



# Recovery planning: Playbooks and dry-runs

**KPMG's approach and practical insights**

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# 01. Introduction

How can European banks improve the efficacy of their recovery plans in light of the recent publication by the ECB?

On 3 July 2018, the European Central Bank (ECB) published a report presenting the findings of a comprehensive benchmarking analysis of recovery plans of Significant Institutions (SIs) for the three previous cycles of recovery plan assessments.

The report focuses on the complexity of recovery plans from a multitude of banks that could face difficulty when under pressure in a stress situation. According to the ECB, the complexity and length of the plans is likely to inhibit the ability of the banks to implement recovery plans quickly and effectively.

As a result, the ECB has concluded that the usability of complex recovery plans should be improved and emphasise the effectiveness of developing so-called 'playbooks' and performing 'dry-runs' to ensure that banks are able to make the right decisions in crisis situations.

Even though recovery planning is not a new topic, it still remains a key concern for the banking industry as well as for supervisors and regulators. While banks are not obliged to produce playbooks and perform dry-runs, their use on a case-by-case basis is advisable.

KPMG member firms' experience helps us in supporting European banking clients develop effective recovery plan playbooks, practical dry-runs and to ensure regulatory compliance.

For further information on recovery planning, read our report [Recovery planning: What more do banks need to do?](#)

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# 02. Playbooks

## What are playbooks?

For banks with complex recovery plans, playbooks offer a potential solution as a kind of implementation guide to summarise key information and clarify the escalation process needed to manage a potential crisis.

A playbook is a dynamic, tailored document that forms part of the overall recovery plan package, and is structured to address the key aspects that the management of a bank would need to be aware of to enact their recovery plans during a crisis situation. At a minimum, the playbook would include:

- the escalation procedure;
- the decision making process;
- the available recovery options;
- a directory of contacts, including stakeholders details; as well as
- appropriate communication measures.

In its report, the ECB observed that for some banks the usability of recovery plans in stressed scenarios could be limited due to their size and the amount of detailed information within the plan. For instance, the ECB claims that if a bank's recovery plan exceeds 1,000 pages, it is not considered practical or useful during stressed scenarios, particularly in a short period of time<sup>1</sup>.

In this way, playbooks can give a more precise guide to support banks in times of stress.

**// The lack of usability of some recovery plans can be related to their size, their complexity or the fact that the information they include is sometimes scattered throughout the plan. This makes it challenging for the bank's management to take swift decisions on the basis of the recovery plan, especially under time pressure.<sup>1</sup> //**

<sup>1</sup> [Report on Recovery Plans](#), published by the European Central Bank, 3 July 2018

## Recovery playbooks: key principles and contents

1. The addressee of the recovery playbook should be the Board.
2. It should provide the Board of a bank with an overview of the viable recovery options available to implement during a crisis situation.
3. It should allow the management of a bank to implement recovery options quickly and to manage a potential crisis effectively.
4. The structure should be concise and clear-cut in order to aid navigating through crisis situations.
5. It should be designed to be readily usable according to Art. 5 BRRD (effectiveness of the recovery plan).

A Playbook <b>is...</b>	VS	A Playbook is <b>not...</b>
<ul style="list-style-type: none"> <li>– A concrete and precise guide to support a bank during time-critical stress situations.</li> </ul>		<ul style="list-style-type: none"> <li>– A general brochure with information about the recovery plan.</li> </ul>
<ul style="list-style-type: none"> <li>– A recovery oriented presentation, linking together relevant elements of the recovery plan.</li> </ul>		<ul style="list-style-type: none"> <li>– An implementation guide for customising or updating governance structures or indication of a business as usual situation.</li> </ul>
<ul style="list-style-type: none"> <li>– Focused on the action-relevant results and elements of the recovery plan.</li> </ul>		<ul style="list-style-type: none"> <li>– An extract or pure summary of the recovery plan. It not a substitute for the recovery plan nor does it waive BRRD requirements to prepare an annual plan.</li> </ul>
<ul style="list-style-type: none"> <li>– A piece which is independently useful, and makes consistent use of the recovery plan efficiently.</li> </ul>		<ul style="list-style-type: none"> <li>– A compliance exercise to justify the recovery plan.</li> </ul>
<ul style="list-style-type: none"> <li>– Addressed to the Management Board and to the management responsible for recovery actions.</li> </ul>		<ul style="list-style-type: none"> <li>– A contents page of the recovery plan.</li> </ul>

Source: KPMG



## What are the key ingredients of a recovery playbook and what are the ways in which a playbook can be used as an effective tool for a bank to meet its recovery objectives?

