



TC Note & Podcast: Lessons for Supervisory Authorities from Crisis Simulation Exercises

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Opening automation: You're listening to a Toronto Centre podcast. Welcome the goal of TC Podcasts is to spread the knowledge and accumulated experience of global leaders, experts, and world-renowned specialists in financial supervision and regulation. In each episode, we'll delve into some of today's most pressing issues as it relates to financial supervision and regulation; the financial crisis, climate change, financial inclusion, FinTech, and much more. Enjoy this episode.

Demet Çanakçı: Hello everyone. I am Demet Çanakçı, Program Director at Toronto Centre. This podcast is based on a recent Toronto Centre's Supervisor Guidance Note. TC Notes are meant to provide practical guidance to financial sectors supervisors on key supervisor challenges. My guest today is Clive Briault, the author of the TC Note on Lessons for Supervisor Authorities from Crisis Simulation Exercises, which is published this month. Clive has 40 years experience in supervision, regulation, and related financial sector issues. He is the Chair of Toronto Centre's Banking Advisory Board. Participates actively in Toronto Centre board meetings and discussions and edits the Toronto Centre Note Series. Clive, thank you for taking the time to talk with us today.

Clive Briault: Yeah. Thanks Demet. It's a pleasure to discuss this important subject with you.

Demet Çanakçı: Before we start, I would like to highlight that Toronto Centre has been delivering crisis preparedness and management program since its inception. You can find related resources under Centre of Excellence in Crisis Preparedness on our



website. Clive, you have been involved in many crisis preparedness programs at Toronto Centre, not only by delivering those programs, but also designing simulation exercises. Based on your experience why do you think simulation exercises are so important for Supervisory Authorities?

Clive Briault: Yeah. Thanks Demet. That's a good question. Crisis simulation exercises certainly are important for financial supervisors across all sectors. Why is that? Well, it's because they provide supervisors with experience in managing a crisis in taking decisions and actions in the heat of a crisis in communicating with all relevant parties, including other authorities for media, financial institutions, and the public, and in cooperating and coordinating with other authorities both nationally and internationally. So, these experiences provide opportunities for supervisors and Supervisory Authorities to learn lessons so that they are better prepared if and when a real crisis occurs.

Clive Briault: And these lessons include how individuals and authorities may operate in a crisis, the issues that are likely to arise during a crisis or decisions that may need to be taken, the importance of communicating clearly and proactively with all relevant parties, the importance of cooperating and coordinating with other authorities and the importance of understanding the powers and tools available to supervisory and other authorities and in recognizing whether or not those powers are likely to be adequate to deal with crisis. And indeed, whether those powers and tools could in practice be used effectively at very short notice and outside normal working hours.

Demet Çanakçı: Thank you Clive. A follow up question on that. In the TC Note, you also examined the various types of simulation exercises. Why do we need so many different types?

Clive Briault: Well, in my experience, it's possible to learn lessons from every crisis or crisis simulation exercise. And those lessons will be more extensive if the simulation exercises cover a range of possibilities in terms of scenarios and in terms of who participates in a crisis simulation exercise. And the basic point here is that the more you practice and the more you do that using a range of different scenarios, the more you will learn and therefore the better you will be prepared if and when a real crisis occurs.

Clive Briault: In terms of scenarios, they can range from the traditional failure of a financial institution because of poor credit or underwriting decisions through to the impact of cyber attacks and other operational failures, the impact of Pandemics and indeed the impact of climate change. And in some of those cases, there may also be operational and other impacts on the Supervisory Authority itself.

Clive Briault: In terms of participants for participants in a crisis simulation exercise may be a real life crisis management team from a single Supervisory Authority, or they may be more junior program participants from a single authority or as is the case with many Toronto Centre programs, the participants may be drawn from a range of different



countries, attending a Toronto Centre program and playing the role of a crisis management team with other participants who they've made a not be familiar with before the program started. The crisis simulation exercise itself may be played by a single authority, which might be the supervisor of a single sector, which is banking, insurance or securities or it may be an integrated Supervisory Authority responsible for more than one sector. And there may be other authorities and stakeholders played by role players or in more sophisticated simulation sizes, there may be multiple active teams representing a number of different authorities.

