

C1: USING SCENARIO PLANNING CRISIS SIMULATORS TO MODEL RISK EXPOSURES

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CONTENT

- Introduction/reminder of AIRMIC guidance document on scenario analysis
- Scenario analysis and testing in more detail
- Crisis stress test exercise
- Debrief on exercise - validation
- Closing comments



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THE GUIDE

- Scenario Analysis – A practical system for Airmic members



- Familiarity with the document?



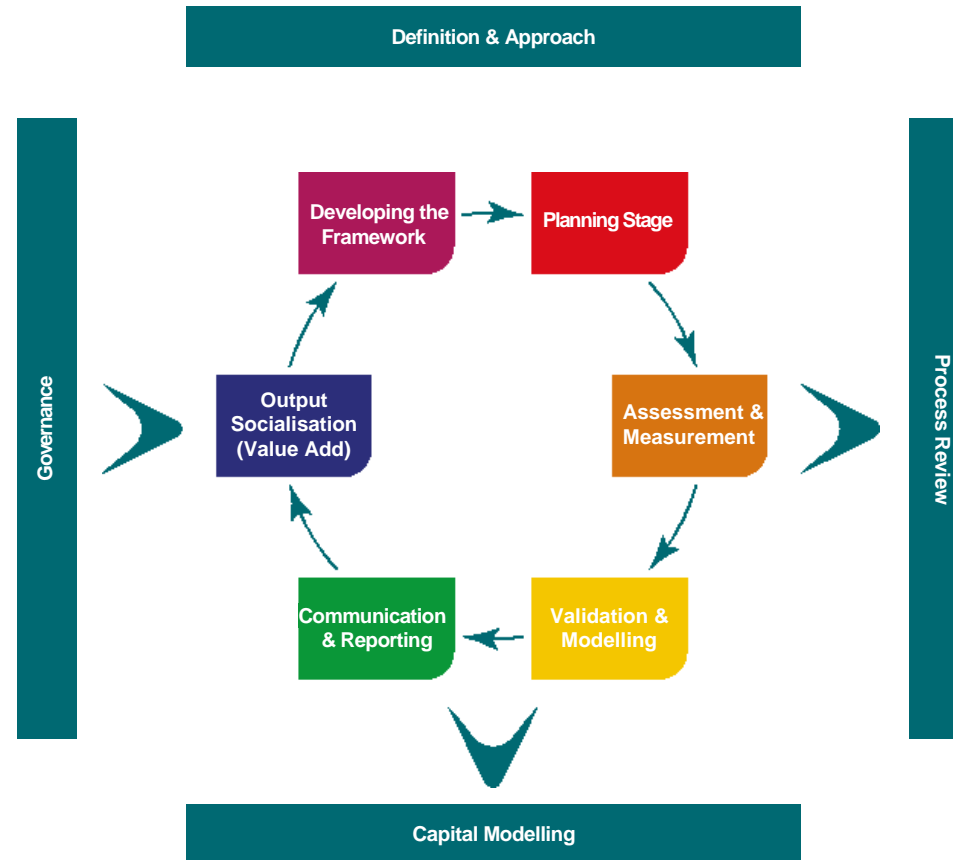
THE GUIDE CONT'D

- Recommended as a tool for risk managers to aid their business in understanding risk exposures and supporting strategic planning
- The document presents a simple framework to lead scenario analysis within their business
- Scenario analysis is a process of analysing possible future events by considering alternative possible outcomes. Thus, scenario analysis does not try to show one exact picture of the future
- Considers extreme but plausible events and tests the controls in place to identify unexpected risks and opportunities



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THE GUIDE – KEY STAGES



THE GUIDE CONT'D

- Guide also considers three specific uses of scenario analysis
 - Rehearsal of crisis management and business continuity plans
 - Testing of claims scenarios to ensure insurance coverage is adequate and would behave as expected
 - Horizon scanning and principal risk assessment to test sustainability of the business model
- Simple single factor scenarios e.g. fires are useful for risk management to understand impact, probability and potential quantification
- More complex scenarios are useful for developing strategy and support medium to longer term goals