Based on the ECB's expectations and on KPMG's experience, the key ingredients of an effective playbook are summarised below:

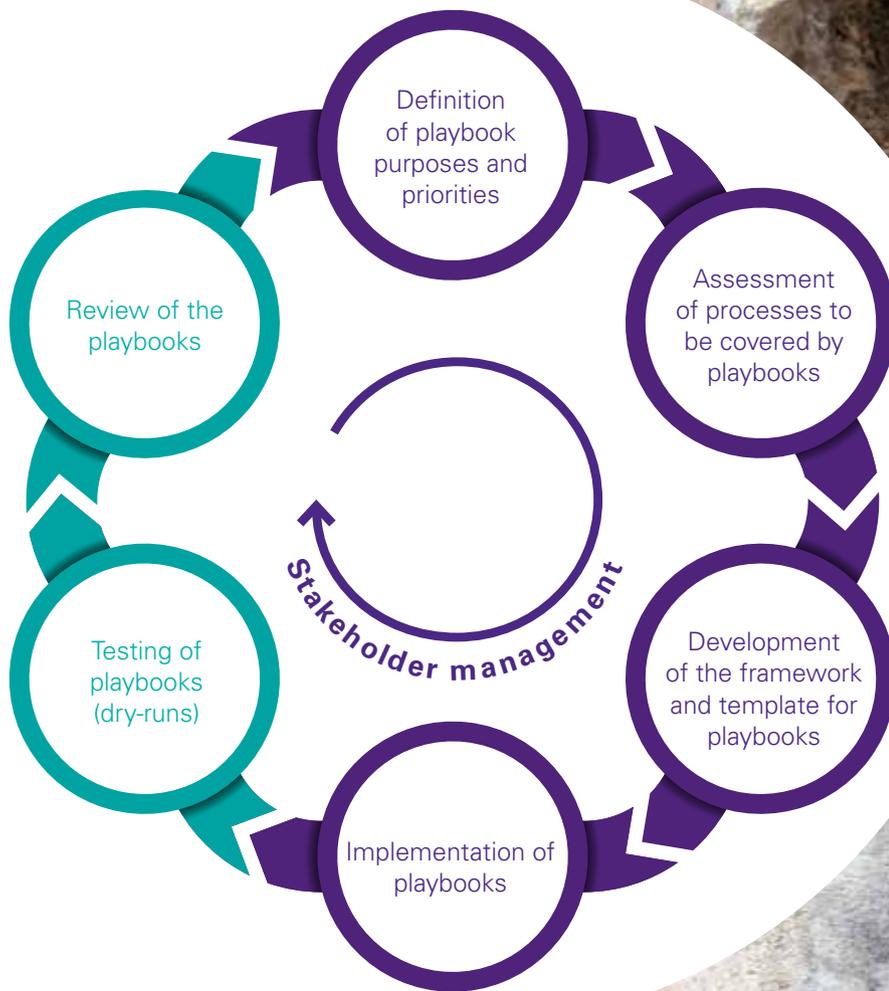


## Recovery playbooks: KPMG's approach

KPMG member firms can support banks in the process of creating a playbook, including the steps summarised below:



**In general, playbooks are tailored documents, between 35 - 40 pages and are structured according to the principle of proportionality.**



## Practical insights and best practice



Develop the playbook alongside the recovery plan and submit as part of the bank's annual submission to the supervisor. While the playbook is not compulsory it provides credibility to the usability of the recovery plan in a crisis situation.



A centralised recovery and resolution team is recommended to facilitate consistency across both the recovery plan and resolution plan.



The playbook should be reviewed and updated at least annually in line with the recovery plan annual submission.



Use charts and graphics to improve the usage of a playbook.



