

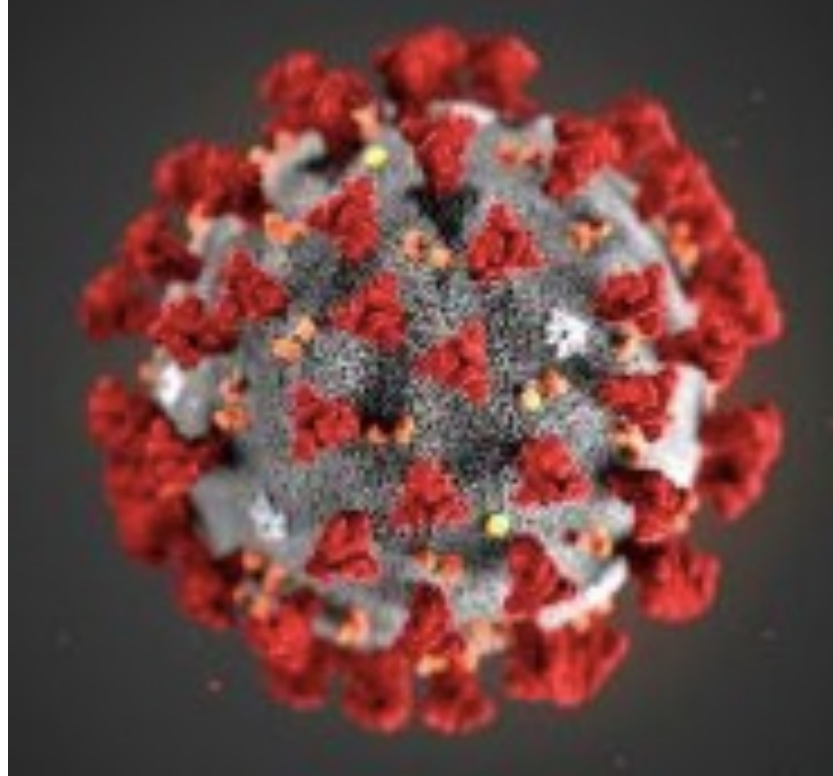


HAMILTON

AN AMERICAN MUSICAL

ORIGINAL BROADWAY CAST RECORDING





# **Risk Management in the Age of CoVID**

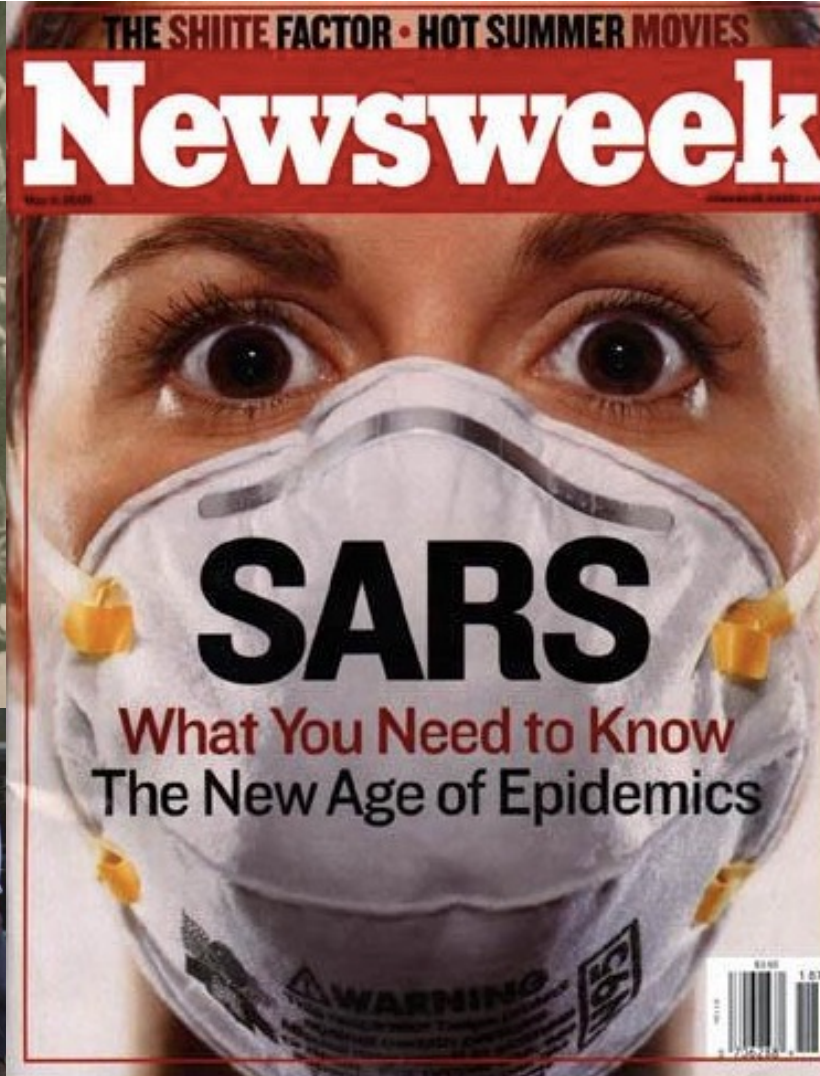
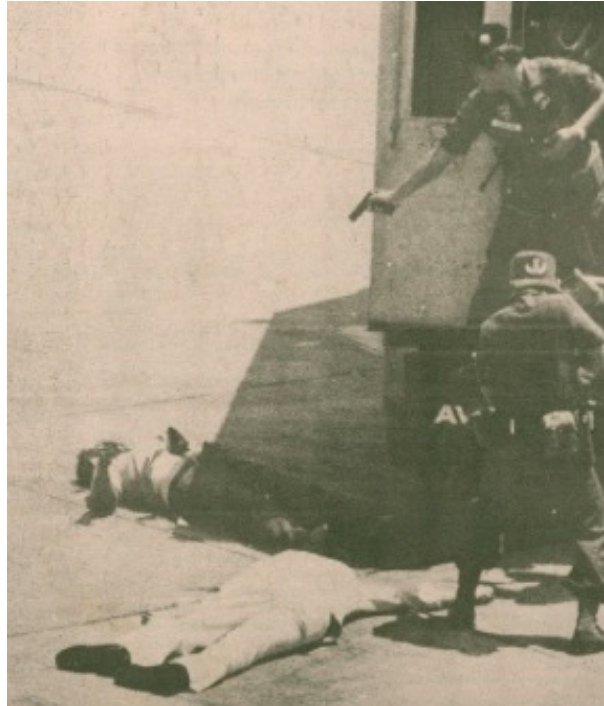
There are moments that the words don't  
reach

There is suffering too terrible to name  
You hold your child as tight as you can  
And push away the unimaginable

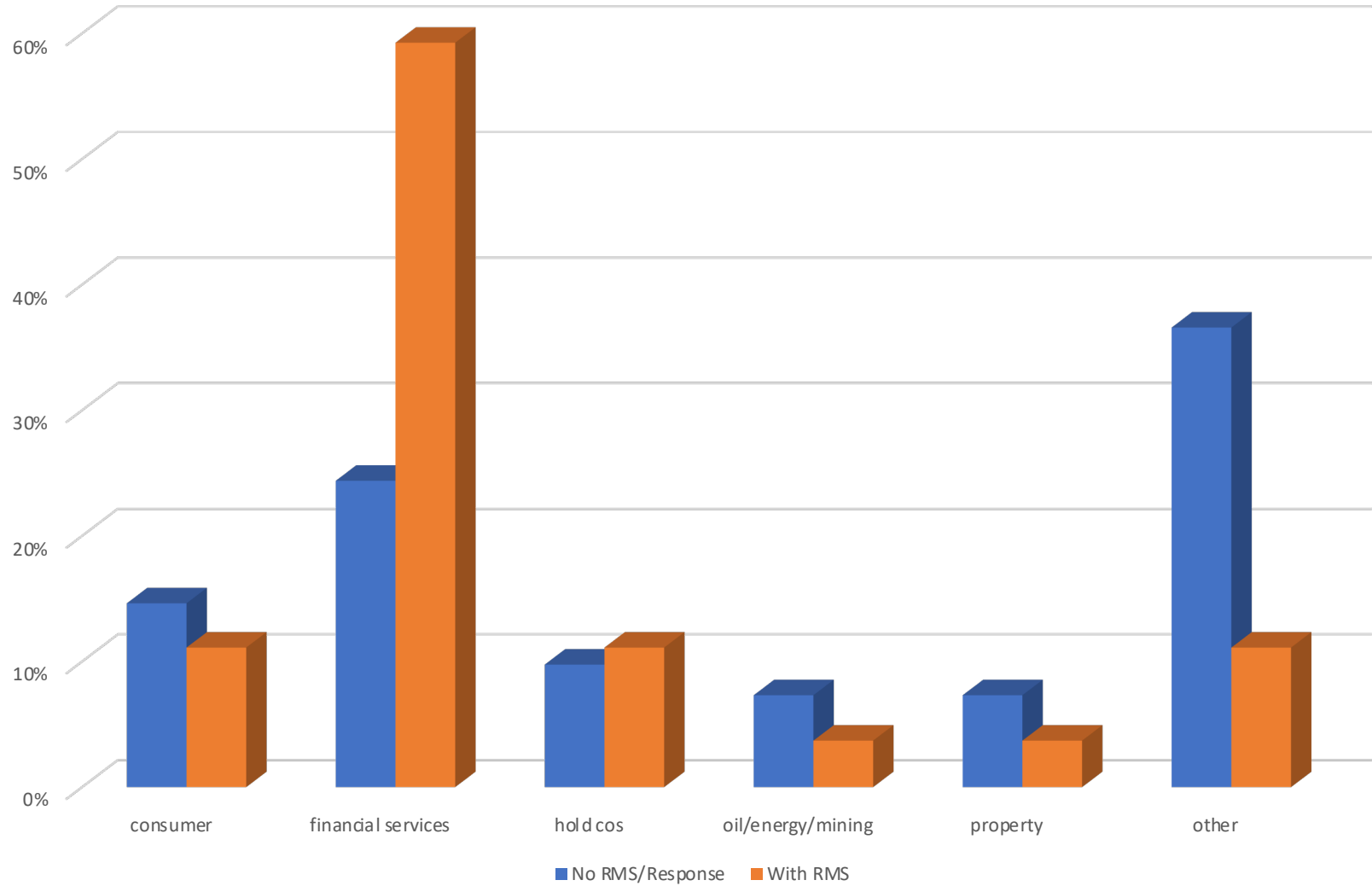
The moments when you're in so deep  
It feels easier to just swim down  
The Hamiltons move uptown  
And learn to live with the unimaginable

