Session 3: Establishing a Centre of Excellence

Learnings and Simulation Exercises

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Agenda

1. Introduction
2. Testing exercises
3. Lessons Learned
4. Q&A

1. Introduction

CDIC - Failures and Crisis Simulations

- Since 1967 we have managed the failure of 43 small or medium-sized members to protect eligible deposits.
- The last member institution's failure was in 1996, and no Canadian banks failed during the 2007-2008 crisis.
- CDIC must be prepared to respond to any type of crisis – tomorrow, next week or next decade – and achieves this by focusing on planning, readiness and testing (internally and with key stakeholders).
- CDIC takes a risk-based and cost-effective approach to maintaining preparedness.
- Crisis simulations play a key role in evaluating and enhancing our crisis response capabilities and our confidence in those capabilities.

Crisis Simulations and Preparedness

Don’t assume, test

Industry surveys suggest organizations are often more confident in their crisis readiness than their actual level of preparedness (as inferred by conducting simulations).

Mistakes are inexpensive

Simulations offer participants a safe and controlled environment in which to experiment with skills, knowledge, and management concepts and offer a unique experience of “sitting in the hot seat”.

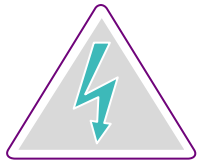
Powerful catalyst for improvements

Simulations generate awareness among participants, bridge the gap between theory and practice and act as a catalyst for process or policy improvements.

CDIC's Simulation Centre of Excellence (CoE)

Formed in 2019 , the CoE ensures CDIC's top risks are tested in a dedicated and comprehensive manner. Pre-2019, testing exercises were largely undertaken by business teams across the Corporation.

Risk Mitigation



Mitigate CDIC's highest risks through deliberate and frequent testing exercises

In-house Expertise

Build dedicated and specialized expertise for running simulations in-house

Centralize

Work across business lines, maximize efficiency of testing efforts and share testing best practices

Drive Continuous Improvement

Evaluate and enhance all aspects of CDIC's crisis readiness capabilities

Objective Challenge

Provide independent and objective challenge function

Scope of Testing

Activities

- Conduct at least 1 test/quarter (focusing on MI failure response).
- Conduct at least 1 business interruption test/year (includes cyber and other BCP).
- Recalibrate testing program quarterly to reflect ERM top risks.
- Focus internally on CDIC resiliency and readiness and progressively expand testing reach to include the broader financial system and market participants.

In scope

- All aspects of CDIC's readiness capabilities (governance and decision-making, communications, funding, tool playbooks, payout and non-payout processes)
- CDIC - Board, Management, Staff
- Financial safety net
- Other key stakeholders necessary for resolution (member institutions, depositories, securities regulators, FMI, foreign authorities)

Out of scope

- Defining and owning readiness
- Testing members for compliance with by-laws
- Third line testing (Internal Audit)

CoE by the Numbers

4 dedicated staff

22	230+	70%	67%
Exercises since formation	Action items	Action items closed	Staff participated or observed exercises

What has CDIC tested in the past?

CDIC Readiness and Resiliency Tests

- ❑ Payout readiness
- ❑ Non-payout resolution tools
- ❑ Cyber response and business continuity
- ❑ Crisis communications
- ❑ Governance (Board and Management)
- ❑ Third-party risk
- ❑ Access to funding

Financial Safety Net Coordination Tests

- ❑ CDIC resolution tools and powers for non D-SIBs
- ❑ Bail-in (D-SIBs)
- ❑ Concurrent failures

