LINE MANAGERS AND RISK PROFESSIONALS MUST JOIN FORCES TO LAY CONTINGENCY PLANS TO TACKLE THE RISKS THEIR COMPANY FACES, SAYS **JOHN SCOTT** OF ZURICH STRATEGIC RISK.

# PLAN, PROTECT AND

Contingency planning is a not just a key issue for both treasurers and risk managers; it is the issue that brings these risk professionals together, along with line management, to deliver practical ways to tackle their organisations' risks, both now and in the future.

At the recent Zurich-sponsored, joint ACT/AIRMIC conference *Key issues concerning treasurers and risk managers in difficult markets*, delegates had the opportunity to hear different, but complementary, views on that topic. At the end of the day, more than one person left the conference saying that they now had new ideas to protect value through contingency planning.

**AN INSURER'S VIEW.** Sound contingency planning is a must for any organisation, especially from the perspective of protecting the balance sheet. This applies not only to the short-term plans covering emergency response and crisis management, but most importantly the medium-term business continuity planning. For some companies, having a proven business continuity plan in place can make the difference between insurers giving cover or not. For others it can be a factor in the amount of coverage offered, or a consideration in insurers' pricing; although of course many factors can affect price and, in general, insurance business is written on an individual company basis.

Understanding risks and developing continuity plans takes time and effort, but if companies do it well then insurers will be more comfortable assuming risk. In contrast, relying on a good claims history as a substitute for business continuity planning is likely to mean that insurers will view you as just plain lucky – and price accordingly.

So what should businesses do? The first steps are to develop a strong understanding of supply-chain resilience. In the event of an interruption scenario, be it a supplier interruption or a property damage event on a company-owned site, the impact of the downtime on the profit & loss account and balance sheet needs to be understood. This is not a simple task: it calls for an understanding of business continuity plans across the supply chain, and of changes in capacity over time that might affect the efficacy of those plans.

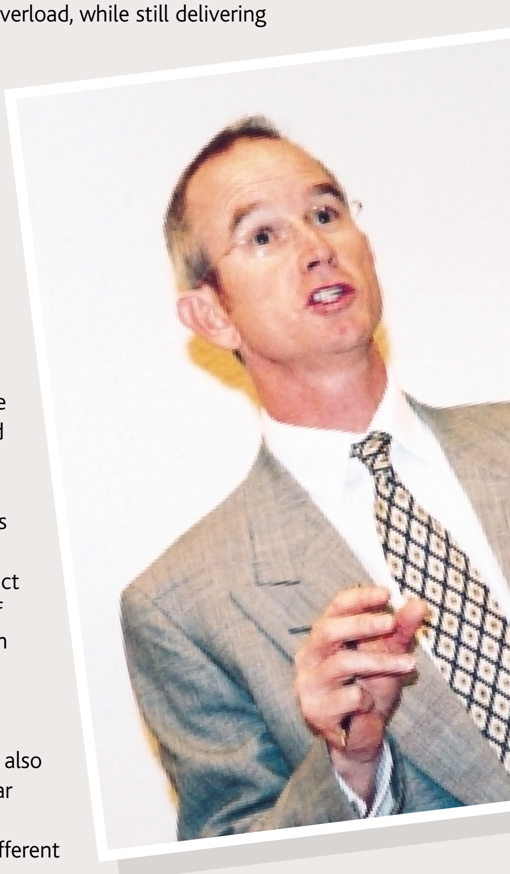
A component of those plans is attention to issues affecting reputation, and in particular a public relations plan. The effect of badly-managed communications in the event of an interruption can adversely affect brand value and impact hugely on the bottom line.

The business environment is a dynamic one, and any business continuity plan needs to be frequently rehearsed and updated. It should be a live document, which is an integral part of the business strategy, not something that is written, filed and forgotten.

**A CORPORATE'S VIEW.** Contingency planning is not about insurance alone, or at least not in the first instance; it is about having comprehensive business continuity strategies. Funding alone will not save the business if there is a major interruption, whatever its cause, if there are not well-defined, tested and deployed plans for carrying on the business.

Contingency planning should ultimately be about protecting the company's assets, reputation and shareholder value. In practice this is often based on maintaining continuity of goods and services to customers. In a broader context it is also implicit that the process should safeguard employees and other people we interact with, and protect the environment too.

