3 Point Alliance Q+A: How Utilities Benefit from Disaster Recovery Planning. Some expert advice.

By: Thomas Frale, Jr., Transaction Directory

Clifton, NJ — After a spate of nor'easters that hit the Eastern Seaboard throughout March made national headlines and caused widespread outages across the region, it seems like a good time to ask about how utilities can approach disaster recovery (DR) planning.

Many utility companies – including gas, power, electric, water, and telecommunications services – may think they have adequately planned to recover from an outage but are often caught off guard when disaster actually strikes and back-up plans go awry.

Transaction Directory decided to sit down with David Ney, National Director of Sales with 3 Point Alliance, a leader in payments processing with an equipment maintenance division and a business continuity division that deals with disaster planning, to get his insights into DR.

TD: Working with payments as you do, what types of disaster planning or disaster recovery scenarios do most utility companies have in place?

David Ney: Although a good number of Utilities have viable Disaster Recovery plans in place, we still find many that either don't have a disaster plan or have what is called a reciprocal agreement in place. A reciprocal agreement is an agreement between two, or more, companies that in the event of a disaster one company will allow the affected company to use their equipment to process payments. For example, Utility Company A experiences an outage. They would take their payments to Utility Company B and process that work on Utility Company B's equipment.

This is a good idea, in theory. But it's unrealistic to think the affected utility could simply divert payments to their reciprocal partner and expect the work to run on that system. Each company has customized their system to meet their specific needs and requirements. It is unlikely that the two companies have the exact same processes in place. A lot of upfront work would need to be done by both companies in order to make a reciprocal arrangement a viable alternative.

Another flaw in reciprocal agreements is that companies don't test their disaster recovery plan. A good disaster plan should be tested once a year, if not more.

I have never seen a reciprocal agreement work in an actual disaster.

Utility companies that opt for working with a third party for Disaster Recovery– that is outside their geographic area – fare better.

TD: There is a sense, especially after this winter, that the number of disasters – events that potentially cause power outages – is increasing? Is that true?

David Ney: The Wall Street Journal published some statistics about this fairly recently. According to the Journal, catastrophic events are on the rise. In the period between 1983 and 1992 there were twenty-six natural disasters that were categorized as catastrophic events, between 1993 and 2002 there were thirty-eight. There were sixty-three events, classified as catastrophic events, that occurred between 2003 and 2012 resulting in $485.6 billion in losses. A catastrophic event is defined as an event that causes one billion dollars, or higher, in losses.

The types of catastrophic disasters include floods, tornados, hurricanes, earthquakes, and wild fires. It is also possible that any given power grid could be disrupted by what is called an electromagnetic pulse or EMP event.

So, it is not a case of *IF* an event is going to happen, it's *WHEN* – how long do you want to play the odds? It is a critical matter and companies that fail to plan for a disaster, can suffer significant losses.

TD: Assuming that billions of dollars are at stake due to disaster costs, how do companies like 3 Point Alliance conduct risk analysis? Or, what can you share with us about best practices that companies can use?

David Ney: First, we assess the risk of disaster within a geographic area. What is typical for your area? Is it seasonal? Usually it is. Oklahoma gets hit with tornados every year while southern Florida and the Gulf States are vulnerable during hurricane season. In the west it's wild fires.

You can develop a plan based on known regional factors that have a statistical likelihood of occurring. You can also plan according to the duration of the event. Will you likely lose service for a day or two? What about an event that knocks out service – as we saw with Puerto Rico recently – for weeks, if not months?

Some events can be handled with an onsite automatic generator. Many cannot. It pays to know the difference.

You have to ask every conceivable question and challenge every assumption. What if your building is distroyed, or rendered unusable? A generator isn't going to help in that scenario.

The questions must always lead to the solution. How does Utility Company A get money in the bank during a disaster so they can keep their business running and customers happy?

TD: Do you call this process brainstorming?

David Ney: We help clients walk through different scenarios – if they lose power, that requires one set of solutions. If they lose their place of business, what then?

We get their payments processed and posted, we get their money in the bank, so they can maintain cash flow, mitigate reputation risk, and assure their customers that they are still operational. Customers need to know their payments have not gone missing. Customer payments have to be posted. Timely posting avoids late fees kicking in or worse having a negative impact on credit ratings. So, customers care about rapid check clearing and payment posting.