Financial System Tests

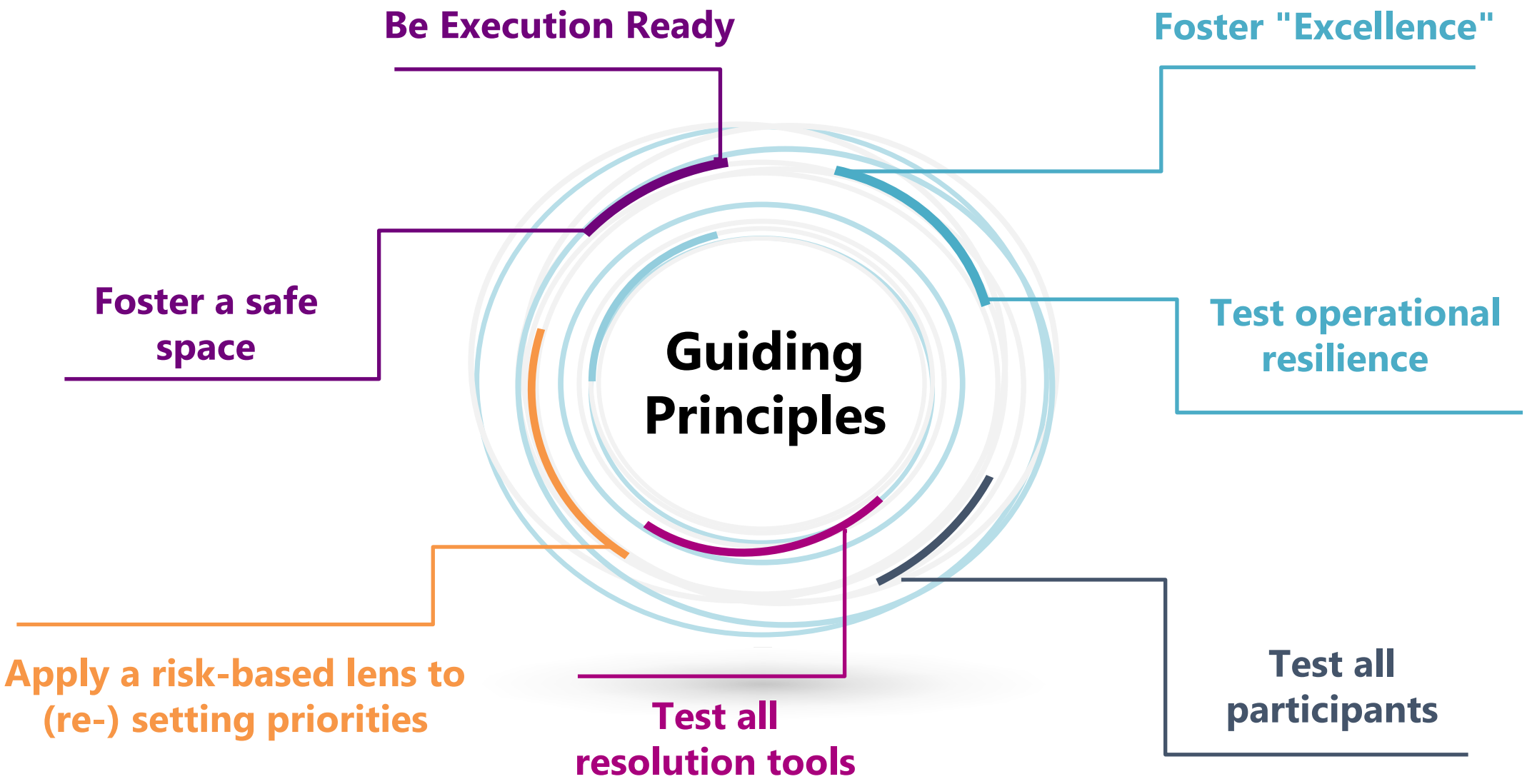
- ❑ Participated in tests led by other market participants (e.g., FMI operators, other regulators)

Looking ahead

- Continue to apply risk-based lens when setting and delivering testing exercises internally and within the financial safety net.
- Continue to broaden participant reach to include other domestic and foreign key stakeholders.
- Lead/contribute to research and other projects to establish crisis simulation best practices.

2. Testing Exercises

Guiding Principles for Testing



Approach

Design

- ❑ Set objectives and scope
- ❑ Seek executive buy in
- ❑ Establish design teams with Subject Matter Experts
- ❑ Engage 3rd party support
- ❑ Design and develop material