- *"It's Quiet Uptown", Hamilton*

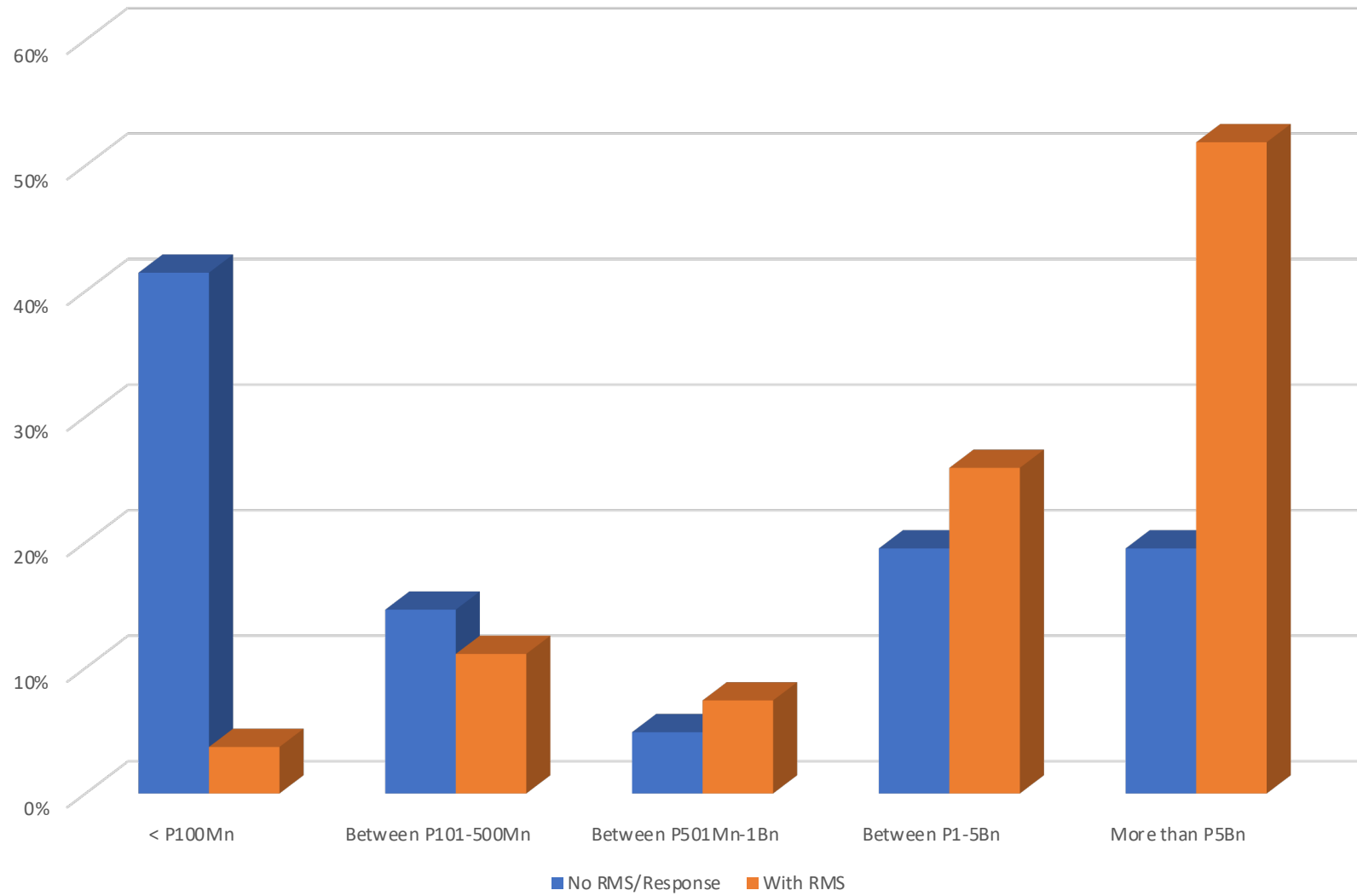
# The Unimaginable



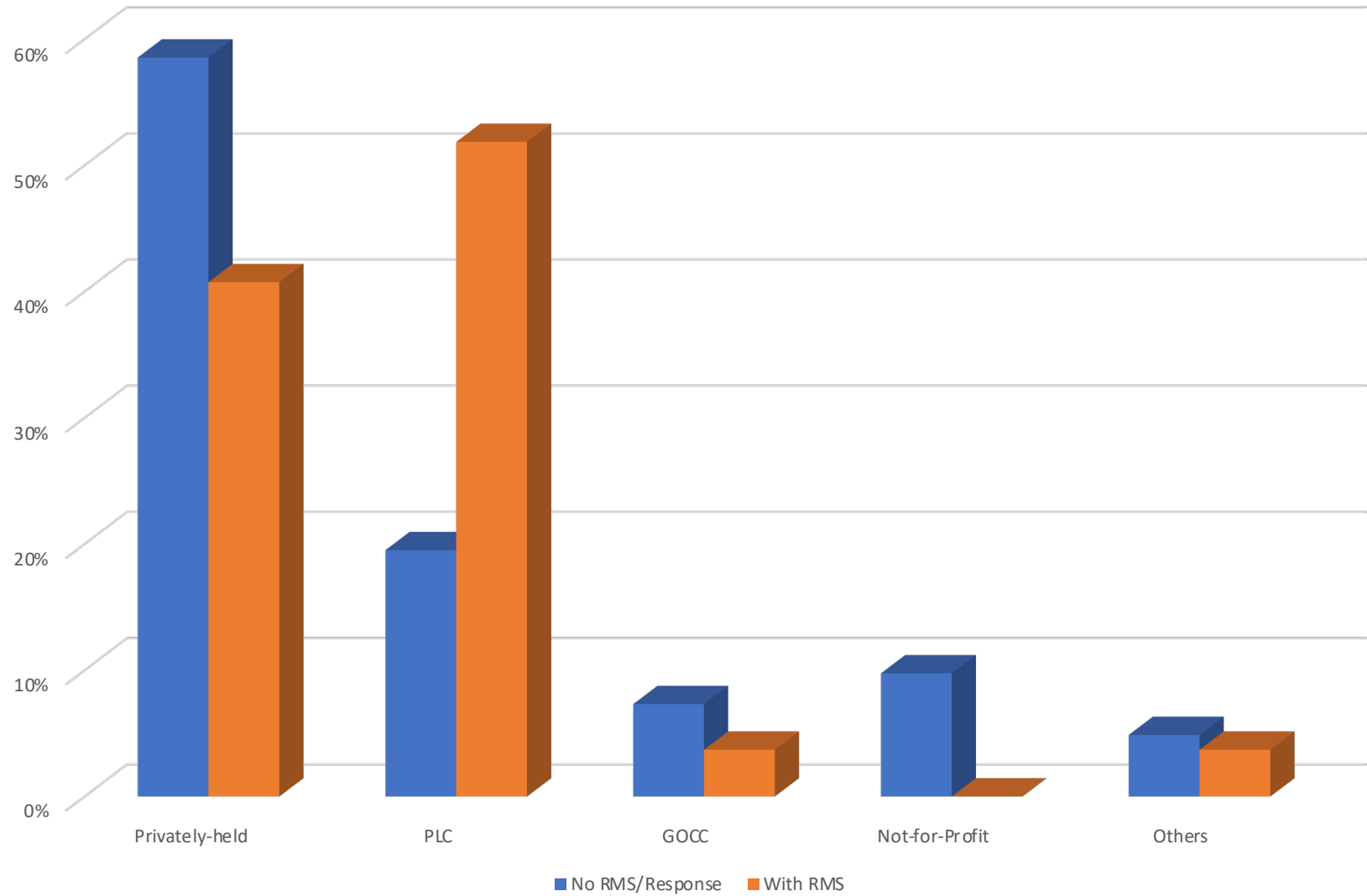
### BY INDUSTRY (%)



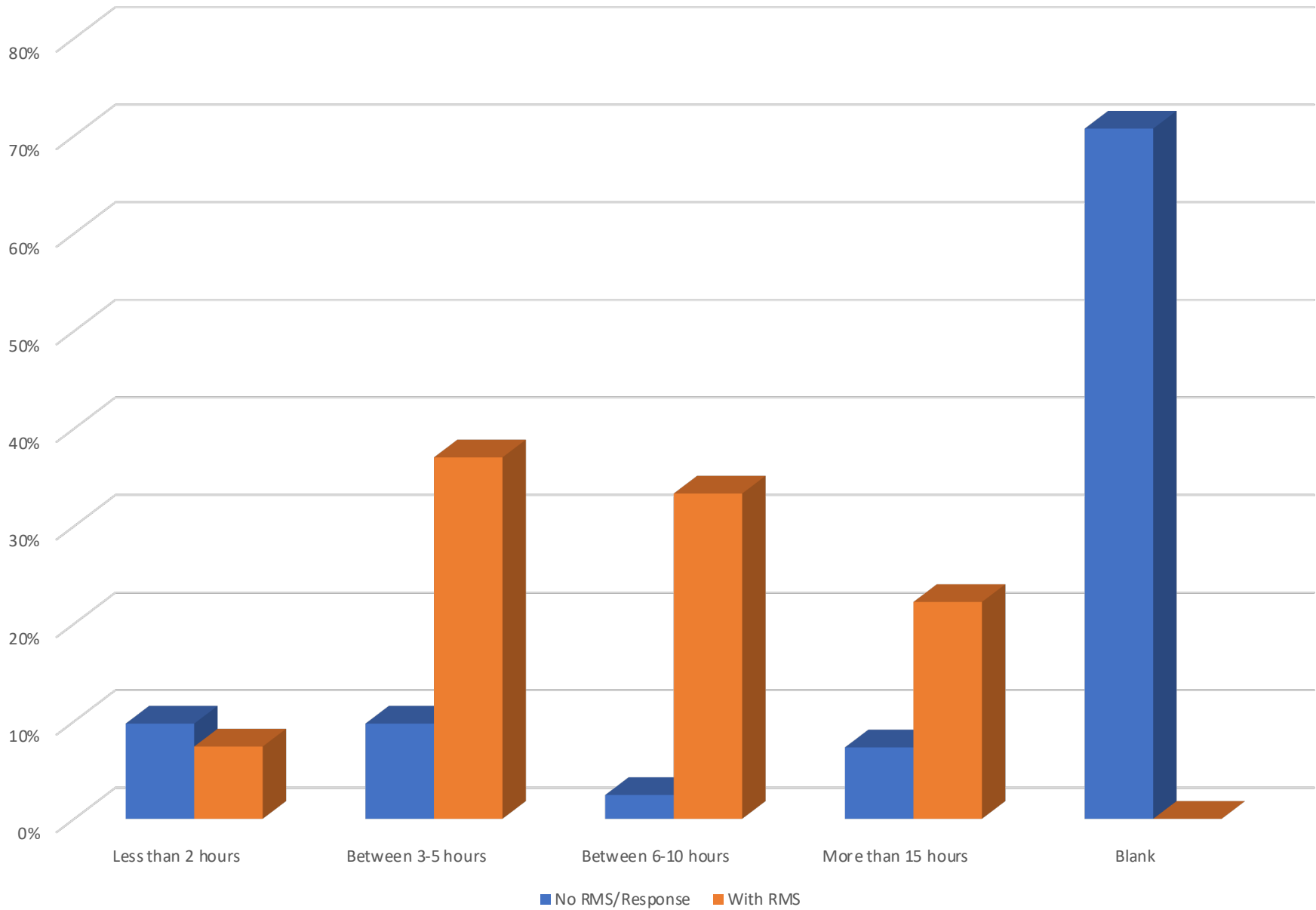
### BY REVENUE (%)



