Crisis Simulation Exercises

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Why crisis simulation exercises?

- To provide a safe virtual environment for financial sector authorities to experiment taking critical decisions

Additionally:

- Support local capacity and train staff to conduct simulations themselves in the future.

- Validation, Diagnostic, Training…
- Legal and operational frameworks
Modalities

- Virtual environment
- Top decision makers
- Flexible setting: role players and participants
- Asymmetric information game
- Time compression
- Interactive
- Counterparty team
- Collaborative design of scenario
- 4 stages: Planning, Building, Running, Reporting
Building and running crisis simulation exercises

Planning
- Stock-take
- Decide on scope
- Decide modalities

Building
- Set up team +scenario
- Finalise materials
- Assign roles
- Organise IT

Running
- Introduce
- Run
- Debrief

Reporting
- Record
- Prepare
- Seminar
Planning

1. • Take stock of current financial stability arrangements
   • Take stock of market, institutional and other vulnerabilities

2. • Determine the scope of the crisis to be simulated and the elements to be excluded
   • Determine the elements to be tested in the CSE

3. • Time period
   • Extent of interactivity
   • Delivery mechanism
   • Extent to which senior officials are role played
   • Language
Building

1. • Set up a team and scenario
   • Form a counterpart team
   • Write the scenario

2. • Finalize materials
   • Public messages
   • Private messages
3. Assign roles
   Identify and assign roles to monitors and role players

4. Organise IT and physical arrangements.
Running

1. • Introduce CSE to the participants
2. • Run the CSE
3. • Debrief
Reporting and dissemination

1. • Record of communications

2. • Prepare report

3 • Conduct dissemination seminar
Lessons learnt

- Decisions must be made even when there is uncertainty
- Voluntary or imposed impacts behavior
- Parent/shareholder capacity/willingness to provide support is often overestimated
- Joint analysis of information is less common than information sharing
- Limited coordination of public communications
- Speed of decision making is as important as perfection
- Loss of confidence is major enemy
- Quantity of information required to make decisions
- Manage individual crisis well to prevent them becoming systemic
Takeaways for deposit insurers

Comprehensive CSE
What triggers the DI to be informed of a problem too late in the process?
How and how quickly is access to information available?
How good is cooperation with other authorities?
Gaps and overlaps in legal frameworks

Pay out simulation
Multiple currency payment
Netting issues
IT systems
One customer views
The World Bank and Austria’s Ministry of Finance joined forces in 2011 through the creation of a WB-administered Trust Fund to contribute to financial crisis recovery in the ECA Region through technical assistance activities.

The Trust Fund provides for the establishment of a small specialist team in Vienna to coordinate client delivery of activities, such as:

1. Client-based advisory and implementation assistance programs
2. Regional workshops (resolution, Basel III, NPLs…)
3. Technical publications including analytical work
“To help ECA Financial Regulators Strengthen Financial Stability”

Thematic Focus

- **Financial stability** - Systemic Risk Assessments, Stress tests, Macro-prudential Supervision
- **Micro-prudential supervision** - Enforcement, corrective action plans, SIFI issues, Home-Host, NPL work outs, Basel III
- **Crisis Management Frameworks** - Bank resolution, Recovery and Resolution Plans, Crisis simulation Exercises
- **Financial consumer protection**; corporate governance; accounting standards; payment systems

**GUIDING PRINCIPLES**

1. **Timeframe**: Medium-Term
2. **Focus**: Implementation of Specific Policy and Institutional Changes
3. **Partnerships**: Pro-active division of labor with authorities, local experts and other stakeholders
4. **Bank and Non Bank Financial Institutions**
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Geographical Focus

- EU candidate countries
- Potential EU candidate countries
- Also: EU member states as active non-graduated WB Clients
- Selectively: EU Neighboring Countries and Central Asia countries

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THANK YOU!

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