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Study of Insurance Economics

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M.O.R.E. 20

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**The Role of Risk Management and Insurance
in the Leisure Industry**

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The Geneva Association - General Secretariat - 53, route de Malagnou - CH-1208 Geneva
Tel.: +41-22-707 66 00 - Fax: +41-22-736 75 36 - secretariat@genevaassociation.org - www.genevaassociation.org

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Layout & Distribution: Valéria Kozakova

Risk Management Approach to Business Continuity: Governing the Resilience of the Modern Insurance and Leisure Industry

David Kaye

The talk objectives

- ⌘ Drivers for the book and course
- ⌘ The changing shape of organisational delivery
- ⌘ real risks to resilience
- ⌘ the business continuity promise
- ⌘ managing the the resilience expectation
- ⌘ working across the entire risk community

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"A risk"

- ⌘ a risk is the threat that an event or action will adversely affect an organisation's ability to **maximise stakeholder value** and to achieve **business objectives**
- ⌘ risk arises as much from the possibility that **opportunities** will not be realised as it does from the possibility that threat will materialise or that mistakes will be made.
- ⌘ a risk however is **integral to all opportunity** and is as much about opportunity as it is about threat.

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Dominant risk issues

- ⌘ The top 10:
 - ⊠ 1: loss of Reputation
 - ⊠ 2: business interruption
 - ⊠ 3. failure to change
 - ⊠ 4. product liability/tamper
 - ⊠ 5. impact of regulation and legislation
- ⊠ *Source: Risk management and Financing Survey 2005 AON*

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The hollow company

⌘ The ingredients?

- ☒ the brand or brands
- ☒ other intellectual assets
- ☒ value chain contracts including 'front-office'
- ☒ legality
- ☒ control
- ☒ technical ability to deliver immediacy
- ☒ stakeholder confidence

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Strategic risk challenges

⌘ *The art of management consists of issuing orders based on inaccurate, incomplete and archaic data, to meet a challenge which is dimly understood and which frequently be misinterpreted; to accomplish a purpose about which many of the personnel are not enthusiastic.* General William Reader

⌘ challenge is still to do this but in an entirely new environment

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Core messages

⌘ New business model dependencies

- ☒ Huge power and size
- ☒ much less power to micro-manage
- ☒ new stakeholder power
- ☒ tight speed and cost margins
- ☒ however large and multinational; much more likely to be at risk of total failure

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Risk management issues

- Risk to operational dependencies
- impact on operational dependencies
- acceptable risks and unacceptable risks
 - financial cost: single and multiple events
 - human cost
 - time out of the marketplace

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Risk manager's toolbox

- reduce the risk to acceptable levels
- reduce the impact to acceptable levels
- transfer the risk and/or impact
- prepare to finance losses
- contingency response

- or most likely a combination of the above...

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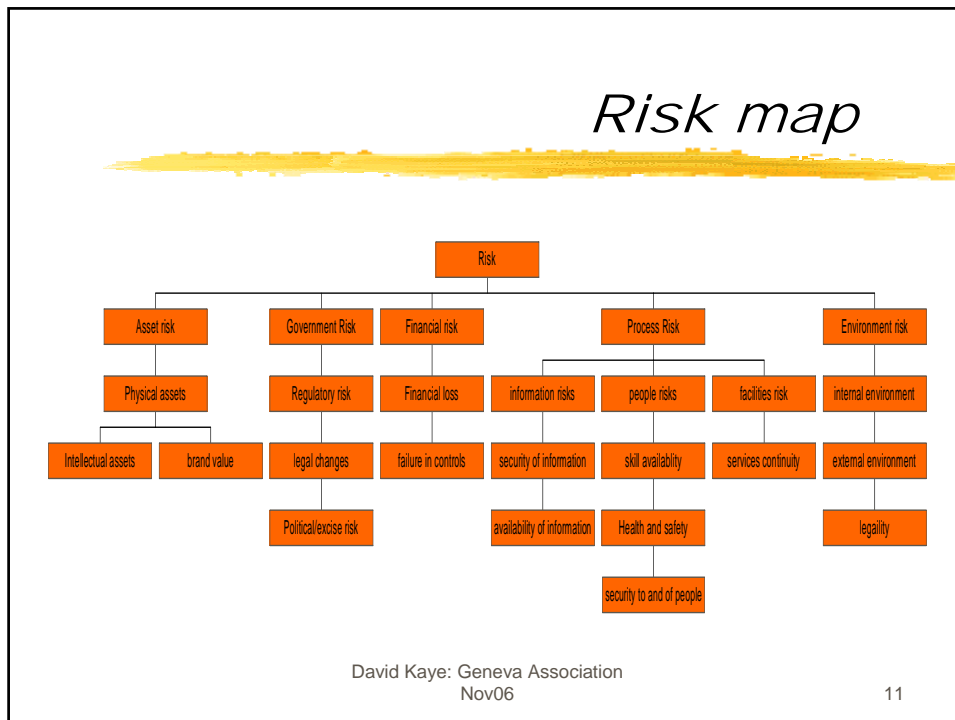
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The risk fraternity

