



Insurance
Regulatory
Authority

Bima Bora kwa Taifa

I R A



Business Continuity Management

Insurance Companies CEOs Breakfast Meeting

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Agenda

- Introduction
- Types of Crisis
- Business Continuity Management
- Key Requirements
- Conclusion



Introduction

Quote

- “When written in Chinese the word crisis is composed of two characters. One represents danger and the other represents opportunity.”

John Fitzgerald Kennedy



Crisis

- “... event that threatens to harm the organization, its stakeholders, or the general public.”
- **Common features of Crisis**
 - The situation materialises unexpectedly.
 - Decisions are required urgently.
 - Time is short.
 - Urgent demands for information are received.
 - There is sense of loss of control.
 - Pressures build over time.
 - Routine business become increasingly difficult.
 - Reputation suffers



Types of Crisis

- **Natural crises**, typically natural disasters - **2004 Indian Ocean earthquake**
- **Technological crises are** caused by human application of science and technology - **Heartbleed security bug** - theft of the servers' private keys and users' session cookies and passwords
- **Confrontation crisis** occur when discontented individuals and/or groups fight businesses - **Rainbow/PUSH's (People United to Serve Humanity) boycott of Nike**

Types of Crisis

- **Crisis of malevolence** when opponents or miscreant individuals use criminal means or other extreme tactics for the purpose of expressing hostility - **Chicago Tylenol murders** - Tylenol-branded acetaminophen capsules that had been laced with potassium cyanide
- **Rumours** - False information about an organization or its products creates crises hurting the organization's reputation - **Procter & Gamble's Logo controversy**

Successful Crisis Management

- The Pepsi Corporation faced a crisis in 1993 which started with claims of syringes being found in cans of diet Pepsi.
- Pepsi urged stores not to remove the product from shelves where it had the cans and the situation investigated.
- This led to an arrest, which Pepsi made public and then followed with their first video news release, showing the production process to demonstrate that such tampering was impossible within their factories.



Unsuccessful Crisis Management

- The Exxon Valdez spilled crude oil into the waters off Valdez, killing thousands of fish, fowl, and sea otters.
- Exxon, did not react quickly in terms of dealing with the media and the public; the CEO, Lawrence Rawl, did not become an active part of the public relations effort and actually shunned public involvement; the company had neither a **communication plan nor a communication team** in place to handle the event—in fact, the company did not appoint a public relations manager to its management team until 1993, 4 years after the incident;
- Exxon established its media centre in Valdez, a location too small and too remote to handle the onslaught of media attention; and the company acted defensively in its response to its public, even laying blame, at times, on other groups such as the Coast Guard



Guideline on Business Continuity Management(BCM)



Objective of the Business Continuity Management

“... to ensure that an insurer has an effective business continuity management capable of identifying, assessing, managing, mitigating and reporting on potential business continuity risks to ensure that the insurer is able to meet its financial and service obligations to its policyholders, depositors and other creditors.”



