.

- Communicate your plans to key stakeholders
- Test the contingency plans and make adjustments

Communication:

Who you communicate the plan with and how much you communicate with them is just as important as the plan itself. The communication plan will be slightly different for operational plans than for key-person contingency plans.

- Operational communication plans: communicate roughly the same information with everyone on the team because the event triggering the plan will likely affect everyone roughly the same way. Everyone might need to work remotely, need IT access, etc.
- Key-person plans: the people closest to the outcome of the event will need to have much more information than people less affected. For example, the junior advisor, the minority-owner who suddenly needs to step up, need far more information and preparation than a marketing assistant.

Coach Tip: Don’t forget to communicate key-person plans with any affected significant others. One of our coaching members had a client, an architect, who needed life insurance. The insurance was put into place and the client’s team was informed, but the client’s spouse was not. The spouse ended up being in a better situation than they originally thought they would, but it was still an awkward situation. Another advisor we know passed suddenly. He had signed a continuity plan agreement but never told his spouse or team about it (yikes!), which made the initial transition much more difficult for everyone.

If you have partners, they were likely part of the planning, but if they weren’t (as is often the case with senior vs. junior advisors), make sure they are aware of the plans. Every team member should be aware of where the records of the plans are, and the resources that they will need to deploy the contingency plans. You should include people to contact, policy numbers and other relevant information. Your IT consultant's contact information should definitely be on the list!

All the information in your contingency plans should be held in shared files that the appropriate team members have access to. Choose a file folder title that stands out and is clear, such as, "*Contingency Plan*" or "*Disaster Plan*." Some advisors have all team members sign off that they are aware of the location of the plan, the information they need to know about in the plan, and that they will adhere to the plan in the case of a triggering event.

Plan Testing:

Testing operational contingency plans, at least temporary ones, is relatively easy. You have everyone work from home for a few days to stress-test how your processes, team communication, and technology work when people don't have access to their office, files, computer, and phone system. However, it can be more difficult to simulate a more complicated operational contingency (long-term event) such as a death or disability event.

For complicated plan simulation, have a meeting where you go through the plans, having everyone discuss their roles in the plan, who to contact, and what to do. For example, you could simulate what would happen if the lead advisor was in a car accident that would limit that person's ability to do ANY work for some period of time, followed by limited work capacity.

As you talk through what the team would do, ask the difficult questions, such as "who is in charge?" and "who do we need to inform?" Walk through a few weeks where things need to be done without the advisor being there. You might find that there are glitches in areas such as payroll and paying invoices that are normally taken care of ONLY by the lead advisor.

In these cases, the advisor and team need to reassess systems, so they don't break down in a real-world situation. It is very important in this simulation (advisor out of commission) that the advisor doesn't provide assistance, or the simulation isn't realistic. Let the simulation run its course, THEN the advisor can weigh in on what to do in a real situation.

After the tests and simulations, you and your team should ask the following questions:

- What worked?
- What failed?
- What do we need to fix to get it right next time?

The final component of contingency testing is documenting the test and fixing the things that didn't work. You should update and test your plans at least annually to make sure that all processes, plan components and team familiarity with the plans is up to date. There's nothing worse than relying on an out-of-date contingency plan that fails a real-world situation! Out-of-date plans provide nothing more than a false sense of self confidence and security!

Summary:

The final message for this course, is… drum roll please…

MORE PLANNING IS BETTER!

Contingency planning isn't that different than components of comprehensive financial planning. You look at where you want to go and plan for events that can get in the way of the long-term plan. The challenge is that for many financial planners and advisors, contingency planning is a version of the cobbler's children having no shoes." You help your clients with it every day but avoid doing it for yourself.

By following an organized process of putting contingency plans into place, advisors can make sure their clients, teams and families have "shoes" if a disruptive event threatens to disrupt their plans.

To recap, the steps to solid contingency planning are:

- **Step 1:** Understand the two categories of continuity plans and why they are important.
- **Step 2:** Put an operational continuity plan in place.
- **Step 3:** Put a key-person continuity plan in place.
- **Step 4:** Test and reinforce your continuity plans and communicate any changes.

FAQs:

- **The course references a simplified operational continuity plan for use during an actual event. Does this mean I need to have two plans?**
    - The short answer is, "yes." You will need the plan that satisfies the regulators, which is likely to be very formal, but covers "stuff" that is unimportant to your team if a triggering event. For instance, your team doesn't need to know the address of your office. On the other hand, the real-situation plan might include information not in the formal plan. An example would be all possible ways to communicate with all team members: cell, home, and maybe even significant others' phone numbers, all emails…
    - The formal plan will have both the operational and key-person continuity plans in one document, but you don't need most of the key-person plan as part of your real-event plan, because time is less pressing. Part of the real-world plan should include what to do to communicate the passing of the CEO/Advisor before the team/clients hear it somewhere else, and that there is a plan in place for their care. However, the simplified real-world plan doesn't need information about a buy-sell or anything that isn't intensely time critical.
- **How could we have planned for something having as high and long an impact as COVID-19?**
    - First, we have found that most firms adapted well. Second, don't look at it as COVID-19, because there are so many emotions wrapped up in that particular situation. Instead, look at it as having needed to plan for a short-term everyone-out-of-the-office work plan, where you reassess and are able to adjust the plan as new information becomes available. Planning for the initial shock is the key, because once the first adjustment is made, easing into subsequent adjustments becomes easier.

Resources:

Learn more and download the resources referenced in this document from the ***Continuity Planning*** course in Carson Coaching Online.

- **FINRA BCP Template**