



THE WORLD BANK  
VIENNA FINANCIAL SECTOR  
ADVISORY CENTER (FINSAC)

# **Crisis Simulation Exercises**

**Katia D'Hulster**  
**Senior Financial Sector Specialist**  
**The World Bank**

# 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

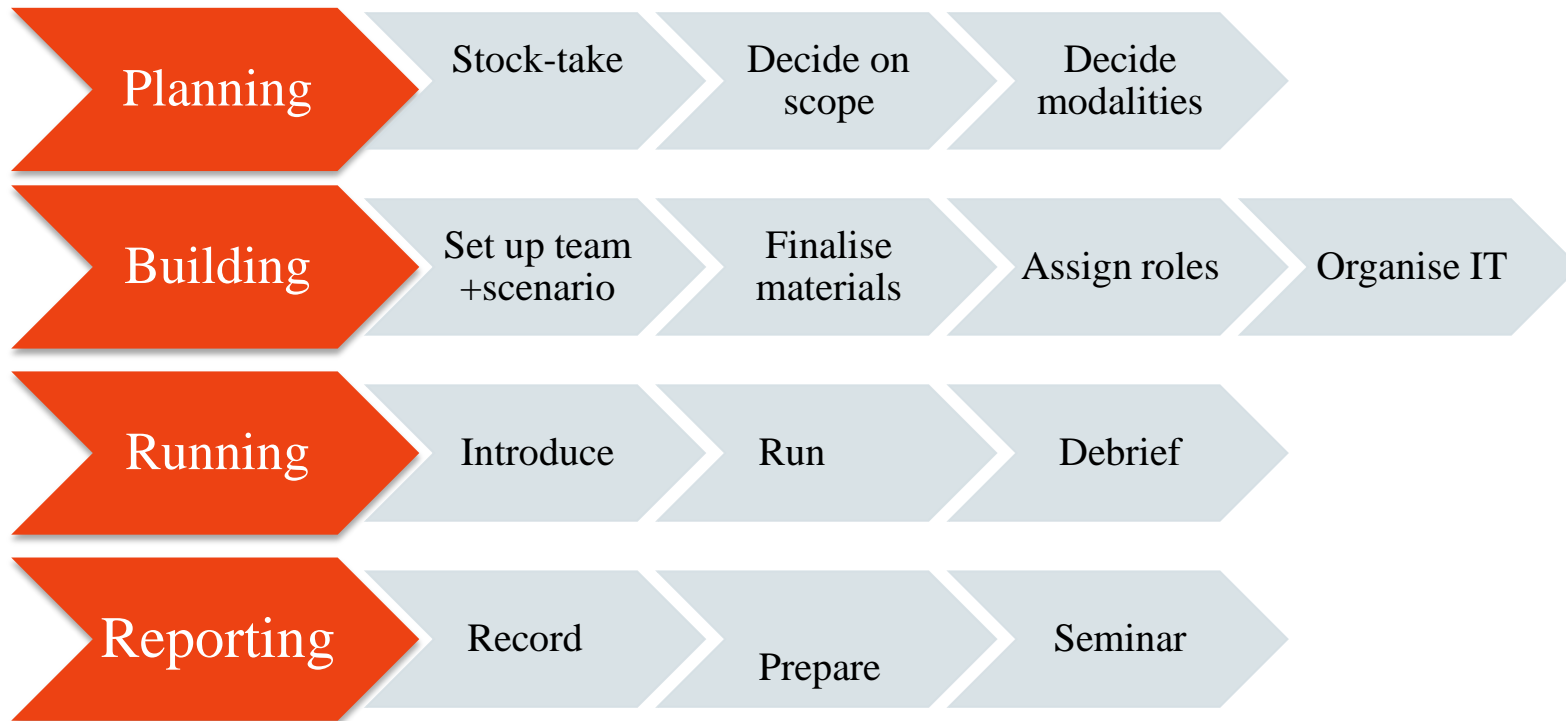


# Modalities

- 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

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



# Building

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



# FinSAC

- 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**



# “To help ECA Financial Regulators Strengthen Financial Stability”

## 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!

[kdhulster@worldbank.org](mailto:kdhulster@worldbank.org)