THE GUIDE – THREE USES OF SCENARIO ANALYSIS

Crisis management

- *To increase understanding and awareness of the impact of a crisis on the business, its brand and customers*
- *To stress test incident response and disaster recovery plans*
- *To ensure communications plan is suitable for media and customer communications, and limits adverse publicity*
- *To highlight the risk level of the scenario at a senior level within the organisation to ensure support for risk improvements*

Claims scenarios

- *To increase understanding of business risks to enable compliance with the Insurance Act duty of fair presentation*
- *To clarify policy coverage and intent of policy wordings*
- *To increase confidence in quantum for insurance purposes, e.g. for business interruption sum insured, indemnity periods and sublimits*
- *To identify key milestones and processes if the scenario were to manifest into a real major loss / claim*
- *To enhance the relationship with insurer and broker*

Strategic planning

- *To stress test the business plan against principal risks and a changing business environment on a long-term scale*
- *To assess the impact of scenarios on customers and therefore market position*
- *To highlight unexpected exposures*
- *To examine the upside of risk and risk scenarios*
- *To identify key risk indicators and 'early warning signals'*



BENEFITS

Top-down drivers and benefits

- *Improved decision-making*
- *Informing strategy, including identification of opportunities*
- *Creating a risk-aware culture across the business*
- *Meeting regulatory requirements in risk reporting, Board risk responsibilities and capital modelling for financial institutions*

Bottom-up drivers and benefits

- *Contingency planning*
- *Assessment of risk control and risk transfer measures*
- *Identification of key risk indicators*
- *Created better relationships across the business, ensuring that the impacts or threats and weaknesses for one function are considered in view of the organization as whole.*

OUR WORKSHOP

Crisis management

- To increase understanding and awareness of the impact of a crisis on the business, its brand and customers
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Learning Outcomes for the Workshop

- Define what a crisis is, and provide references
- Detail the methodology and benefits of modelling/validating risk exposures via a crisis simulation
- Experience a short crisis simulation
- Identify vulnerabilities of business processes following a crisis simulation



Crisis – Inherently abnormal, unstable and complex situation that represents a threat to the strategic objectives, reputation or existence of an organisation





Two Types of Crisis

Sudden Crisis – immediate onset, unanticipated and escalate quickly. Invoking should happen very quickly.

e.g. *Fire, flash-flood, earthquake, serious accident*

Smouldering Crisis – creeping, slow-burn or rising tide. Grows undetected over time. Indicators can be missed, ignored or misunderstood. Invoking will be a difficult decision.

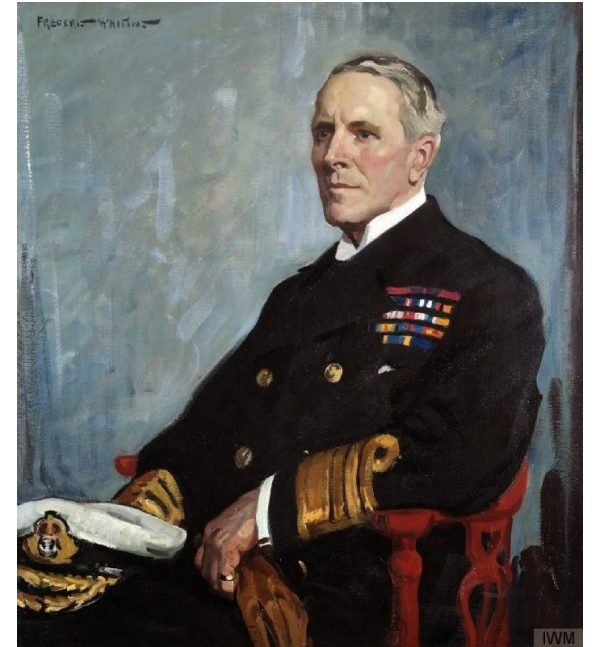
e.g. *Product recall, pandemic, IT virus*

Why Command and not Management?



Why is 'Command' the correct tool?