### BY OWNERSHIP (%)

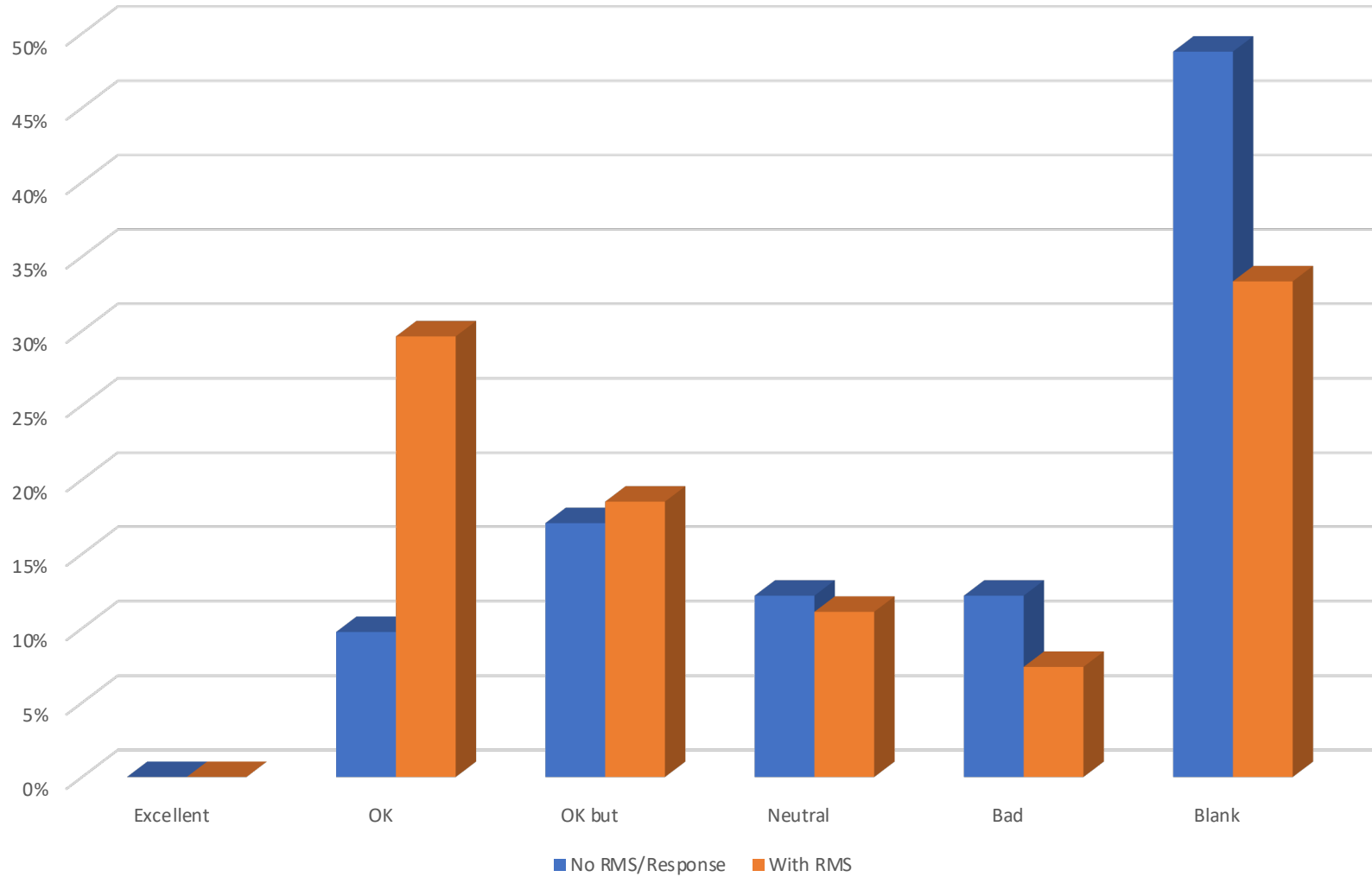


Time Spent Discussing Risk Annually (%)

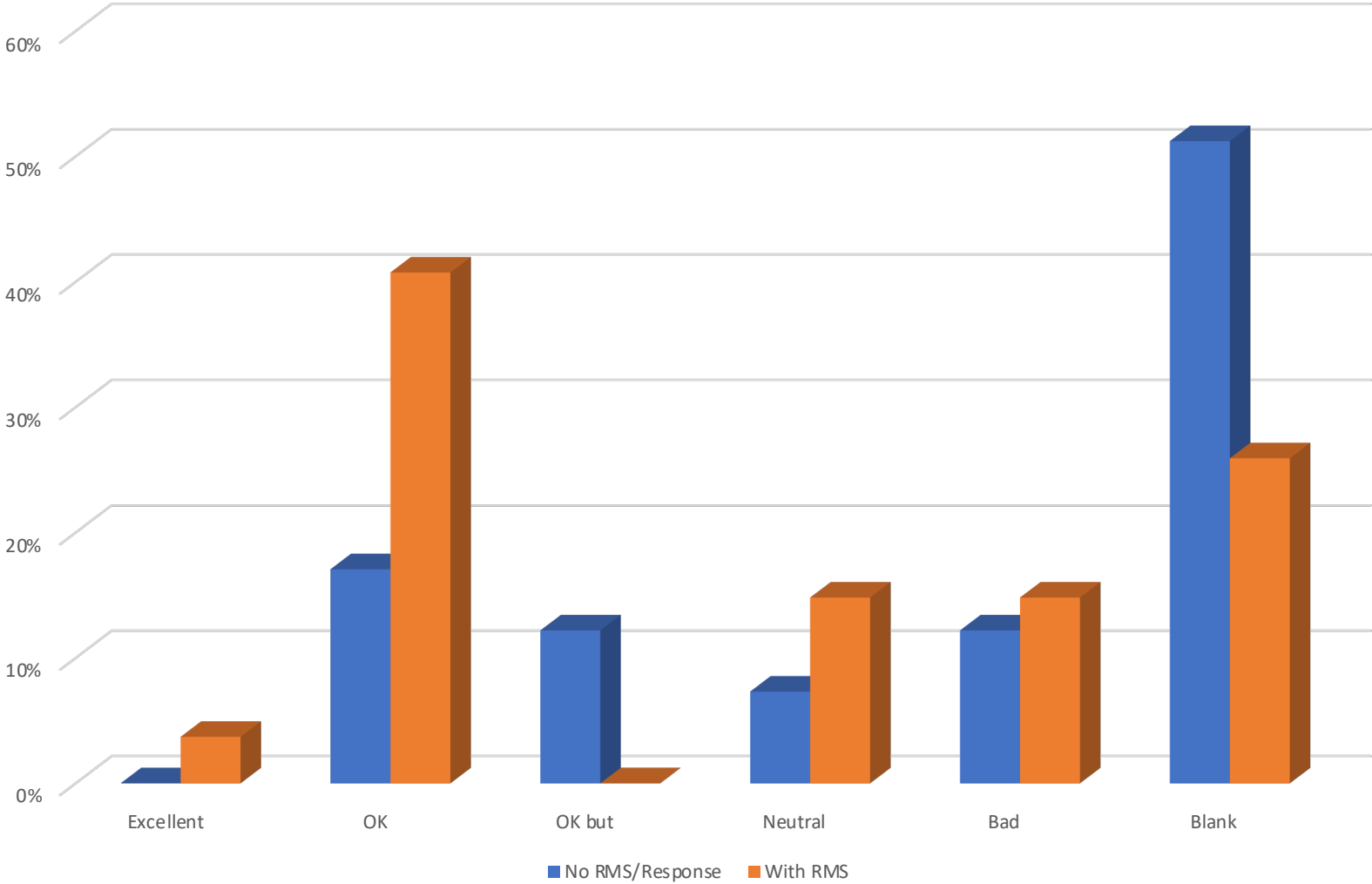




## Comments Re Management Response To Crisis (%)



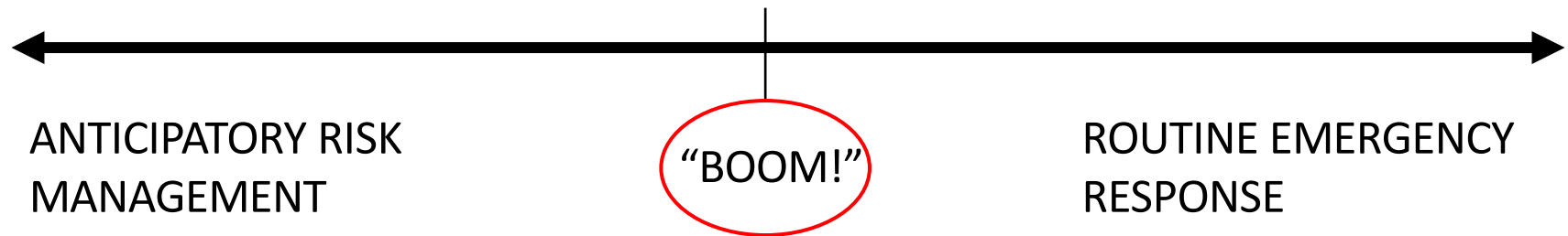
### Comments Re Board Response To Crisis (%)



**Could it have turned out any differently?**



# The Standard Risk Management Paradigm



# **Risk Management is NOT Strategy**

Strategy focuses on choices of markets and value creation

Risk management focuses on uncertainties that could impair mission and strategic objectives

IF done properly, superior risk management is a source of competitive advantage!