- ☒ "Risk" (Insurance) Manager
- ☒ IT and other facilities managers
- ☒ operations manager
- ☒ treasurer
- ☒ regulator
- ☒ finance Director
- ☒ auditor
- ☒ lawyer
- ☒ business director others.....

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- ## Trouble with scenarios....
- ⌘ St Mary Axe Bomb
 - ⌘ Hurricane Katrina
 - ⌘ UK House prices early 1990s
 - ⌘ Stock market falls early 2000
 - ⌘ Tsunami
 - ⌘ World Trade Center
 - ⌘ Buncefield Oil Storage Depot UK
 - ⌘ Chernobyl, Belarus
 - ⌘ Piper Alpha, North Sea
 - ⌘ Auckland Power failure
 - ⌘ Iraq war
 - ⌘ Afghanistan today
 - ⌘ etc. etc. etc etc.
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Stakeholder demands

- ⌘ Employees "Value chain" suppliers
- ⌘ Customers "Value chain" distributors
- ⌘ Regulators Media
- ⌘ Private investors Rating agencies
- ⌘ Quoted investors Investor advisors
- ⌘ Bankers/financiers The environment
- ⌘ Current Competitors Potential competitors

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A snapshot of some individual risks

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Computer failure not just technological



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Outsourcing

- ⌘ the supplier as an urgent critical deliverer
- ⌘ The supplier as a stakeholder

- ⌘ the supplier in crisis - value of lawyers?
- ⌘ the principal in crisis - supplier reaction?
- ⌘ workforce control and diversion

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Outsourcing risks

- ⌘ Failure to deliver, of course
 - ☒ on time, in quantity and quality
- ⌘ destruction of the brand
- ⌘ owned and rented intellectual assets
- ⌘ technological, physical and legal ability to read data
- ⌘ continuity plan tick box
- ⌘ contingency service level agreement?

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Intellectual assets

- ⌘ Brand values
 - ⌘ softwares
 - ⌘ employee skills
 - ⌘ paper files
 - ⌘ legality
 - ⌘ research
 - ⌘ market position
 - ⌘ wide stakeholder confidence
 - ☒ **Many of these are owned by third parties and rented!**
- databases
 - employee intellect
 - licenses
 - regulatory approvals
 - domain names
 - patents
 - competitor gap

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Financial instability

- ⌘ Loss of working capital, cash flows, gearing and other balance sheet strengths
- ⌘ Culture of high risk strategic decision making
- ⌘ Management authority control
- ⌘ Adequate insurance levels and cover
- ⌘ Rating Agencies

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Legality

- ⌘ Regulators demand continuing control
 - ☒ normally
 - ☒ during a crisis
 - ☒ audit trail a crucial dependency
- ⌘ wide legality requirements from products to people to environment
- ⌘ political risk
- ⌘ other trading licences
- ⌘ supplier/delivery chain contract demands

– The fastest way to die?

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the role of the insurer

⌘ values - where needed:

- ☒ spread of unacceptable financial losses
- ☒ expertise and discipline
- ☒ claims handling

⌘ but does insurance provide

- ☒ immediate needs to stay in business?
- ☒ Critical arteries insurable?

⌘ most important bits excluded

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Catastrophic impact

- ⌘ Loss of effective control-
- ⌘ Loss of regulatory or licence approval
- ⌘ -service delivery fails for critical period
- ⌘ loss of effective business or financial controls
- ⌘ -loss of confidence in brand name: media attack
- ⌘ -losses: Capital; revenues, targets, profits, gearing
- ⌘ destruction of business model
- ⌘ -credit rating fall one full level or more
- ⌘ -unacceptable risk of life

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Common Decisions

- ⌘ understand risk and the likely impact
- ⌘ taking ownership of risk and risk decisions
- ⌘ decide:
 - ☑ which exposures are unacceptable?
 - ☑ dependencies to be protected and/or duplicated
 - ☑ what does resilience management and recovery plans need to protect and address?

