

LARGE FINANCIAL INSTITUTIONS AND UNCONVENTIONAL CRISES

The issue

Major financial institutions play a critical role in the recovery process in the wake of a crisis. That role is even more important in what is becoming a chaotic environment: astronomical direct costs, cascading damages that are impossible to assess, beneficiaries that are impossible to reach, public institutions and essential operators that are profoundly destabilized.

Preparedness is the vital key

Inadequate preparedness aggravates considerably the risks and costs, and even the possibility, of recovering from a crisis.

Given the paralyzing nature of any extreme phenomenon, the financial institutions that must help are at great risk of finding themselves profoundly de-structured in a post-accident world, and too destabilized to make use of the funds entrusted to them. Thus, financial institutions are likely to be overwhelmed by the storm, to be required to “pay” ineffectively and, in the end, to be the ultimate scapegoat.

It is vital, then, for big financial and insurance institutions to develop and apply policies that are up to these challenges, so that they can play their role when needed and act as an essential lever in recognizing and managing the risk of unthinkable crises.

Two imperatives

Financial institutions must consider action on two crucial fronts:

1. Assuring their own preparedness for off-the-scale crises (in addition to what they already do in connection with conventional crises).

2. Close and sustained attention to the preparedness of all those who look to the financial organizations for support, in particular for insurance and reinsurance.

Simple operating rules

Internally, to insure real competence

Large financial institutions need to set up an in-house group, reporting to the highest level, with the tasks of:

- Strategic thinking and active surveillance on the problem of unconventional crises, using new concepts and tools such as those indicated in this section.
- In addition to the usual technical documentation, apply this strategic thinking to policymaking, with particular attention to the rules of engagement before, during and after highly destabilizing situations.
- Start work on developing the non-conventional operating tools for engagement that will be needed when entirely new problems emerge.

Externally, rules of audit for all requests for coverage

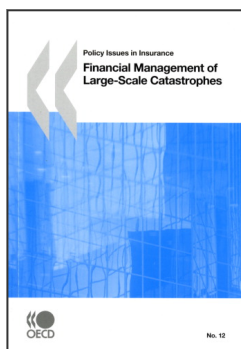
To make our big systems more resilient and more robust, and to restore relevance to their general financial support activity, which is so essential in cases of major disaster, large financial institutions must now tie their support and their insurance coverage to some cardinal requirements of a strategic nature that go well beyond the conventional rules of risk management.

Following are some of the questions that must become the initial benchmarks to ensure that the problem of off-the-scale risks and crises is really taken in hand at the highest level of the organization seeking coverage:

- When and how do the senior leadership and its teams participate in strategic preparation sessions, seminars and simulations on major risks of non-conventional crises?
- What specific instances of debriefing on extreme situation have there been in the last two years?
- Beyond crisis plans and conventional exercises (the quality of which must be assessed), what benchmarks appropriate to off-the-scale events are already available and specifically applied?

- How does the institution give effect to the lessons drawn from these efforts?
- Is the institution also working on preparedness with all its essential partners?
- In a dynamic and forward-looking manner, what are the principles and guidelines for the next two years in terms of acquiring knowledge and know-how?
- Is this programme officially in the hands of a specialist reporting to senior management?

It will be important to ensure that any item missing from this checklist of essential requirements is taken directly into account in assessing the institution in question.



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