# Operational & Compliance Risks

USA Online Casino Blog | Industry Insights

## Biggest Casino Frauds in History

By **Richard Holmes** - June 26, 2018

[Share on Facebook](#) [Tweet on Twitter](#) [G+](#) [p](#)



MONEYBOX

## How Wells Fargo Became Synonymous With Scandal

By **JUSTIN PETERS**

NOV 28, 2020 • 6:00 AM

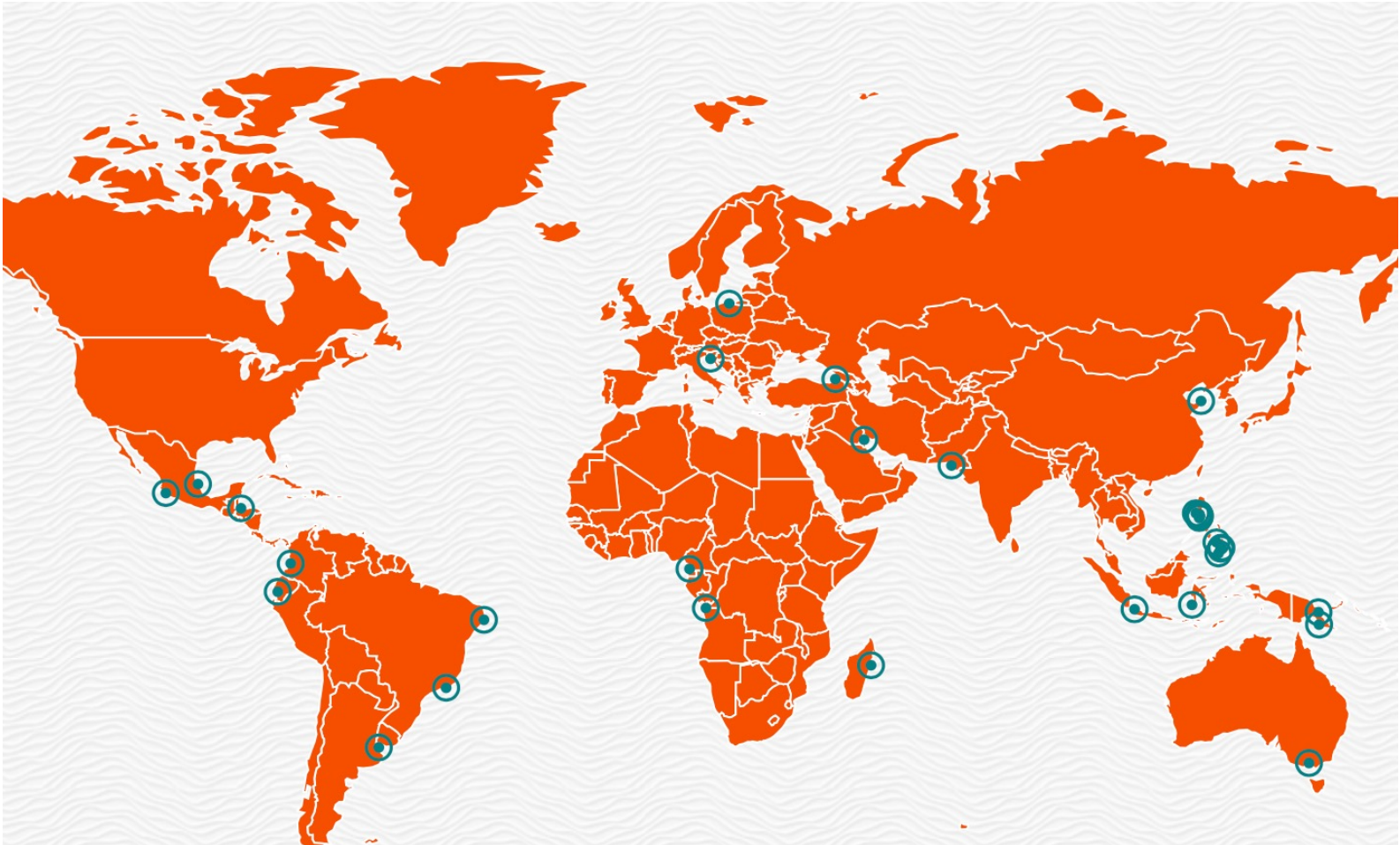


# Strategic Risks



[HOME](#) > [WHAT WE DO](#) > [OUR TERMINALS](#)

## Our Terminals

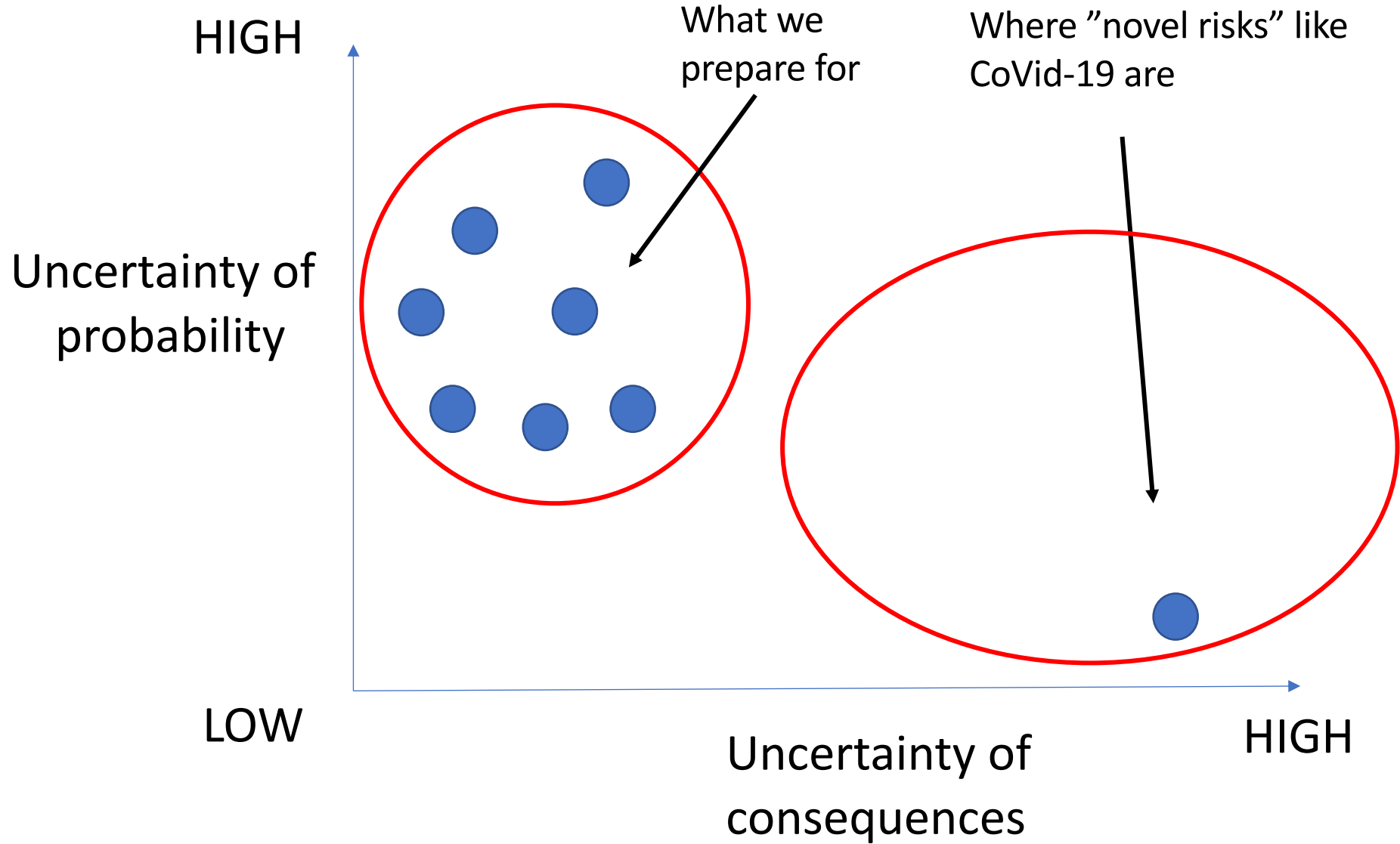


# External/“Novel” Risks





# The Reality of Risk



Of those without an RMS commenting about management response to the crisis:

“At the very least, client needs were addressed but more of (on) a reactive manner.”

- Property, PLC

“I’m thankful with how our board members and CEO are managing this crisis. It would’ve been better if we had anticipated some semblance of crisis and alternatives.”

- Not-for-profit

“Fairly well but we could have done better if sufficient time had been given to Risk Control and Self Assessment at board level meetings. Obstacles – the constant pressure to hit the annual targets & lesser time for the unidentified future risks.”

- Financial institution, privately held

“No. Totally unprepared. Now doing things on the fly; such as direct or email instructions with our banks. Better if a WFH and BCP would be established. Obstacles are the company’s legacy or old fashioned way of doing things.”

- Financial institution, privately held

Of those without an RMS regarding board response during the crisis:

“Not satisfied. There were no clear strategy (sic) and programs.”

- Consumer/manufacturing, privately-owned

“We made it up as we went along... but no formal plan in place.”