Clive Briault: For example, not just a single Supervisory Authority covering one sector, but multiple Supervisory Authorities covering different sectors, or the participants may include not just supervisors, but also a Central Bank, a Resolution Authority and a Deposit or Insurance Protection Agency. And those multiple active teams, although they're usually located within a single country, they can also be located across multiple countries to make a simulation exercise even more complicated, but also even more realistic.

Demet Çanakçı: Thank you Clive, could you please briefly talk about the lessons learned from simulation exercises versus lessons learned from experiencing an actual crisis. In general, how relevant they are?

Clive Briault: Well, thank you, Demet. I think to a large extent, the lessons from both a real crisis and a crisis simulation exercise are actually very similar, how clearly in a real crisis or indeed, in a very bespoke crisis simulation exercise based as far as possible on country specific features. And therefore, in both cases, reflecting the actual financial system, institutional framework and crisis management powers and tools in the specific countries or indeed countries where the crisis simulation is run, then what you are doing in those cases, an actual crisis or a very bespoke crisis exercise is to test an authority's actual financial crisis preparedness. So, if that is in a sense, the best possible test of crisis preparedness that you could undertake, but even a more generic crisis simulation exercise, where some of the features of the exercise may be fictional rather than real life or be it still as realistic as possible.

Clive Briault: There is still a scope to test and to learn lessons from how people behave in the heat of the crisis, how they take decisions, how they coordinate and cooperate with other authorities, how they relate to other stakeholders, how they communicate with the media and whether they understand the power is available to them and to other authorities. And indeed one point probably worth making here is that if the participants in even a generic crisis simulation exercise are sufficiently imaginative and willing to learn lessons, then one of the things they might take from even a generic exercise is that if things did not go too well in terms of communicating and cooperating with other authorities, or if things did not go too well in terms of making statements to the media, or if things did not go too well in terms of being able to access the information required in a crisis, then all of those things might lead participants to ask themselves a question.



Clive Briault: Well, if that went wrong or did not go too well in a crisis exercise, does what also mean that we may have similar problems in the real world, in our own Supervisory Authority dealing with a real-life crisis. So, one of the lessons you might take back from that is to say, "Well, we should do some more of these crisis simulation exercises in our own Supervisory Authority to see whether or not we have similar issues to deal with." So that's why I say that even a generic crisis simulation exercise can be the basis for learning some important lessons around crisis preparedness and crisis management.

Demet Çanakçı: Many thanks Clive. Now I would like to move on the crisis management teams, what lessons we have here, including role plays by participants?

Clive Briault: Yeah, thanks of that Demet. I think at the most general level, what we would conclude from the various exercises run by the Toronto Centre is that the Supervisory Authorities need to prepare in advance by designating a crisis management team. And that requires identifying clearly who are the senior people who are going to be in that team and indeed clearly designated deputies for each of those individuals because members of the crisis management team may not be available when a crisis occurs, or they may need to be substituted during a crisis because they become worn out dealing 24/7 with a crisis.

The crisis management team needs to contain within its different skills, which might be required in a crisis. Then that's likely to include supervision, policy, legal, media, accounting and auditing, human resources, and IT, and perhaps some others. Clear procedures for who can call a crisis and how a crisis management team is activated and clear procedures for where that crisis management team meets and what resources it has available to it and clear procedures for changing the composition of the crisis management team in response to the circumstances of any crisis.

So, for example, different skills, knowledge, and experience may be needed in different circumstances, such as where a crisis involves a cyber attack or other IT failures. It's also necessary to have clear procedures for how a crisis management team will operate, including its relationship with the senior executive team of the Supervisory Authority, the board of the Supervisory Authority and the crisis management teams of other key authorities, both in the country and where necessary in other countries and clear procedures for creating and activating a combined authority crisis management team should the circumstances of a crisis require that.

Another point about practicing being a crisis management team is that this may reveal something about how different individuals behave in crisis. And one of the things that we tend to find is that the best performers in a crisis may not necessarily be the best performers in more normal circumstances. And the composition of a crisis management team may need to reflect that observation. And most importantly, crisis management team should keep practicing and learning. All



teams need to practice working together so they can operate as effectively and efficiently as possible, both individually and collectively, and in the absence of a real crisis, the only way in which a crisis management team can get that practice is by participating in crisis simulation exercises. So again, that's another reason why it's so important to run, not just one, but multiple crisis simulation exercises over time. So, the crisis management team can practice its role as much as possible.

