Liquidity Risk Management

Table-top crisis simulation for Bank Boards and ALCOs: The “Flight Simulator” Approach

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Problem statement

- During the Covid crisis in March 2020 many bank ALCO and Board committees experienced, for the first time, a sensation akin to looking down the barrel of a gun. The global impact and uncertainty as to how the stress event would play out asked serious questions of risk managers: how their bank should respond, and what decisions should be made when determining the extent of support for the customer franchise.

- We observed that banks that had trained for emergency stressed situations were better able to adapt and respond quickly to events, and make appropriate decisions about how best to ensure balance sheet robustness whilst still providing good customer service.

- A clear lesson was learned: practicing for future stress events will “train the muscle” and establish the correct protocols of a future crisis response.

- Undertaking table-top simulations on a regular basis will enable banks to achieve the minimum bench strength required to handle the next crisis.

The “Flight Simulator” Approach

- An ALCO or Board level exercise, announced and delivered at short notice, tailored to the bank in question, and at a suitable level for executive and non-executive committee members.

- A table-top simulation using a set of questions and options regards responses to the assumed crisis (the scenario is not pre-advised).

- The simulation puts participants in the “war room” of a bank faced with a crisis that triggers, or may not trigger, the contingency funding plan: those in the room have to take decisions and then manage the resulting impacts.

- The exercise confronts participants with decisions on their liquidity and funding management that they would expect to take during an unexpected crisis event.

- The simulation covers a wide range of questions asked by the 1st line and 2nd line of defense during a liquidity crisis, from market access to risk controls to how much they can meet customer demands.

The BTRM’s credentials

- The simulation narrative has been informed by the real-world practical experience of The BTRM Faculty in managing bank balance sheets during the 2020-21 stress event and previously during the 2007-2009 global financial crisis.

- A simulation narrative tailored to your bank’s specific balance sheet structure and operating model, in liaison with local management, reflecting the experience of BTRM Faculty at working at and/or advising many different types of banks around the world.

- The BTRM Faculty’s experience has focused on key capabilities and protocols, including Contingency Funding Plan, Stress Testing, Risk Controls and Management Information.
Learning outcomes: value-added stress testing process

• Similar to an aviator’s flight simulator check ride, our simulation applies a short-notice emergency scenario, so as to test a Board or ALCO committee’s ability to adapt and make decisions under crisis pressure, react appropriately under the circumstances and restore the situation to “normal”.

• Enables delegates to understand decision trade-offs and the need to respond quickly under conditions of extreme uncertainty.

• Provides familiarisation with table-top simulations as an ongoing tool to train the ALCO and Board, and going beyond regulator-driven annual CFP tests.

Who benefits?

• The simulation is suitable for financial firms of all types and sizes.

• The simulation can be delivered remotely or in person.

How long does it take (date and duration)?

• The simulation would be arranged for the date and time requested by a bank’s ALCO or Board.

• The exercise lasts between 1.5 and 3.5 hours.

• We recommend an additional post-simulation debriefing session of 1 hour.

• The simulation can be integrated into other meetings (e.g. regular governance meetings or offsite).

Do we need to prepare (preparation work)?

• No special preparations are required.

• We do recommend that the bank nominates one point of contact (to assist in further tailoring the simulation to local circumstances).

How will the simulation help you? The simulation can:

• Be used to run the mandatory regular test of the Contingency Funding Plan.

• Provide awareness and train members of the ALCO and Board.

• Identify areas for improvement.

• Better prepare the Board and ALCO to handle the next stress event showing adaptability and speedy response.

What are the costs?

• The simulation allows for a short, sharp, tailored assistance. Pricing will be competitive and relevant to the firm business model and size.

• Detailed pricing on request. We will tailor the cost to the specific nature of the simulation (e.g. depending on the duration and location).

How can I get in touch / book a simulation?

• Please email: enquiries@btrm.org or call +44 (0) 1273 201 352