Working with a payment provider, like 3 Point, that can provide payment processing disaster recovery is an advantage in these scenarios.

So yes, I guess you could call it brainstorming. But a better term would be planning.

TD: Your risk analysis involves assessing potential financial risk? Can you detail or talk about the components of financial risk?

David Ney: We look at total overall exposure to risk by revenue stream – or payment stream. Is it electronic or paper that's impacted? Or both? What is the actual time delay in processing payments and getting them posted?

If there is a payments center – or a separate operations center – we need to assess what payments are processed and how they are posted and deposited.

TD: What other risks do you assess?

Customer service risk. Their clients expect some semblance of service when a payment is sent, there is an expectation it will be cleared and posted.

TD: Let's talk about how payment processors, with expertise in disaster recovery planning and implementation, look at receivables management.

David Ney: Of course, not clearing and posting payments can directly impact cash flow. Not having cash on hand for other payments like lines of credit, equipment loans, paying vendors, and so on will pose a problem at some point and this kind of thing makes corporate treasurers nervous.

We take a look at exactly what each utility might experience if all of a sudden cash flow is impacted.

TD: You mentioned customer service risk earlier. What level of customer payment disruption is acceptable? Can you share with us how that is calculated?

David Ney: If you have a disaster and you aren't getting payments posted, you are obviously going to get flooded with calls. As with any business, your clients need to know they will be treated fairly and quickly, even if your company has experienced a disaster. By having a solid disaster plan there is minimal disruption in getting payments processed and therefore minimal disruption to their client. There are no missing payments, no miscalculated late fees, or shut-off notices being sent in error. Their clients see it as 'business as usual'.

TD: What is the time lag?

David Ney: From the time a disaster is declared until the DR site is up and processing usually takes about a day. Mail can typically be re-routed within a day. The post office is notified, mail is sent next day air to the back-up site where processing can begin. The whole process might not even take a full day.

We can typically have the utilities back-up system functioning within hours. Once the mail hits our center we can begin processing.

We work with our DR clients' business requirements and we process their payments to make sure that cash gets to the bank quickly and the payments are posted to the client account.

TD: Can you enumerate some best practices that should or might be part of a comprehensive DR plan?

David Ney: At 3 Point we have a list of the Ten Best Practices for Disaster Recovery. Let me talk about just a few that we've experienced.

Number one is to develop a comprehensive disaster recovery plan. It should cover many different scenarios, as we've talked about, so you are not caught off-guard. This validates the maxim: Failing to plan is planning to fail.

Then you have to select the best approach for your company. This sounds so simple, but it can be an arduous process. The biggest hurdle is to get stakeholders to agree on an approach that makes sense for their environment.

Third, you need to know about what is called your 'right to use' priority. This is a problem, similar to flawed reciprocal agreements. You may have contracted with a third party for DR – but what if you are fourth or fifth in the pecking order? Make sure you know the answer to this important question.

And finally – test, test, and test some more. When a disaster strikes, you don't want to find out your DR plan is not optimal.

I would be happy to discuss additional best practices that round out our list of ten with anyone who might be interested.

TD: What does a 3 Point Alliance DR solution and implementation generally entail?

David Ney: We'll come in and do an assessment of the company's current environment and then we'll build a customized disaster plan for their operation. We have processing centers throughout the United States. We look at the best plan of attack, the best way to route payments. We do a full Statement of Work so the client understands exactly what to expect from the implementation. And, we test it. We run a disaster test twice a year where the client company sends us actual live payments, and we perform a complete end to end test of the disaster plan.

TD: Any final thoughts?

David Ney: We must also mention the regulatory scenario. In today's environment, utilities are under intense scrutiny from regulatory agencies to make sure they are addressing outages and have a plan in place to address any contingency. So, there is the risk of answering to a regulator, as we saw recently in New Jersey, or even to Congress, depending on the scale of the outage and whether the crisis was properly dealt with.

About David Ney

As National Sales Director, David is responsible for driving new business for both the 3 Point Payment Processing and Qwinstar divisions of 3 Point Alliance. 3 Point Payment Processing provides outsourcing services for companies that receive payments electronically or by mail. Qwinstar provides maintenance services on check processing transports and also sells refurbished NCR iTran high speed check scanners. Before joining 3 Point Alliance, David was with TransCentra (now Exela), where he was responsible for selling payment processing solutions to banks, utilities, and government agencies.

For Further Information:

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References:

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