- Pharmaceuticals, PLC

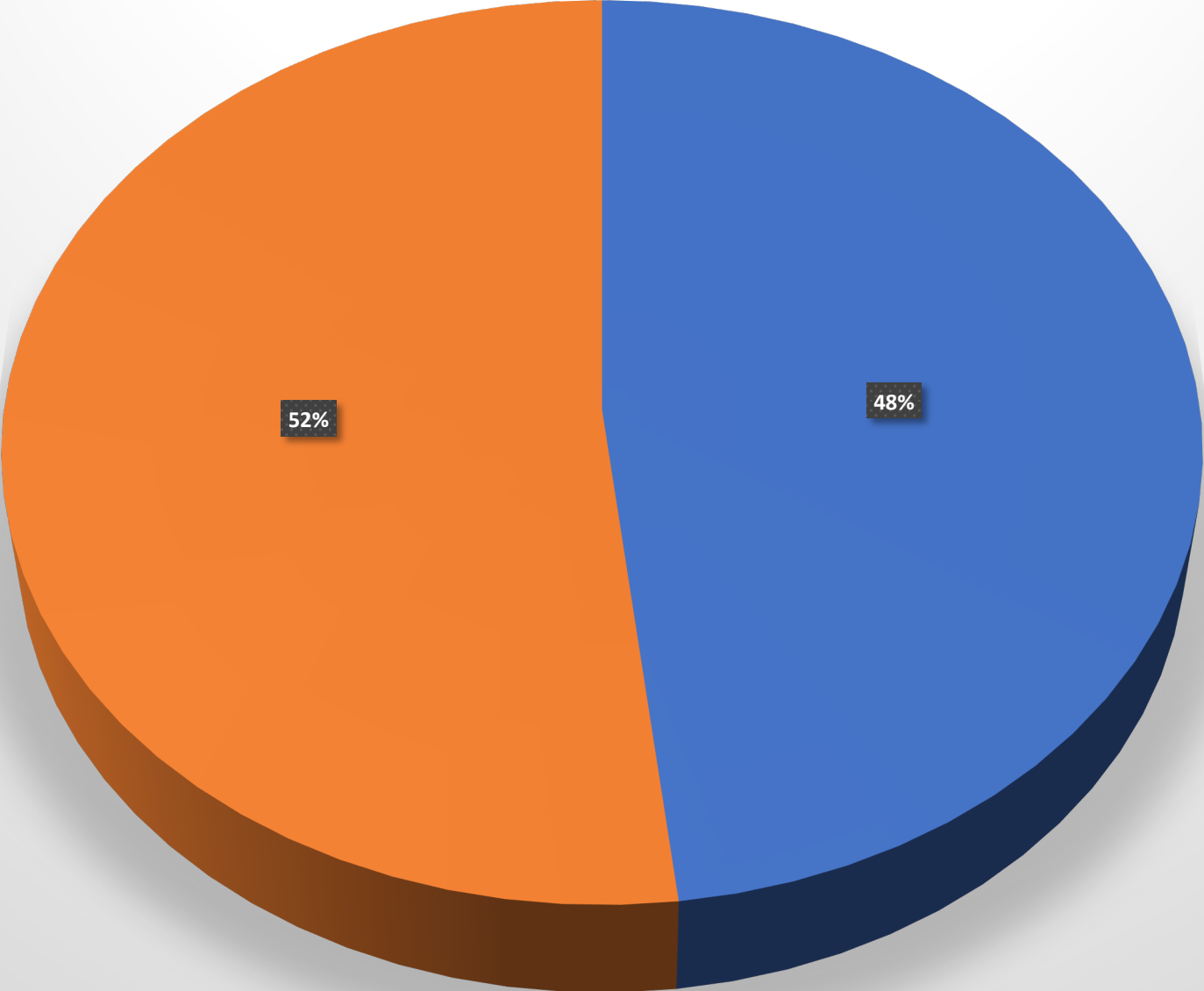
“No board meeting yet since March 13.”

- Financial institution, GOCC

“ Board didn't have a response. Members have different takes on the matter. No collegial decision. Obstacle is the same as the previous question. Old way of doing things.”

- Financial institution, privately held

# With RMS - Included Novel Risks?



■ Yes  
■ No

# How Do Boards Add Value in Covid-19 Risk Management?

- Understand the medical situation
- Adopt a learning & innovation mindset; retool board processes accordingly
- Practice good crisis communication
- Embody your mission and values

# Understand the Medical Situation

True or False

1. The name of the virus is CoVid 19.
2. Droplets, or splatters of virus-laden liquid of varying sizes, expelled from an infected person are thought to be the main way the coronavirus is transmitted to other people. A sneeze can potentially travel up to 2 meters.
3. N95 masks can only capture 50-80% of viral particles.
4. A viable strain of coronavirus can remain on a metal surface for up to 4 days.
5. The Sinovac vaccine provides protection for up to 9 months.

# Understand the Medical Situation

True or False

6. The worldwide infection fatality rate from Covid-19 (as of May 18) is 4.1%.
7. 15% of infected people show no symptoms at all.
8. The NCR has a total Covid bed capacity of 8,500.
9. The Moderna vaccine can be kept for months in normal refrigerators.
10. The Astra Zeneca vaccine is less effective than the Pfizer vaccine in terms of preventing hospitalization and death from Covid based on its efficacy rate.

# Understand the Medical Situation

- Consider getting a board adviser who can help the board and management make sense of all the medical data & its implications for your business
- Arrive at OUR VERSION OF TODAY'S TRUTH whenever possible
- Accept that the situation is fluid and you may have to reverse some of your decisions



# Do Your Board Meetings Look Like This?



# Adopt a Learning & Innovation Mindset



“ innovation on steroids”

” rapid innovation under stress embedded in fear”

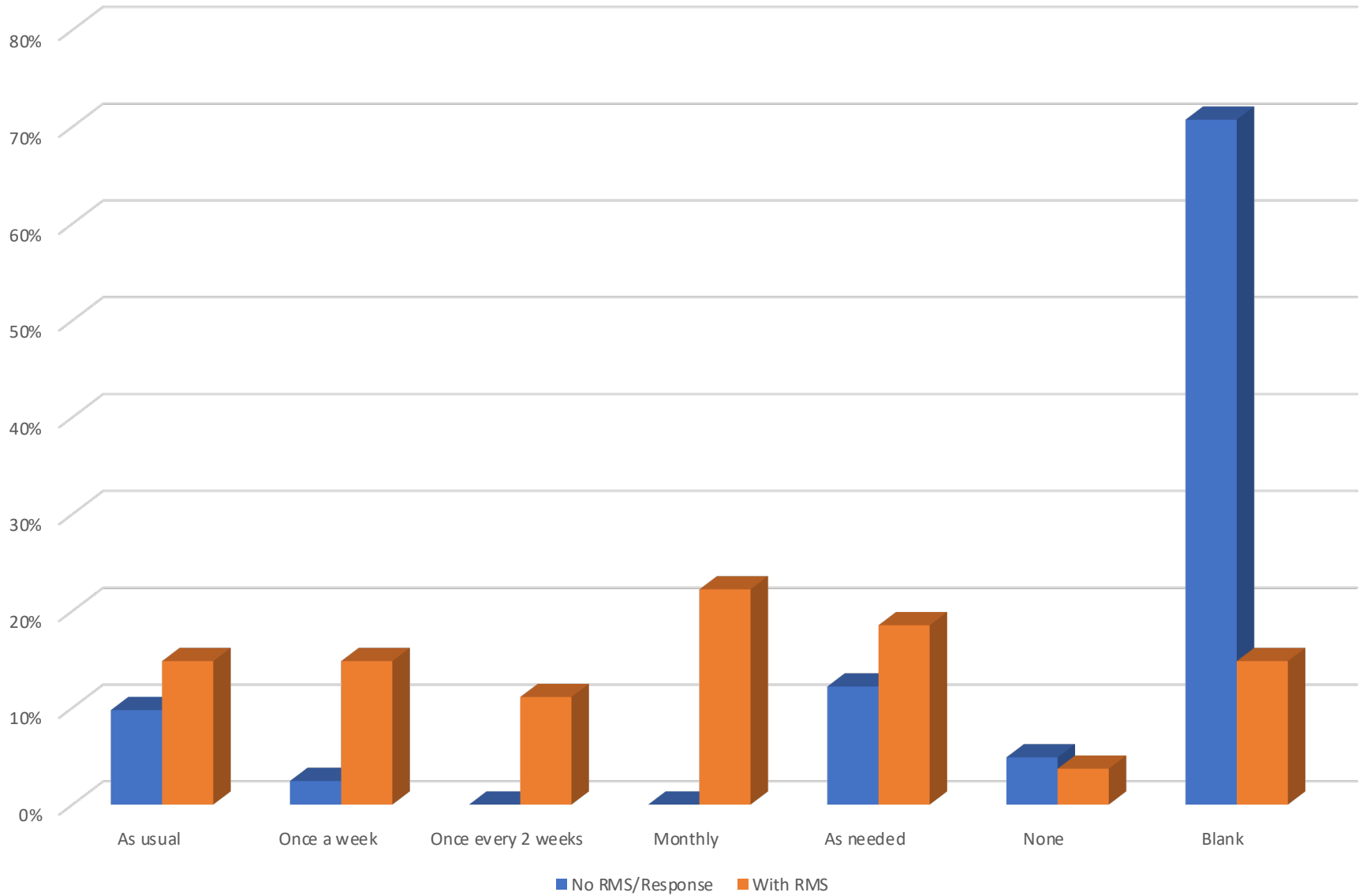
“ every business is a start-up now”

“ acknowledge/embrace the uncertainty”

# **Adopt a Learning & Innovation Mindset**

- Meet or talk as often as possible
- Engage experts (if you can and when necessary)
- Examine your forecasting and decision-making processes
- Favor agility, responsiveness over control
- Persist through failure
- Take action before you have no choice

## Frequency of Board Meetings During the Crisis (%)

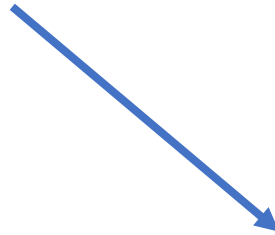


# **Exercise Board Leadership During the Crisis**

- Take a “Team B” approach
- Be directive – but with the process, not with tactics
- Consider the effect of all decisions on and communications with stakeholders
- Be aware of the legacy that you are creating

# Communicate With Stakeholders

Medical crisis

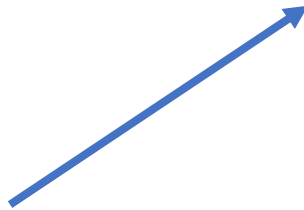


Economic crisis



Crisis of confidence

Political crisis



**Why is it so hard for people to preserve trust in a crisis?**

# Communicate With Stakeholders

## The Four Canonical Questions of Crisis Communication

1. IDENTITY – “Who are we? Am I a part of this “we”?”
2. VALUES – “What things that we care about are at risk?”
3. SITUATIONAL AWARENESS – “What happened/is happening?”
4. ACTION – “What do people like us, with values like ours, do in a situation like this?”