The first steps in contingency planning involve understanding the risks, prioritising them in some way and developing appropriate responses. The process needs to be business-driven to become embedded in the company culture. To this end it helps to be pragmatic, avoiding data-overload, while still delivering common-sense, value-protection solutions.



A good place to start looking for contingency planning information is with the customer end of the supply chain. Customers' tolerance to supply disruption will set the initial parameters to work back into the supply chain to find the critical paths for key resources. The items with the longest lead times for recovery are an obvious area of focus. Similarly, interdependencies across the company can mean that significant impact comes from interruption of the most unlikely and often overlooked activities.

Communication of contingency plans, both internally and externally, is also very important. In particular there should be complete integration between the different

# SURVIVE

phases of post-disaster activities. Emergency response and crisis management plans that deal with immediate issues need to dovetail with medium-term recovery and continuity planning. The effectiveness of these plans and their seamless integration will govern how well your company protects its people, reputation and value.

In the corporate world, contingency planning is a big job that involves all parts of the business. There are so many aspects to the process that, to do it well, you need to get help; and get busy now!

**A TREASURER'S VIEW.** All unplanned interruptions and disasters have financial effects. From the treasurer's perspective, these financial effects split into those that affect business divisions or business units, and those that impact on corporate finance and treasury functions. At the heart of it all is the treasurer's responsibility to protect value on the balance sheet.

In the broader context of interruption to business operations, there are, sadly, many examples of where treasurers can learn from the experiences of others. Some involve major disasters with associated loss of life and property, in most recent memory from terrorist actions. Other examples include operational failures resulting in widespread loss of services, such as power supplies. Recent well-publicised corporate failures have resulted not only in losses for individual corporations and their stakeholders, but have also created sector-wide reputational damage too.

These widely visible, public events typically focus the treasurer on cash and investor relations issues. In most situations the business will have put into action a number of recovery activities, often focused on emergency response and operational continuity. Amid this turmoil of activity the treasurer needs to assess the immediate and medium-term financial impact on the company.

Key to all of this is cashflow. In the case of a major cashflow interruption there can be many consequences to deal with and appropriate mitigating actions to put in place. Bank covenants may be threatened and back-up liquidity required; but is it adequate, or even available? This is not the time to discover that insurance cover, or other financial risk transfer mechanisms, are insufficient to meet the company's needs.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So plan ahead and work with the businesses to understand and develop company-wide risk assessments. Be sure that you have liaised with risk and insurance management to plan appropriate levels and types of contingency, or financial risk transfer that adequately matches the risks that the business faces. Integrate these plans with those of investor and corporate relations, so that the financial community, bankers, ratings agencies, insurers and others will understand what you are doing to manage to the situation.

All of these actions will help you to protect the company's value, but of course you may be hampered if you don't plan for contingency closer to home. Any of these interruptions could impact on the finance or treasury functions themselves. There are other scenarios, where the business may not be affected operationally, but your treasury operations are.

The vulnerabilities are obvious for a treasury function that typically has real-time operations running every day, concentrated in one location with PC/paper-based records and key information in the minds of one or two people. The consequences are equally obvious, ranging from inefficiencies in cash or risk management through to outright default. So be sure to have your own tested contingency plan, with back-up systems and back-up locations: it's the attention to detail that can let you down. Forget a password or phone number and it can make all the difference when you are under pressure.

Check that you've got all of this today; and if you don't, make sure you put it in place tomorrow.

**SOME LEARNING POINTS.** Contingency plans such as emergency response, crisis management, business recovery and business continuity planning must be in place to protect your organisation's assets, reputation and shareholder value. Treasurers and risk managers must work together as the key risk professionals whose role it is to support line management in the development and maintenance of the most effective plans.

The appropriate place to start is to understand your supply chain and identify threats to its resilience. It's a big effort, involving a multidisciplinary approach, and you will need help and tools to do it well. The resulting plans should be dynamic, integrated with the business strategy and must be assessed, tested and rehearsed.

Finally, once risks have been identified and plans developed, you must seek appropriate financial risk transfer solutions that fit the risks you have. Insurance is only one of many tools required for sound business contingency, but it does have an important role to play. Depending on your business and other factors, the availability and coverage of insurance can be influenced by the quality of your business contingency plans.

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