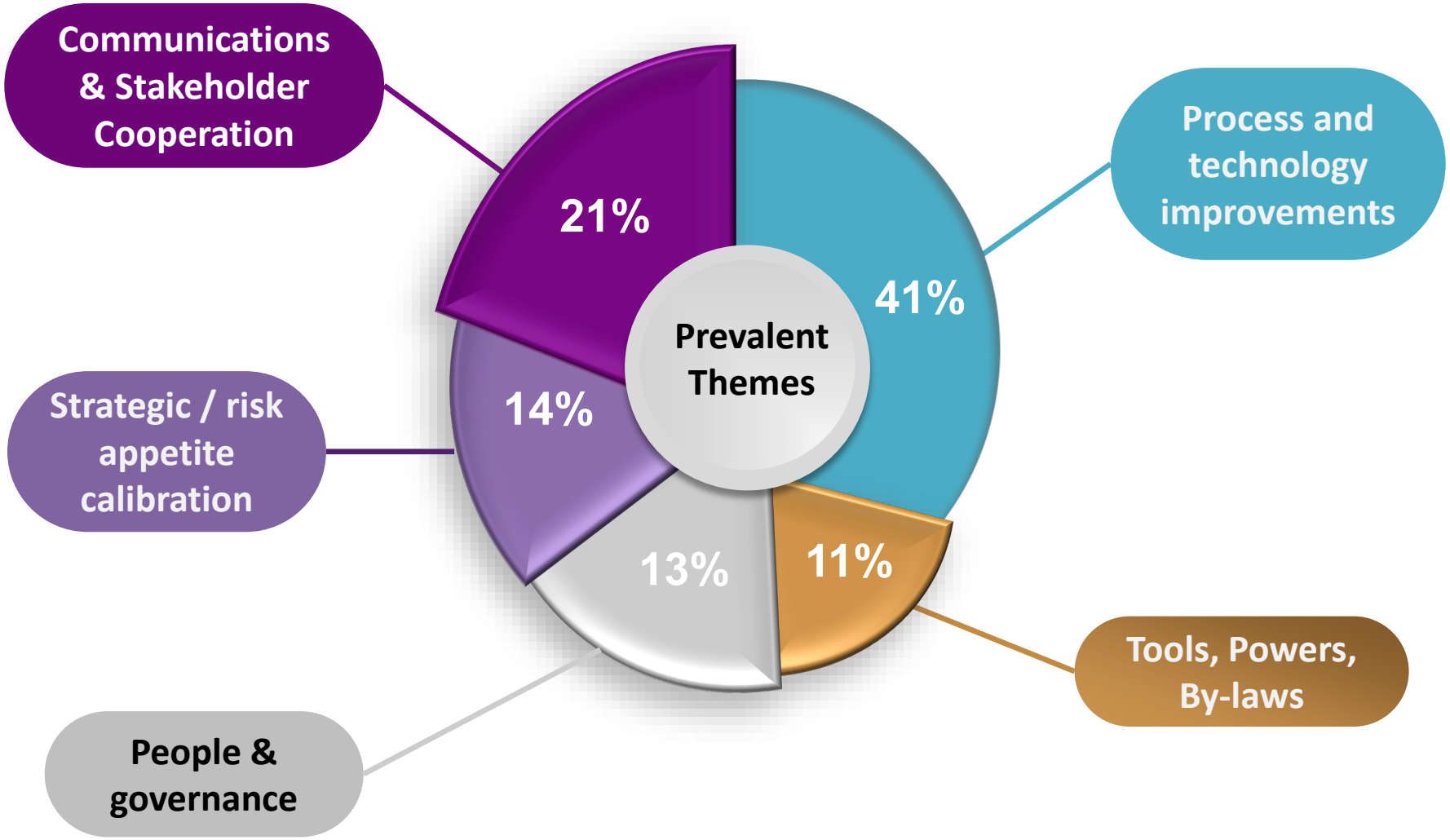
Run

- ❑ Brief participants
- ❑ Perform dry-run
- ❑ Deliver exercise

Report

- ❑ Conduct Hotwash and post mortem(s)
- ❑ Seek feedback
- ❑ Report
- ❑ Monitor Action items

Takeaway Themes



3. Lessons Learned

Best Practices

Planning Phase

- Clearly define objectives and scope - understand universe of activities
- Design realistic scenarios so participants may become engrossed in the exercise
- Present issues that do not lead to binary answers or simple solutions
- Avoid pre-determined outcomes and allow flexibility so participants can go off-script
- Determine right level of participation and exercise duration to avoid fatigue/burden

Delivery Phase

- Foster an informal and safe problem-solving environment, encourage experimentation in critical decision-making
- Reconcile simulation time versus actual time
- Balance ‘big-bang’ exercises with day-to-day readiness

Reporting Phase

- Report on results in a timely manner and incorporate in Risk Management process (quarterly reviews)
- Commit to following up on action items (avoid leaving value on the table)
- Seek feedback

Staff Simulations: Practical Considerations

- Benefits of having a central crisis coordination office
- Effective and proactive communication strategy is critical
- Difficulty compressing all activities in a short simulation day(s)
- Decision making when faced with imperfect information
- Third-party risks during intervention
- Determine the right time to test

Board Tabletops: Practical Considerations

- Test risk appetite
- Clarify points of delineation of Mgmt. vs. Board decision-making
- Provide signal check on prioritization
- Opening remarks from guest speakers
- There is never enough time
- Plan to adapt

Stakeholder Simulations: Practical Considerations

- Implications of having multiple external stakeholders at the table at the same time
- Overcoming information-sharing constraints across entities
- Maintaining element of surprise/crisis when design team and playing team are the same
- Setting scope and a "just right" length of the exercise
- Recognizing the wins or learnings pre- and post- simulation
- Fostering a safe and casual space

THANK YOU

Questions?