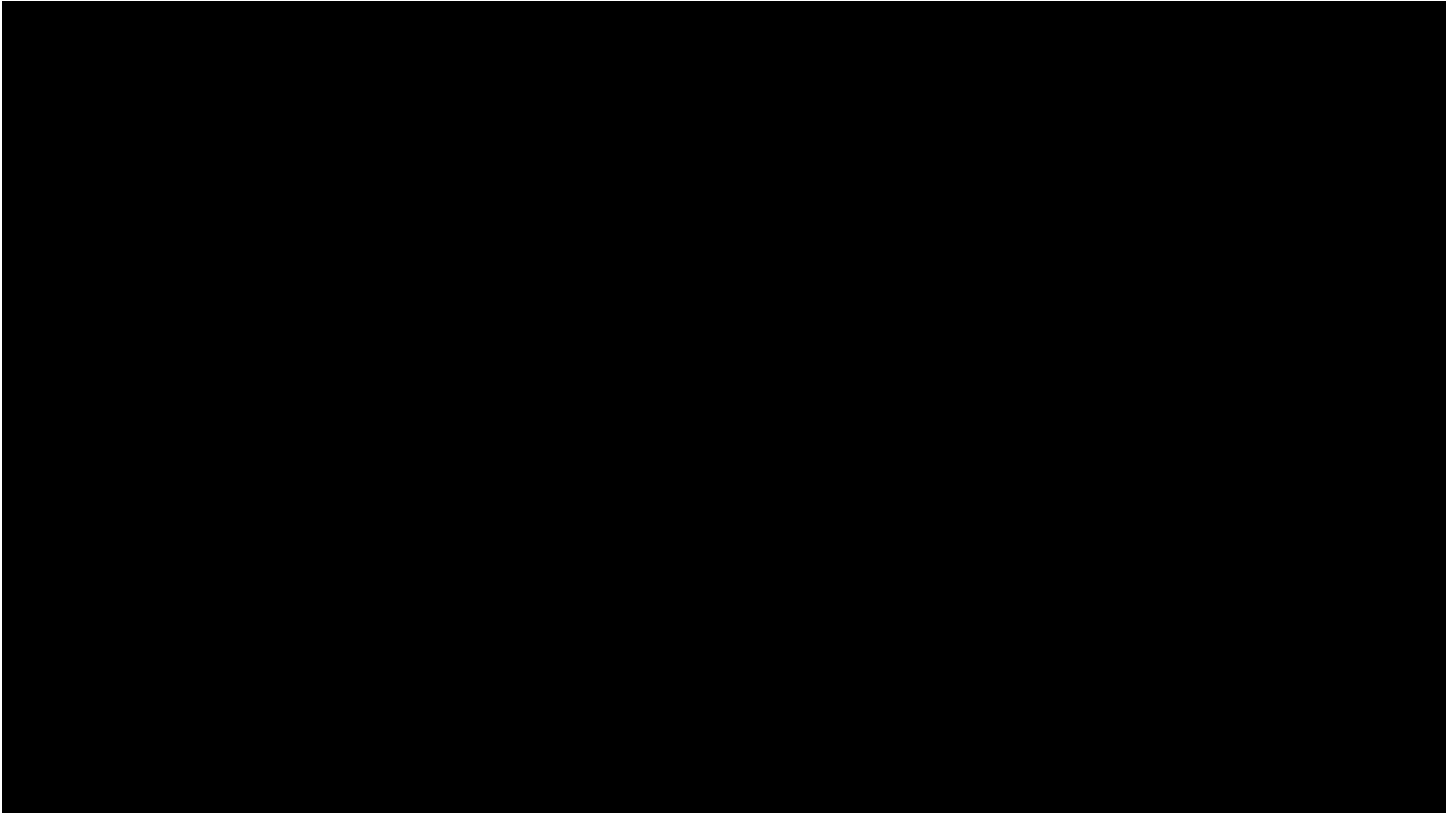
# Communicate With Stakeholders



“You must never confuse faith that you will prevail in the end – which you can never afford to lose – with the discipline to confront the most brutal facts of your current reality, whatever they might be.” - Admiral James Stockdale



# How Do We Want to be Remembered?



What do we want our stakeholders to say about our organization after the crisis?

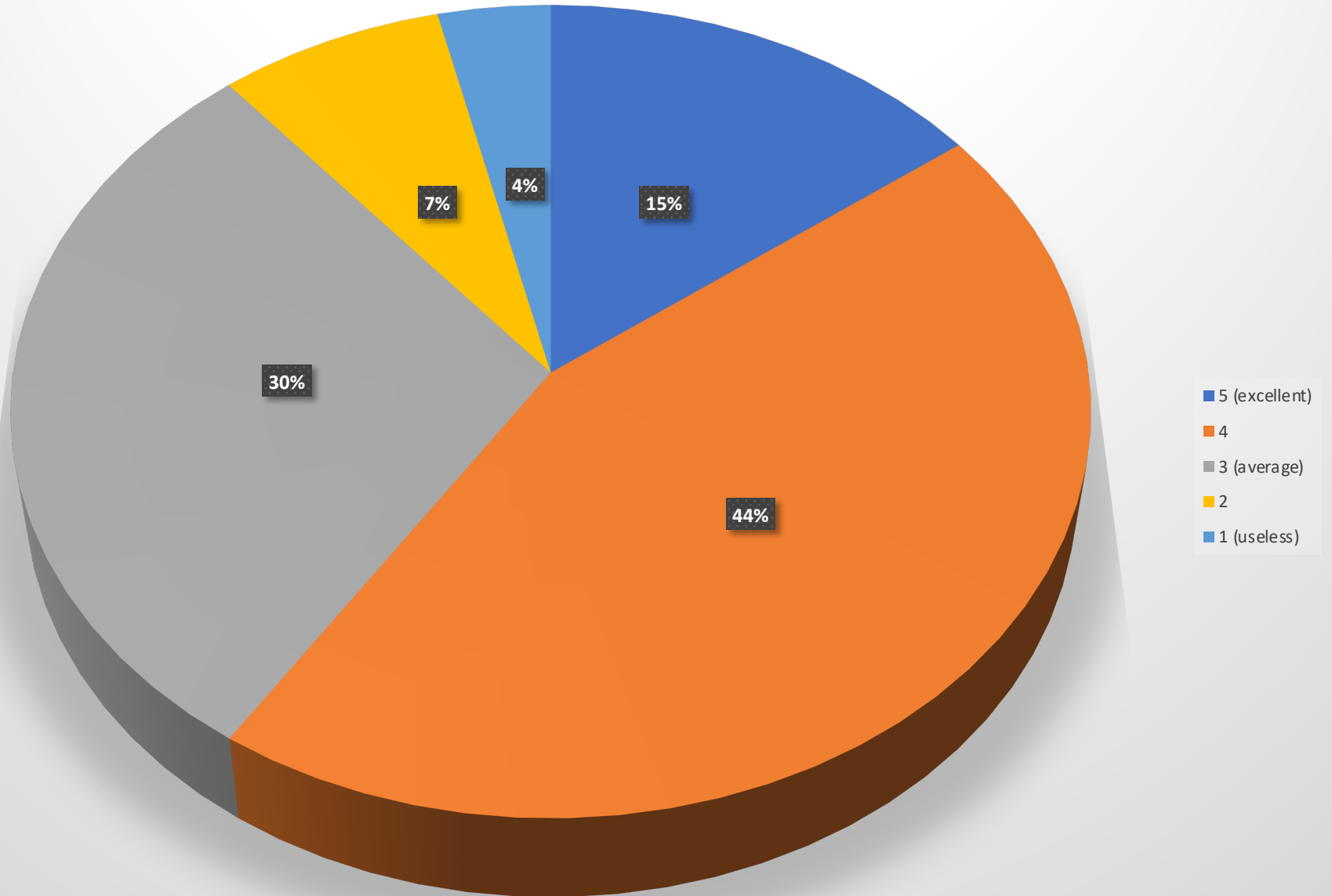
# Crisis Management According to AMT

- Be agile and flexible.
- Modify tools to suit the situation.
- Run, run and run some more scenarios.
- Your mission is your “North Star”.
- Remind your people of your purpose and their contribution ... but listen to them as well.