Vice Admiral Sir Frank Larken KCB CMG – *“An important conclusion is that the application of conventional management techniques can ironically be quite dangerous in an emergency”*





Command Structure

- **Gold Commander**

- Assess the threat, control the situation, deal with external stakeholders and make strategic decisions on how to deal with the crisis
- Reports to the most senior corporate leaders

- **Silver Commander**

- Turns the Gold Commanders strategy into tactical plans. Leads and individually tasks Bronze Commanders to complete the tactical plans
- Reports directly to the Gold Commander

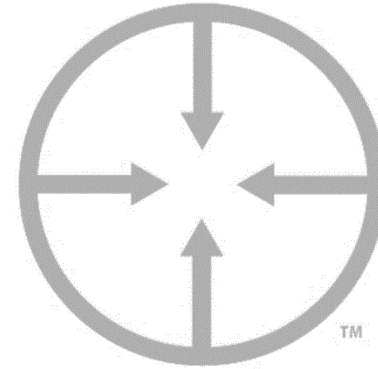
- **Bronze Commander**

- Carry's out tasks and assignments as directed by Silver commander. Supervises their own "Bronze team"
- Reports directly to Silver Commander

Two key Command areas during CRISIS

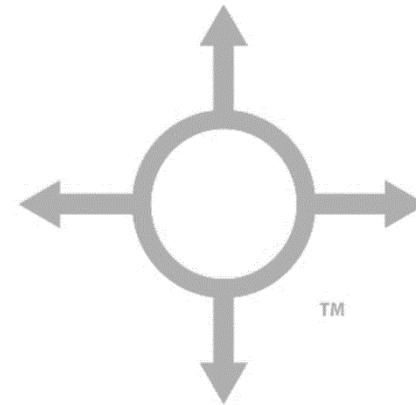
Site Recovery

Safety &
Security



Business Recovery

Reputation





EMERGENCY

MITIGATION

FIRST AID

STAFF

INSURANCE

IT

LEGAL

SAFETY SECURITY



ENVIRONMENT

SUPPORT

FINANCE

INVESTIGATION

WELFARE

EMERGENCY SERVICES



INSURANCE

SUPPLY CHAIN

REBUILD

LOGISTICS

STAFF

IT/INFRASTRUCTURE

REPUTATION



CONTRACTORS

FUNDING SOURCES

MEDIA

COMMUNICATION

CUSTOMERS

LEGAL

WELFARE


Cabinet Office
Briefing Room
COBR

Incident Management
Recovery Group
IMRG

Regional Civil
Contingencies Committee
RCCC

**Multi-Agency
Gold**
Strategic
Communications Centre
SCC

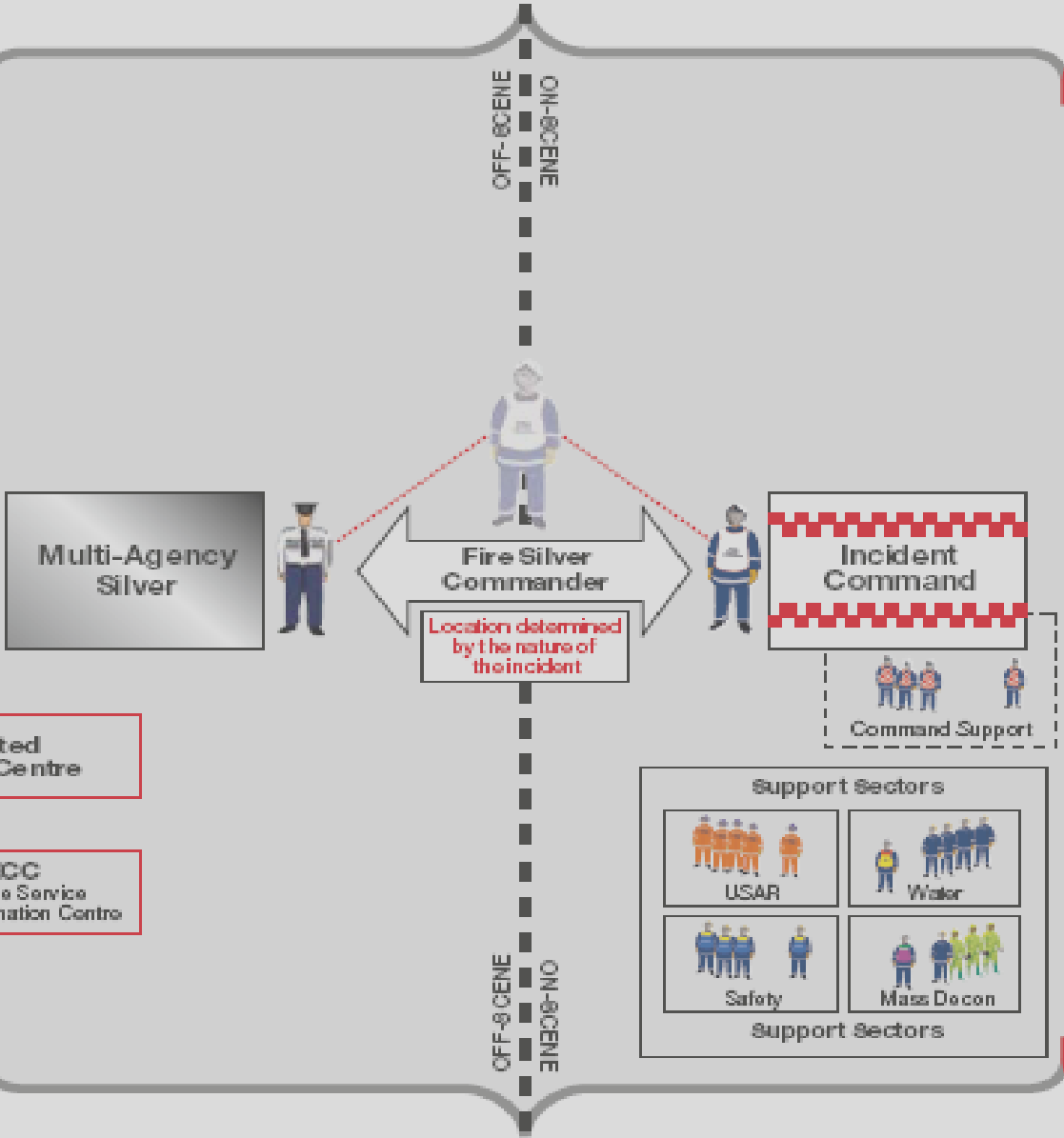
Communities and
Local Government
Emergency Room
(Fire and Rescue)

Affected
Control Centre

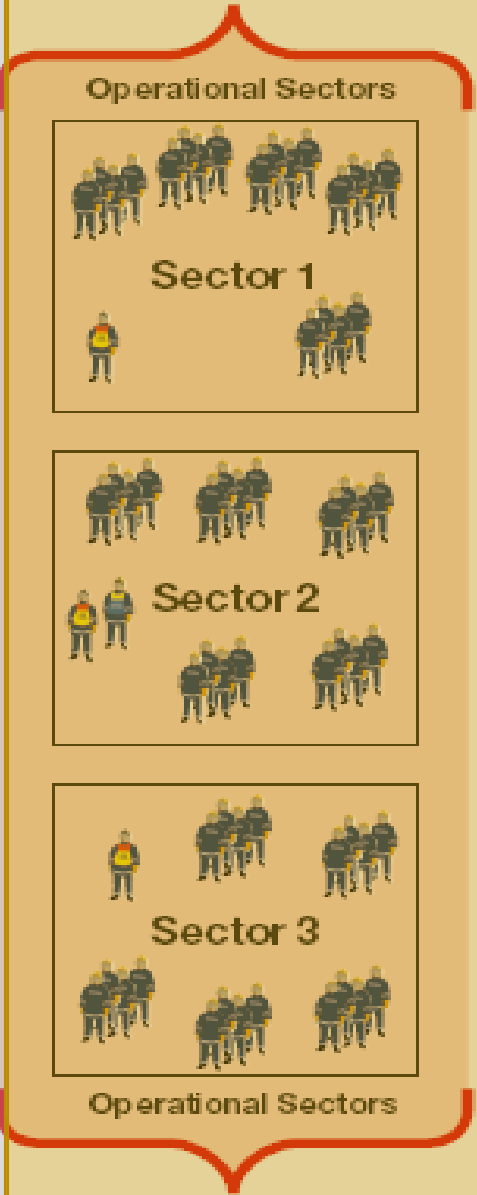
FRS NCC
Fire & Rescue Service
National Coordination Centre