Key Requirements of BCM Guideline

The Board



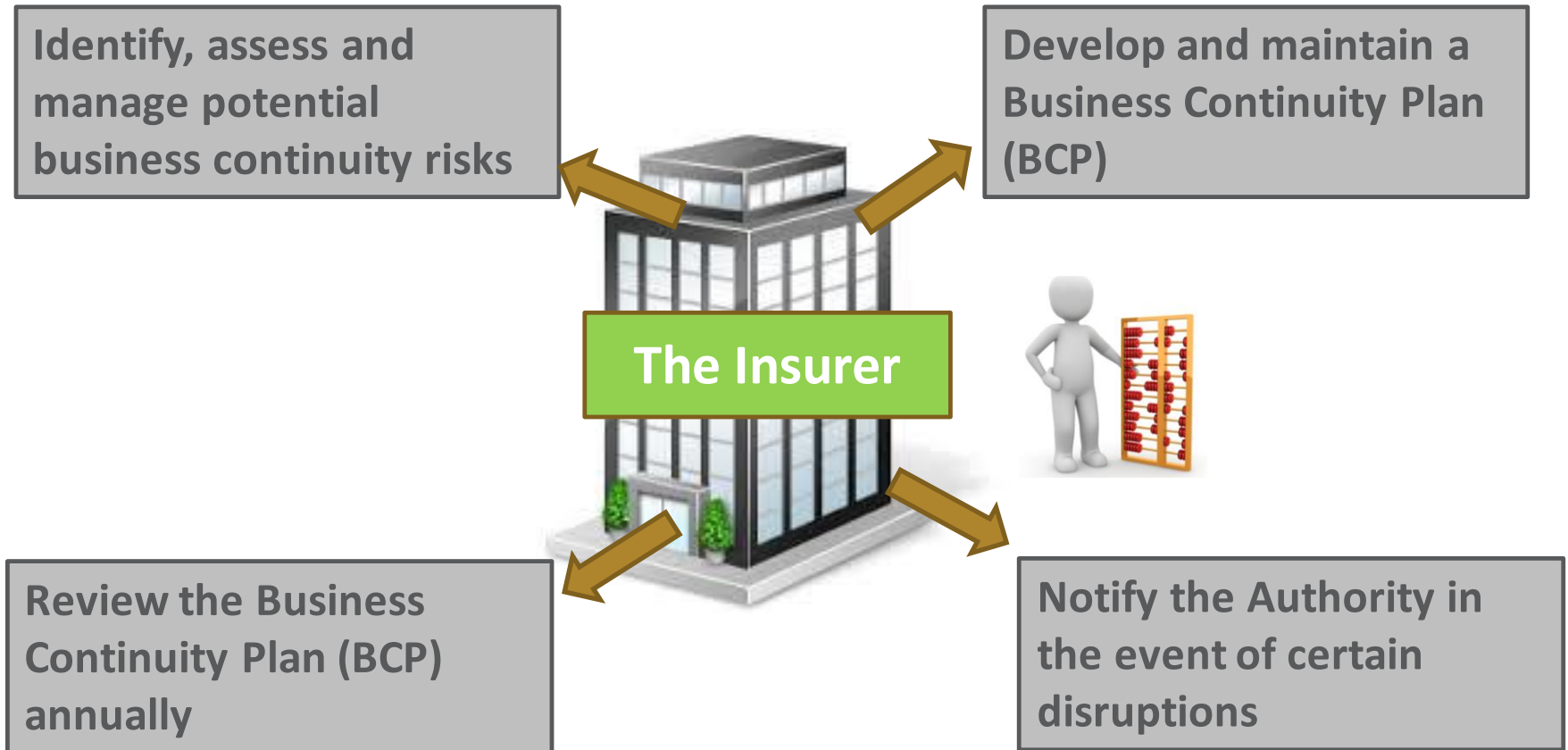
Board
of Directors

Board must consider **business continuity risks and controls** as part of its overall risk management systems

The board must **approve a Business Continuity Management(BCM) Policy**



Key Requirements of BCM Guideline The Insurer



Business Continuity Management

Definition BCM

- is a whole-of-business approach that includes policies, standards and procedures for ensuring that critical business operations can be maintained or recovered in a timely fashion, in the event of a disruption

Purpose of BCM

- to minimize the financial, legal, regulatory, reputational and other material consequences arising from a disruption.

BCM must contain the following

- BCM Policy;
- Business impact analysis (BIA) including risk assessment
- Recovery objectives and strategies;
- business continuity plan (BCP) including crisis management and recovery
- Programs for:
 - review and testing of the BCP
 - training and ensuring awareness of staff in relation to BCM



Business Continuity Management

BCM Policy

**Business
Impact
Analysis
(BIA)**

**Recovery
objectives
and
strategies**

**Business
Continuity
Plan (BCP)**

**Programs
review and
testing of the
BCP and
training
relation to
BCM**

What is BCM Policy

- The BCM Policy provides the framework around which the BCM capability is designed and built

Requirements

- An insurer must develop an up-to-date documented BCM Policy that sets out its objectives and approach in relation to BCM
- The BCM Policy must clearly state the roles, responsibilities and authorities to act in relation to the BCM Policy

Business Impact Analysis (BIA)

BIA involves identifying all critical business functions, resources and infrastructure of the insurer and assessing the impact of a disruption on these.

Scenarios

- plausible disruption scenarios over varying periods of time

Period

- period of time for which the insurer could not operate without each of its critical business operations

Extent & Impact

- extent to which a disruption to the critical business operations might have a material impact on the interests of policyholders
- financial, legal, regulatory and reputational impact of a disruption to an insurer's critical business operations over varying periods of time

Recovery Objectives and Strategies

- Recovery objectives are pre-defined goals for recovering critical business operations.



- Insurer must **identify and document appropriate recovery objectives and implementation strategies**

Business Continuity Planning

- BCP must document procedures and information to manage an initial business disruption (crisis management) and recover critical business operations

BCP must reflect and identify

- critical business operations;
- recovery levels and time targets for each critical business operation;
- recovery strategies for each critical business operation;
- infrastructure and resources required to implement the BCP;
- roles, responsibilities and authorities to act in relation to the BCP; and
- communication plans with staff and external stakeholders.

Review & Testing of BCP

Review and Testing

- Insurer must review and test its BCP at least annually, or more frequently if there are material changes to business operations

Reporting

- Results of the testing must be formally reported to the Board

Updating BCP

- BCP must be updated if shortcomings are identified

Audit Arrangements

Internal Audit

- insurer's internal audit function must periodically review the BCP and provide an assurance to the Board

Audit Areas

- BCP is in accordance with the regulated institution's BCM Policy and addresses the risks it is designed to control
- Testing procedures are adequate and have been conducted satisfactorily

External Audit

- Authority may request the external auditor of the insurer, or another appropriate external expert, to provide an assessment of the regulated institution's BCM arrangements

Notification Requirements

Within 24 Hours

- insurer must notify the Authority as soon as possible and no later than 24 hours after experiencing a major disruption that has the potential to have a material impact on the insurer's risk profile, or affect its financial soundness

Insurer must explain to the Authority the

- Nature of the disruption,
- the action being taken,
- the likely effect and the timeframe for returning to normal operations

Normalcy

- insurer must notify the Authority when normal operations resume.

Conclusion

Impact of catastrophes on shareholder value

- Impact of a catastrophe on the stock value of an organization was completed by Dr Rory Knight and Dr Deborah Pretty (1996, Templeton College, University of Oxford)
- This study undertook a detailed analysis of the stock price (post impact) of organizations that had experienced catastrophes.
- The study identified organizations that recovered and even exceeded pre-catastrophe stock price, (Recoverers), and those that did not recover on stock price, (Non-recoverers).
- The average cumulative impact on shareholder value for the **recoverers was 5% plus on their original stock value.**
- The **non-recoverers** remained more or less unchanged between days 5 and 50 after the catastrophe, but **suffered a net negative cumulative impact of almost 15% on their stock price up to one year afterwards.**

Crisis as Opportunity

- Crisis is an opportunity to showcase an institution's character, its commitment to its brand promise and its institutional values.
- Senior executives need to adopt an effective "crisis as opportunity" mindset.
- leaders who perform well under pressure can effectively guide the organization through crisis.



*Thank
You*