# Crisis Management According to AMT

- Never waste a good crisis!
- Remember that other risks (i.e. cyber risk) are still out there! Is your BCP ready for them?
- *“Bounce forward”!*
- A good RMS should be
  - preemptive
  - pragmatic
  - process-driven

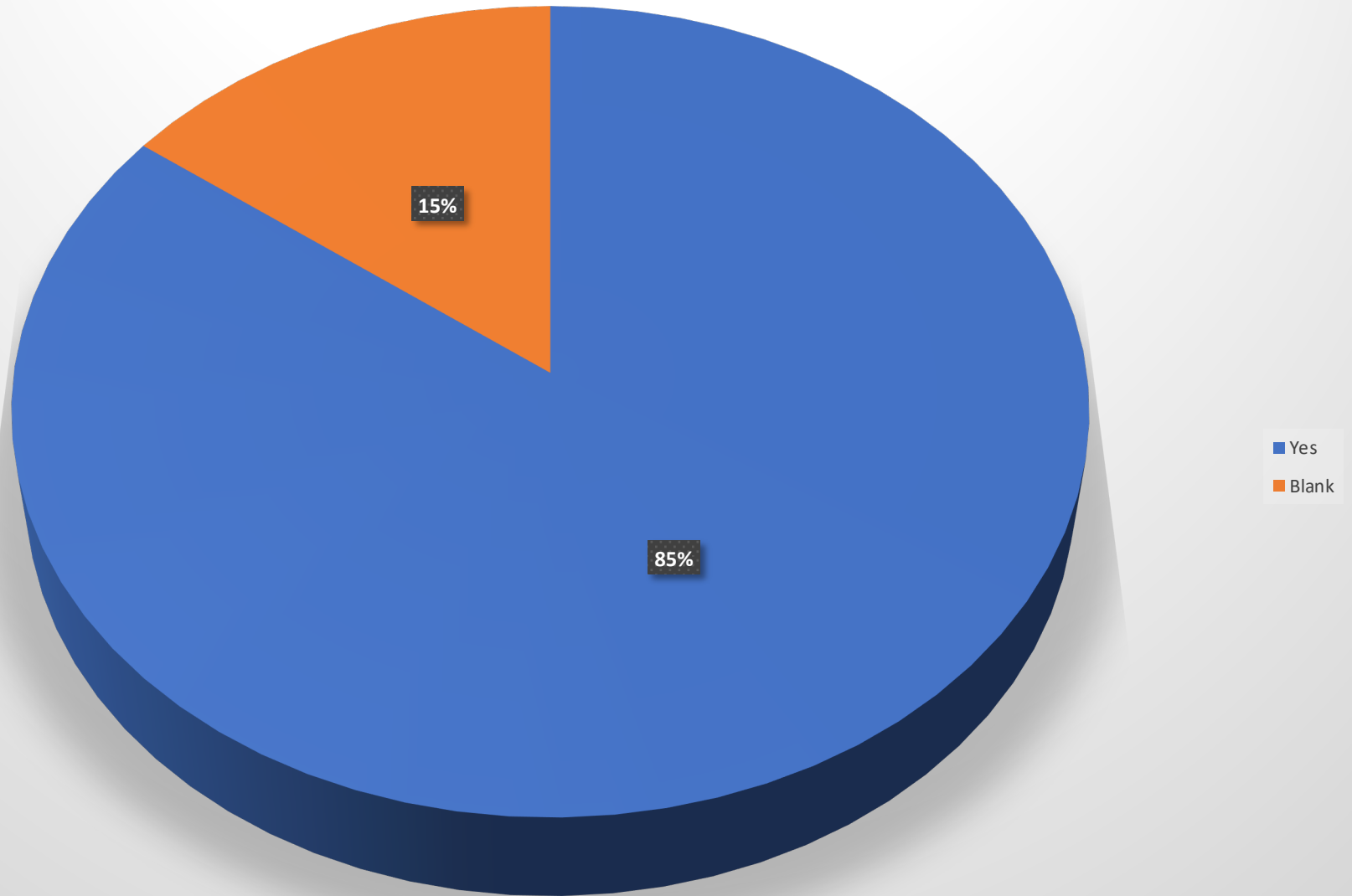
# Usefulness of RMS During Crisis



Of those who found their RMS helpful (i.e. rated it a 3 or 5)

- 24 respondents or approximately 90% of those with an RMS
- 14 were financial institutions
- 20 earned annual revenues of P1 billion or more
- 19 had CROs
- 19 had recently updated their RMS (2019-2020)
- 15 spent more than 15 hours per year talking about risk; 9 spent at least 6 hours per year talking about risk
- 15 had positive comments about management's response to the crisis while 10 had positive comments about the board's response
- ***Included ALL companies who had included novel risks in their RMS***
- 10 specified risk capacities/risk tolerances/risk appetites
- ALL had used a tool like BCP (10), risk register (3), BSC (3)

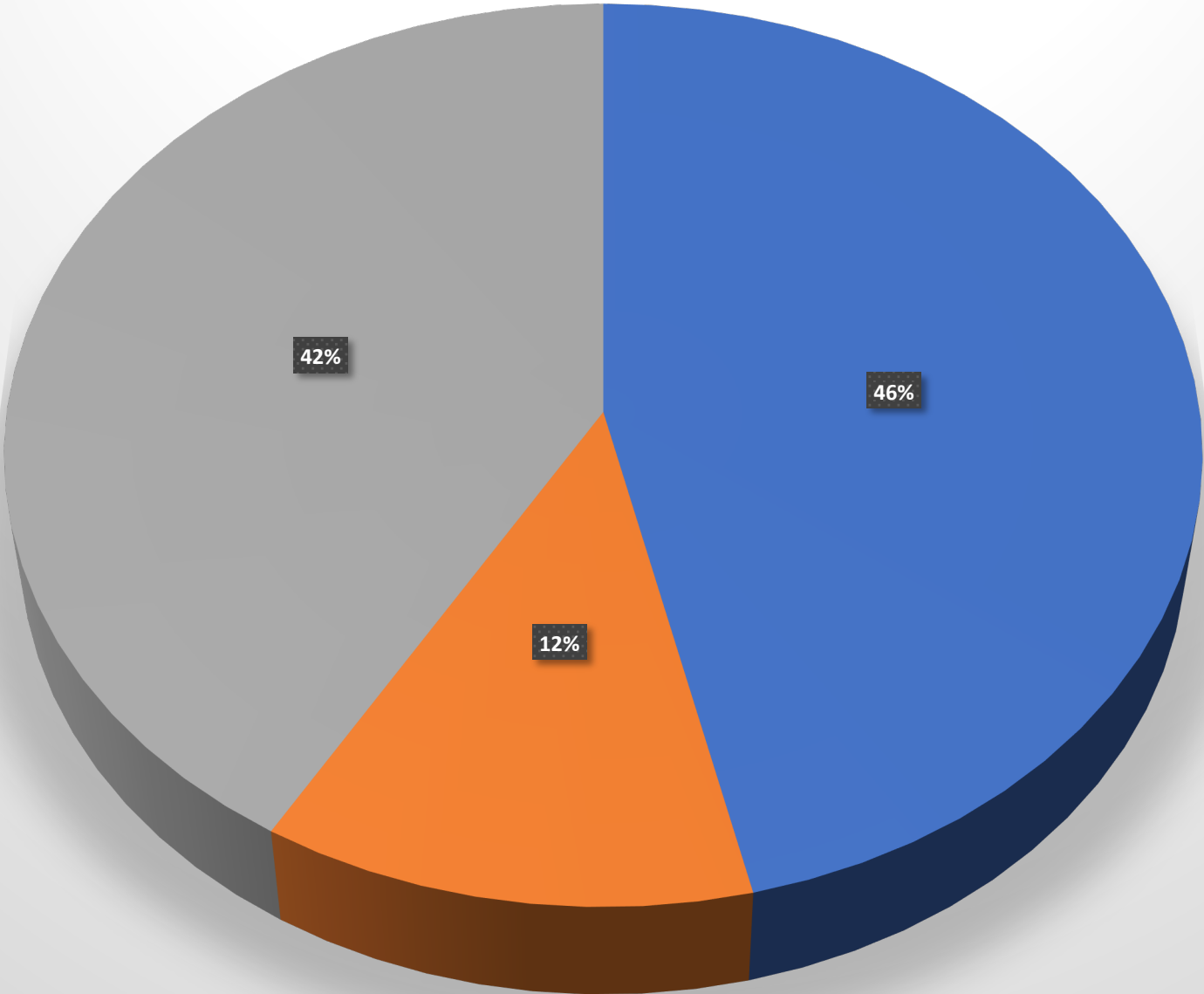
## Will You Improve RMS?



Respondents with an RMS prior to the crisis said that they will still improve it after the crisis by:

- Documenting changes (18)
- Strengthen measures vs compliance risk and operational risks (17)
- Specify risk limits (9); 4 said they will adjust their limits based on their experiences from the pandemic
  - 1 said it needs to put a peso value on risk (holding company PLC)
  - 1 said the bank has established a risk appetite but did not do a sensitivity exercise to determine how much variation it could tolerate (FI PLC)
- Change the composition of their boards to make them more responsive to risks(12)
- Appoint a CRO (6)
- Include novel risks/crisis management in their RMS (2)