Strategic Advice

GOLD



SILVER



Tactical Advice

BRONZE



Key Crisis Command Skills

- **LEADERSHIP:** Impose an appropriate level of control
- Identify key issues and give priorities: **Safety First!**
- Accepting the **'new reality'** quickly
- Strategic, Tactical, Operational thinking at the **right** level
- Creating options
- Identify and use appropriate internal & external help
- Prompt decision making



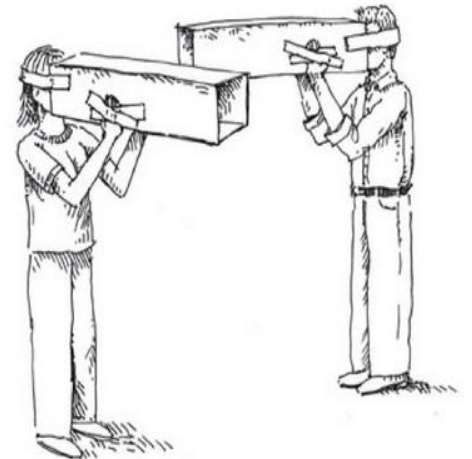
Key Crisis Command Skills Cont'd

- Delegation
- 'Meeting' skills (discipline)
- Ability to make decisions in an information vacuum
- Actions driven (outcomes and timelines)
- **Mitigate the crisis**
- **Situational awareness**

Situational Awareness

The ability to identify, process, and comprehend the **critical elements** of information about **what is** happening.

- What is happening?
- What has changed?
- What is changing?
- So what?
- What might happen?



Tunnel Vision ??