Demet Çanakçı: Thank you very much Clive. Very important indeed to keep practicing and learning. Thanks for that. As you discuss in the TC Note in more detail, in a crisis each author will need to consider a long list of stakeholders, why this is one of the key areas to deal with?

Clive Briault: Yeah, thanks Demet. I think we is a key area because it is necessary first of all to identify the key stakeholders and second to identify how you would contact them in a crisis. And that may mean that we're talking about how you would contact them outside normal working hours. So, in the middle of a night or over a weekend or whatever it might be. And in a crisis, each Supervisory Authority is likely indeed to consider quite a long list of stakeholders. Each of whom may be potentially valuable as first a source of information and data to the Supervisory Authority, a second as a joint decision maker or an input to decisions made by the Supervisory Authority. So, for example, the Supervisory Authority made the inputs from other Supervisory Authorities, the Central Bank, Ministry of Finance, whatever, as part of the Supervisory Authorities own decision making.

Clive Briault: But third, it may be that a stakeholder is actually a provider or a facilitator of solutions. So, if you have a problem at a financial institution, it may be that another financial institution might be interested in purchasing the failing institution and therefore providing a private sector or market solution to the problem that does not require any input of public sector funds. And last but not least a stakeholder may be someone who needs to be communicated to proactively or reactively to influence their actions and behaviors. So, the list of relevant stakeholders is likely to include at least other national authorities and relevant foreign authorities, depending on the nature of details of the crisis. So other Supervisory Authorities, Central Bank Ministry of Finance, Resolution Authority, and Depositor Policy Holder and Investor Protection Agencies where they exist. Financial institutions and financial market infrastructure for general public, including depositors, policy holders, investors, members of pension schemes, or anyone else who interfaces with financial institutions.

I've already mentioned the media who are very important, not just for press and TV, but also these days to reflect the growing importance of various forms of social media. It may be that political bodies are themselves an important stakeholder and last but not least professional services firms such as Accountants, Actuary or Lawyers may again be important because of the need to use them during a crisis for various purposes. And it's possibly just worth mentioning that the typical



experience in Toronto Centre Crisis Simulation Exercises, is that participants do interact with many stakeholders, but there is a tendency for this to be mostly reactive in response to incoming questions and requests. Participants are less likely to initiate proactive contact with stakeholders, even where this might help them to manage the crisis. For example, contacting the media to influence the reporting of a crisis, contacting financial institutions that might be part of a private sector solution and keeping other authorities informed even when there is no legal obligation or agreement to do so.

Clive Briault: And perhaps just one final point here Demet, participants sometimes also struggle to understand stakeholders' interests and concerns and therefore have best to influence or persuade them. That long list of stakeholders I mentioned may have many different interests and objectives. So, they may not be persuaded simply by the participants in an exercise stating what they want to do. And one good example of this is that a Minister of Finance may prefer to spend taxpayers' money on schools and hospitals than on supporting a failing financial institution. And it's important for people to recognize that before they go cap in hand to a Minister of Finance asking for or public body to deal with a financial sector crisis

Demet Çanakçı: Many thanks Clive. Regarding participants takeaways from the crisis simulation exercises, what are the main commonalities that you have observed so far?

Clive Briault: Well, Demet, as explained in the Toronto Centre Note itself. So Toronto Centre Crisis Simulation Exercises are designed to help participants to understand better the experience of being in the midst of a crisis, the need for effective crisis management team and for practical ball and clear decision making procedures, the importance of understanding the institutional framework within which the authorities and other stakeholders operate, the importance of understanding the powers available to the authorities and how they can be activated during a crisis, a need for effective cooperation and communication among relevant authorities. And indeed, other stakeholders. And last but by them means least the need to learn lessons and improve from participating in crisis simulation exercises. So, all of those learning opportunities, I would say are common to all of the crisis simulation exercises that Toronto Centre offers. And although each exercise will play out differently, there is scope for all of those lessons to be learned and to be used to improve the crisis preparedness of supervision authorities. Thank you.

Demet Çanakçı: Thank you very much Clive. This has been a fascinating conversation and many thanks for your time. Much appreciated. I encourage participants to read the TC Note, which can be found in the resource centre on our website. I'm here today with Clive Briault and you have been listening to another episode of TC Notes podcast series. Thank you for joining us today and stay tuned for the next episodes.