# No RMS - Will You Establish An RMS?



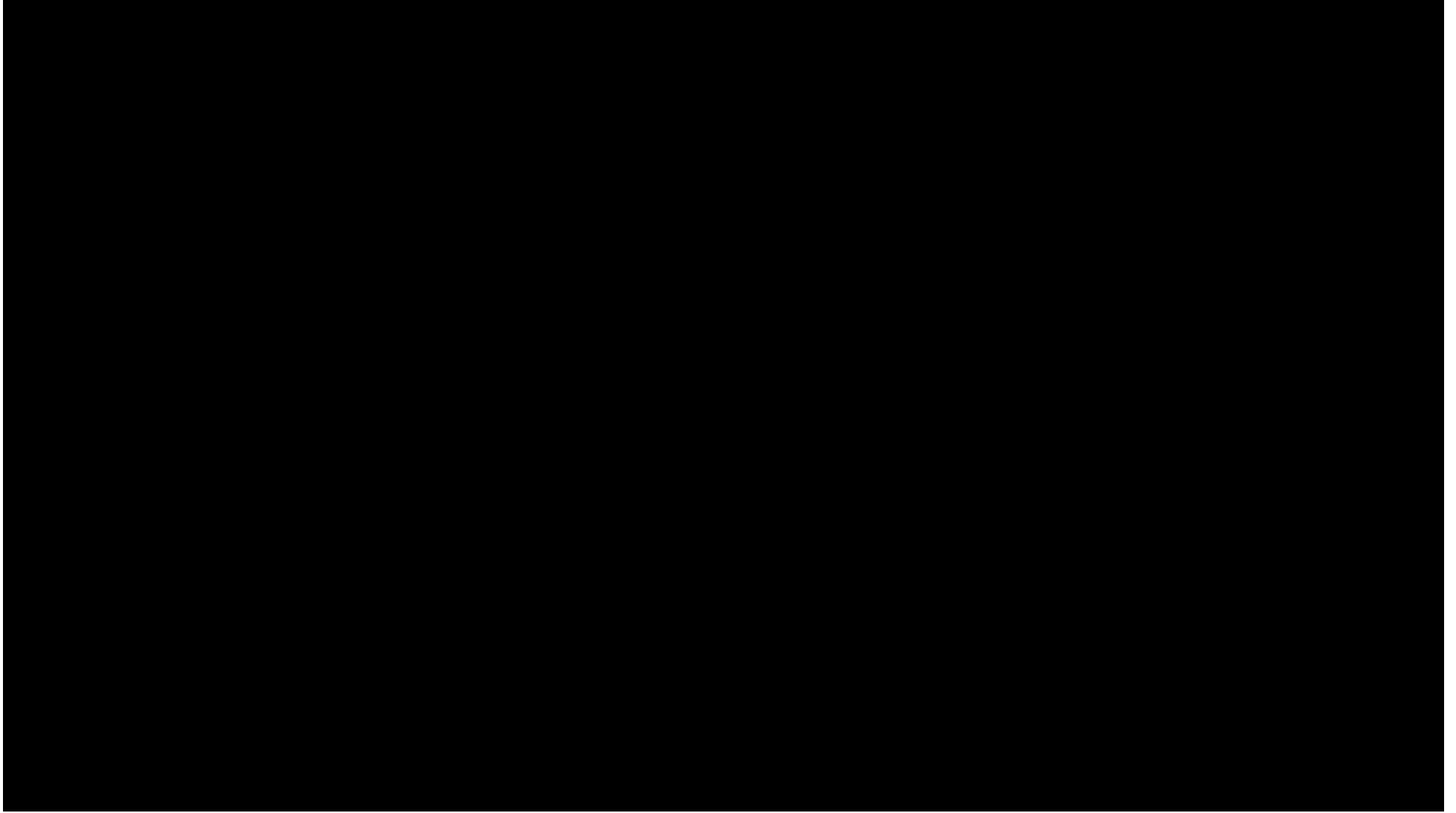
- Yes
- Improve
- Blank



# Facing the Future – Climate Change



# Facing the Future - Climate Change



# Managing Digital Risk According to JAO

- “Future proof” the board.
- Just do it!
- Learn, unlearn and re-learn!
- partnerships are important because we don't have all of the skills we need
- Small mistakes can have a catastrophic impact on the organization

# Facing the Future – Cyber Risk

Cybersecurity

## Colonial Hackers Stole Data Thursday Ahead of Shutdown



# In Closing

Risk Categories	Relationship to Strategy	Control Approaches
Operational/ Compliance	No strategic benefit from taking these risks.	Mission and value statements.  Internal controls/ Audit.  Codes of conduct  Whistleblower programs  Compliance office  Information Security office  Board audit & risk committees

Source: Prof Robert Kaplan, HBS

# In Closing

Risk Categories	Relationship to Strategy	Control Approaches
Strategy execution	Taking these risks is essential for achieving strategic returns.	Risk identification and assessments at risk workshops with risk maps.  Link to strategy maps  Risk mitigation initiatives  Key risk indicators linked to strategy review meetings and resource allocation  Contingency planning  CRO function

Source: Prof Robert Kaplan, HBS

# In Closing

Risk Categories	Relationship to Strategy	Control Approaches
<p>External/novel risks</p> <p>Source: Prof Robert Kaplan, HBS</p>	<p>Organizations cannot predict the likelihood or influence the occurrence of such risks. But they can prepare for them and reduce their impact.</p>	<p>Delegation to front-line personnel (if possible)</p> <p>Risk “envisionment” via scenario planning</p> <p>Board of advisors to identify and advise on major emerging trends – climate change, food security, demographic, technological</p> <p>Insurance and hedging programs</p> <p>Crisis response teams</p> <p>Board as a “Team B”</p>

# Risk Management Systems in Action

## LOOKING FOR RISK IN THE RIGHT PLACES

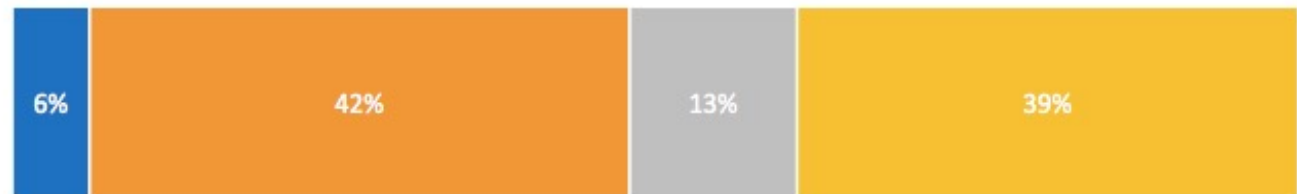
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THE PROPORTION OF **SIGNIFICANT LOSSES** IN MARKET VALUE CAUSED BY EACH TYPE OF RISK OVER THE PAST DECADE



■ Strategic ■ Operating ■ Legal & Compliance ■ Financial Reporting

THE PROPORTION OF **TIME AUDITORS SPENT** ON EACH TYPE OF RISK



Source: HBR.Org "How to Live with Risks"



# Risk Management Systems in Action

## CATEGORY 3: EXTERNAL RISKS

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**What are they?** Uncontrollable risks that cannot be predicted or influenced

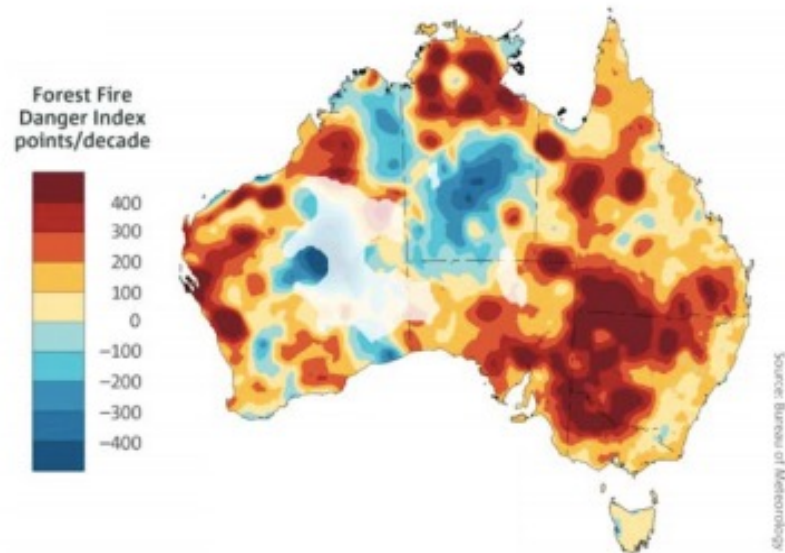
**Objective:** Cost effectively reduce the business impact should an external risk event occur

### QIC's control model:

- BCP resiliency
- Stress & scenario testing
- Crisis management
- War gaming
- Insurance
- Cyber resiliency

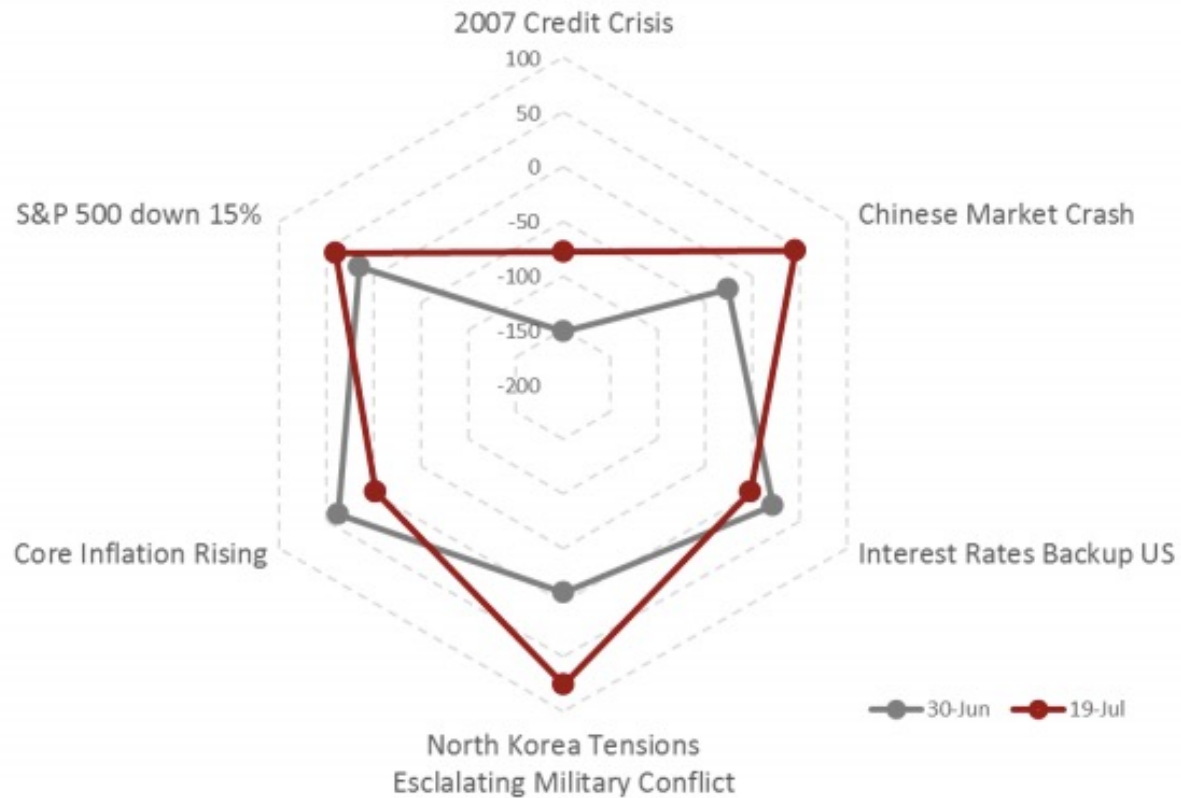
### Who:

- 1<sup>st</sup> line risk owners
- 2<sup>nd</sup> line risk managers
- QIC leadership teams
- QIC Board



# Risk Management Systems in Action

## STRESS TESTING – MACROECONOMIC, HISTORICAL AND HYPOTHETICAL



# Risk Management Systems in Action

## THE CRISIS...

---

**Fast Forward 3 years to 1 February 2021 ...**

- The Board approved your Investment team's strategy on 13 March 2018
- You have spent the past 3 years implementing your strategy
- **THE STRATEGY HAS COMPREHENSIVELY FAILED**



### ANSWER THE FOLLOWING QUESTIONS:

1. WHAT DOES FAILURE LOOK LIKE?
2. WHY DID YOUR STRATEGY FAIL?
3. WHAT COULD YOU HAVE DONE TO AVERT FAILURE?

# In Closing



... risk management is not a goal in and of itself – but rather a set of strategies to ensure that one can take big bets one needs to take to truly create value.”

- Mihir Desai, [The Wisdom of Finance](#)