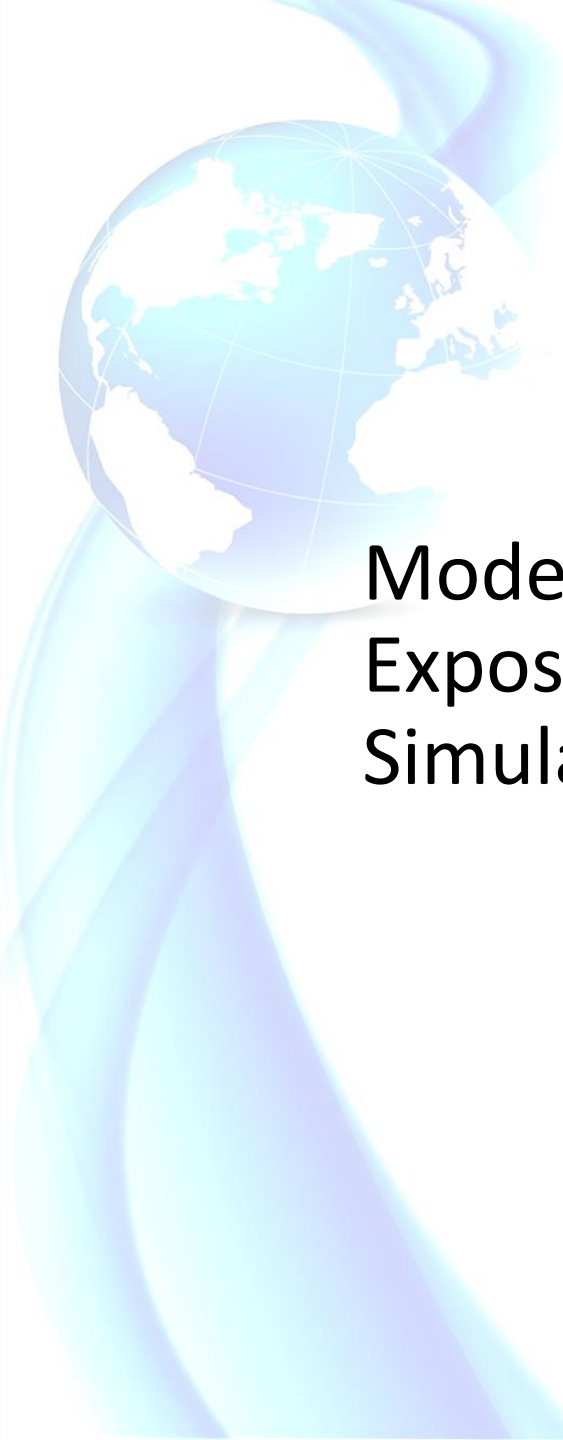




Situati







Modelling & Validating Risk Exposures via a Crisis Simulation





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Crisis Simulation Workshop



Objectives of the Workshop

- Clarify individual, team roles and responsibilities
- Practice internal and external communications
- Capture learning points (learning logs)
- Work in an “Information Vacuum”
- Provide information on request



‘Rules’

- Coaching Environment – It’s OK to say **“I don’t know what to do?”**
- ‘Play the game’ – get involved
- Don’t let it “get out of the room”
- Don’t make up the story, coaches will fill in any gaps



Syndicates

- Gold – Strategy (develop recovery objectives)
- Silver – Site Recovery (identify key issues related to safety and site stabilisation, including damage estimates)
- Silver – Business Recovery (Identify new ways of working and outsourcing to fulfil supply chain requirements and defend reputation)
- PLC Head office
- Customers
- Press



Collins Electrical Components Ltd

- Part of a PLC supplying components to the Car Industry
- 350 staff on site working a two shift system
- Main products produced on site are motor armatures for passenger cars and vans (500 per day)
- Single source provider for several large car brands
- Just in time delivery schedule with minimal stock on shelves
- R&D lab for new products also on site



Collins Electrical Components Ltd Cont'd

- Is a 'Key and Critical' site to PLC's share price
- 2 hydraulic presses on site are 'one of a kind' and have very long lead times to replace
- Collins have a current industrial tribunal in progress following a high profile sexual harassment allegation
- Two key customers have contract renewals due within next three months

ARE WE READY???





What you Know....Golden Hour

- A loud explosion and subsequent fire has occurred at the Collins Electrical site
- Members of staff have been evacuated
- The fire department is arriving on the site and the area has been cordoned off with no access at this time
- Complete status of staff on site is not known – Collins staff have been moved from the normal assembly points and told to completely evacuate the area
- Site staff have made a brief mobile call explaining that there is “an awful lot of smoke coming from the building – all over”
- Local News already have a reporter on site with a mobile phone, giving an eye witness account *“Many firefighters are struggling to contain a major blaze at the Collins Electrical factory”*





Update #1

- Firefighting operations ongoing – second explosion risk
- Extensive smoke logging
- Fire has spread throughout building
- 3 persons missing (2 staff, 1 contractor)
- Exclusion zone implemented due to explosion



Syndicate - Updates

- Gold – Strategy
- Silver – Site Recovery
- Silver – Business Recovery
- PLC Head office
- Customers
- Press



Update #2

- Firefighting ongoing – high demand for site information
- Power has been turned off due to surrounding risks
- High wind fanning flames – heavy rain has started
- High numbers of calls/enquiries about staff on site and their safety



Update #3

- Fires are under control
- 2 x fatal casualties, one rescue (injured)
- Site still cordoned off
- Customer requests for delivery confirmation being received
- Multiple requests for staff for support
- All surrounding roads closed



Update #4

- Fire is out
- Building substantially damaged
- All stock/parts are fire damaged
- HSE investigation commenced – particular focus on hot work permits and control of contractors

End of exercise





Syndicate – Learning Points Debrief

- Gold – Strategy
- Silver – Site Recovery
- Silver – Business Recovery
- PLC Head office
- Customers
- Press

SUMMARY

- The benefit of scenario analysis and the resultant analysis is highly beneficial and informative
- An excellent way to raise the profile of insurance and risk management within the business
- The AIRMIC guidance provides a helpful framework to introduce this aspect of scenario analysis into the wider risk management function
- Even the best plans and contingencies can be challenged– e.g. airline data centres
- There is no substitute for testing and in-depth analysis and validation



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QUESTIONS



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