A discussion about business resilience

Interviewer: Gareth Byatt – Principal Consultant, Risk Insight Consulting
Interviewee: Merv Rea – Head of Risk Engineering, Zurich

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Merv,

Thank you for making the time to share with me your thoughts about business resilience. I know you have a wealth of experience in this field, and that it is an important part of Zurich’s global, diversified insurance business.

I wondered whether I could start by asking you to describe your own work in business resilience.

Merv: In my view, I have a responsibility in aiding the business resilience of my employer, by helping Zurich understand our customers risks, aiding underwriters to select and price risk accordingly, so that we may deliver certainty to our employees and stakeholders, as we do to our customers. But I and my team of Risk Engineers are also deeply devoted to the business resilience of our customers too. “If our customers are successful, we are successful” are some wise words that I’ve believed in for some time.

Gareth: In your role as Head of Risk Engineering for Zurich Australia/New Zealand, I imagine that you see a broad range of approaches that businesses take to understanding the resilience of the assets they own and operate. Are there any common themes that you see that lead to good resilience being in place, and conversely, signs that lead to a poor approach?

Merv: Sadly there are perhaps more examples of poor approaches than there are of good resilience examples. I believe that many businesses still struggle with understanding their upstream and downstream supply chain. In this ‘global village’ we still fail to grasp the nettle when it comes to knowing the complexity of our supply chain, and how world events, catastrophes, or even smaller localised disasters can have such a negative impact on a business’ turnover and, ultimately, profits. Even for some small businesses, their supply chain is more like a ‘supply web’ with many intricate channels and interconnections that can result in a small business folding for what appeared to be a very remote and insignificant event, thousands of kilometres away, on the other side of the world.
Gareth: I wondered whether I could ask about Zurich’s approach to resilience. As a global insurance organisation, you have to take into account a multitude of factors to ensure that, as a business, you are resilient in the face of events that occur around the world.

Merv: Yes, indeed. We have a competent team of internal corporate risk managers who utilise Risk Engineering’s own methodology (Zurich Hazard Analysis) to help identify, assess and treat risk. Throughout our global network, our local teams of corporate risk managers, who know their local regulatory jurisdictions well, use the same, consistent approach and methodology to ensure resilience for Zurich in an ever-changing and complex risk environment.

Gareth: I’d like to talk now about the speed that a business has to respond to a major event, and the importance of “brand management”. Practitioners I have talked with tell me how the “Golden Hour” (the time you have to respond) is a thing of the past – that it is now more about “Golden Minutes” to respond, given the way events can be reported by anyone in the blink of an eye through social media nowadays. Is it fair to say that teams that are assigned to deal with events, such as Crisis Management Teams, have less time to get on the front foot with communications internally and externally than they used to have, and if so, what are the implications of this?

Merv: Time is of the essence, they say, Gareth. And sadly, with the advent of Social Media, it doesn’t take long for an event to unfold and spread far and wide, with potentially devastating impact to corporations, particularly if they possess a brand held high in public opinion. This can be a very big concern for organisations that rely upon the general publics’ awareness of their brand. With the aid of fast-flowing information sharing on social media, the tendency for ‘fake news’ also means there is collateral damage, even when not backed up by fact.

Gareth: What is your view on the importance of businesses providing well-thought-through training, and testing an organisation’s resilience, through different types and sizes and complexity of simulation exercises? I often hear people say that “they should hold more training and testing, but finding the time is difficult”.

Merv: I couldn’t agree more. At Zurich, we test our Business Resilience Program at least twice a year, but more precise parts of it (e.g., in the area of IT) are tested more frequently. One cannot put enough emphasis on awareness and familiarity brought about by training and testing. When the real disaster comes, you don’t get a practice shot at resilience.

Gareth: After a major resilience event (for example, a crisis event) is over, dealing with insurance is often part of the “long tail” of ensuring full recovery. Are there certain things that a business can do during a response to an event that will facilitate the process of agreeing an appropriate insurance outcome?
**Merv:** That’s difficult to answer, without going into specific examples. But I’d say, generally, devoting key personnel to the insurance claim is important, and also providing access to key data sets too, will help the insurance company substantiate the claim. Once the insurer has ascertained there is a claim to respond to, the challenging part is to determine the quantum of the claim. Maintaining and storing detailed records will assist in bringing this part of the Insurer’s decision-making to a quicker conclusion. Never underestimate the role of the insurance broker, who can work with both customer and insurer to help decipher and translate the various intricacies of the insurance claim.

**Gareth:** Do we do a good enough job at learning from past major events? I have spent time talking with people about a technique called counterfactual risk analysis (for example, in this interview with Gordon Woo), which is a way to imagine how an event that has occurred could have turned out differently.

**Merv:** If we, as humans, were really good at learning from major incidents, then why do we still have car crashes? So, no, I don’t think we do enough to learn from past losses, disasters and so on. When an event occurs, as humans we seem to be conditioned to immediately find ways to explain why the same event would NOT happen to them, instead of considering the ‘what if’ scenario. For example “What if that event had impacted me, or what if that event had resulted in this alternative outcome?” This is particularly concerning with the term ‘near miss’. When there is an event with no negative outcome, but there is a considered potential for loss, harm etc, we are not very good at considering the “what if’s” and potential outcomes, learning from those scenarios and reviewing and improving our risk interventions and risk control techniques.

Our Risk Engineers do use real life examples when considering, calculating and communicating tangible Loss Scenarios and estimated maximum and probable losses to our underwriters and customers. We use these scenarios, and their estimated financial outcomes, in determining risk acceptance, pricing, and prioritisation of risk improvement advice.

**Gareth:** I’d like to finish by asking if you are reading any particular books, papers or reviews at the moment that readers may find of interest to look up for themselves.

**Merv:** I recall when I first started on my Risk Engineering journey at Zurich, we were each given the Peter L Bernstein book, “Against The Gods” (The remarkable story of risk). But along the way, I’ve also enjoyed reading the following:

- **Being Wrong. (Adventures in the Margin of Error)** by Kathryn Schulz
- **The Failure of Risk Management (Why It’s Broken, and How to Fix it)** by Douglas W. Hubbard
- **10 Best and 10 Worst Decisions of Australian CEOs**, by Robert Gottliebsen

**Gareth:** Thank you very much for your time, Merv.