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Skills and tools

- ⌘ Emergency succession planning
- ⌘ bomb threat
- ⌘ kidnap and ransom
- ⌘ contribute to wide area disaster
- ⌘ major fraud and crime
- ⌘ product recall
- ⌘ media and brand attack
- ⌘ extensive third party environmental damage
- ⌘ other

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Common denominator 1: speed



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Common denominator 2: conflicts

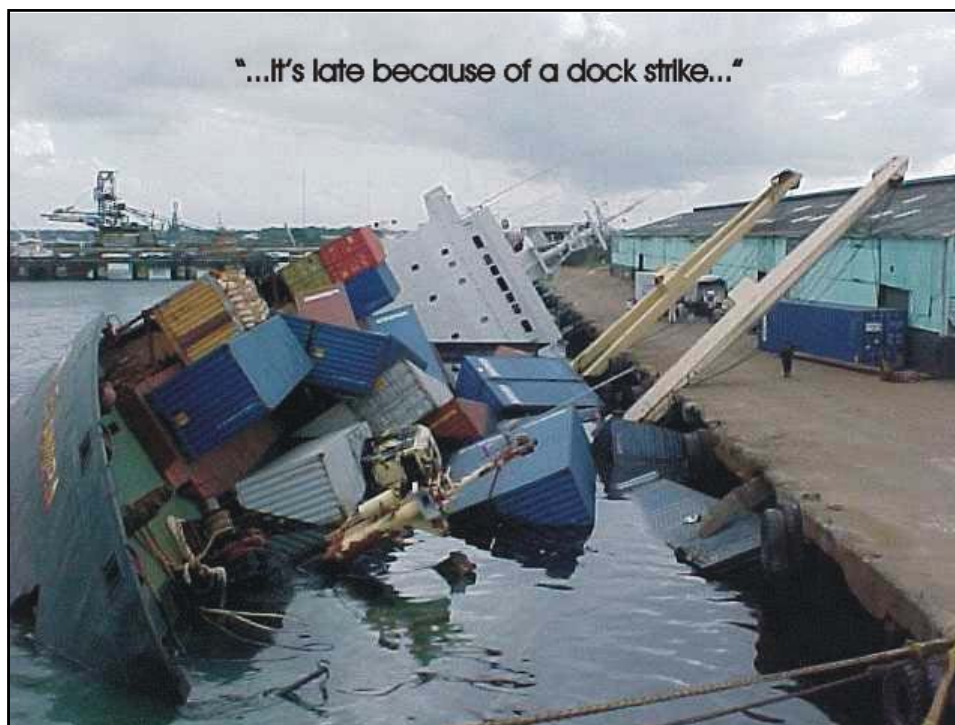


Common denominator 3: information



Media attack; too low a profile?

⌘ "You want to be famous for five minutes? All you have to do is go out and shoot someone – or better still two or three people on successive days" – and watch the hysteria spread like wildfire in CNN, Fox news, NBC, CBS, ABC, BBC, Sky and all the local stations, turning an event of tragic but limited circumstances into an all consuming national and international emergency" Martin Bell



Preparing for supplier failure

- ⌘ special challenge of trust
- ⌘ creeping failures
- ⌘ SLA for failure?
- ⌘ whom do their plans protect?
- ⌘ contractual powers?
- ⌘ Legal and electronic access to data
- ⌘ benchmarking?
- ⌘ demand an exercise? Exercise what?

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Survival basics

- ⌘ Speed of response
- ⌘ All foundations stones accessible fast enough
- ⌘ communications and heads on the chickens
- ⌘ intellectual assets
- ⌘ value chain options; fast enough for stakeholders
- ⌘ legality
- ⌘ stakeholder support; including finance
- ⌘ wide-field confidence

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21st century Continuity challenge

- ⌘ Risk decisions into the board room
- ⌘ a core business, not a facilities, matter
- ⌘ strategic decision making in all crucial areas
- ⌘ survival bang for buck is best from effective risk management
- ⌘ only then;
- ⌘ emergency response structure and resources

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