Consider developing a Board training pack to complement your playbook. This is a customised document for each individual board member, containing relevant information regarding their specific management function. It is advisable to test the effectiveness of both the playbook and the Board Training Pack during the dry-run exercise.



The playbook should not include an annex and should not exceed 40 pages. Concision is the hardest part of the exercise.

# 03. Dry-runs

## What are dry-runs?

While dry-runs themselves are not a supervisory requirement, they are viewed by the ECB as best practice to test key parts of a banks' recovery plan in live exercises of potential crises. Simulating a crisis and evaluating the bank's response is a powerful way of determining the feasibility of existing plans. It provides the opportunity for key decision makers to set out their views on whether crisis planning is credible and executable.

Recovery plan dry-runs are not a test of IT and business continuity processes. Dry-runs are simulated exercises of a fast moving financial crisis impacting the bank which test the effectiveness of the banks recovery plan. These exercises assist in transitioning the recovery plan from a regulatory "tick-box" exercise to becoming a living crisis management tool for the Board and management within a bank.

Considering the continued changes in banks' resources and the need for training, it is advisable to perform a dry-run, when feasible, prior to each annual recovery plan submission, even if there are no material changes in the recovery plan.

Dry-runs aim to achieve three key outcomes:

**1 | Demonstrate whether the tested parts of the recovery plan could be implemented promptly and effectively in a crisis situations**

**Example of tested parts of the recovery plans: governance/escalation process, recovery options, communication, co-ordination arrangements**

**2 | Train relevant staff to achieve, test, and maintain proficiency in reacting to crisis situations using the recovery plan (based on a simulated event)**

**3 | Identify areas for improvement and incorporate lessons learnt into the recovery plan**

KPMG member firm experience has shown that the most successful dry-runs are:



**Well planned and with sufficient lead time.**



**Based on realistic scenarios and clear assumptions.**



**Rely on imperfect information, to better approximate conditions of a crisis.**



**Utilise a strong independent facilitator to maintain focus on key issues looking to be tested.**



**Iterative and track areas for improvement upon completion of the simulation.**



**Comprehensive in their inclusion of all relevant stakeholders.**



**Challenging to provoke debate and put people under pressure in order to identify gaps in information, rationale, governance, etc.**

## Dry-runs: key principles and contents

Based on the ECB's and SRB's expectations, as well as KPMG's experience, the key principles of an efficient dry-run are summarised below:

### Design

- Firms should look to use a scenario included in the plan or real contingency event, rather than designing a new scenario.
- Where applicable, scenarios should include both a group and local entity element.
- Design should be overseen by the Board.

### Type/Speed

- While a fast-moving liquidity scenario would likely better test the plan, the chosen scenario should adequately reflect the bank's main vulnerabilities.

### Scope and objectives

Firms should look to test:

- Governance arrangements;
- Recovery option execution;
- Communications plans; and
- Management information capabilities.

### Facilitation

- Attendees should be provided with a clear articulation of the design principles and objectives of the exercise.
- Facilitators should ensure that discussion is focused on the objectives of the dry-run.

### Summary findings

Firms should prepare a self-assessment, including detail on:

- Design and planning of the scenario;
- How exercise unfolded; and
- Lessons learnt.

### Incorporation into plan

- Lessons learnt from dry-runs should be used to improve recovery plans.

## Dry-runs: KPMG's approach

KPMG member firms have developed a proven methodology for dry-run exercises based on ECB and SRB guidance, along with extensive experience in this area across Europe. Our approach has five distinct phases:

### Preparation

#### 1. Design

##### Objective and assumption must be clearly articulated

- Produce Board Training pack on recovery planning in advance of dry-run.
- Confirm areas to be tested (selection): governance arrangements, recovery option execution, communication plan and management information capabilities.
- Design scenario narrative, timeline and briefing documents.
- Determine assumptions and brief senior stakeholders so they are clear about the design principles and objectives of the exercise.
- Set-up an expectation framework (e.g. by means of a scorecard).

#### 2. Facilitation

##### Use an independent observer to facilitate

- Produce a project plan to identify key tasks, deliverables, milestones and timelines.
- Conduct workshops with key stakeholders to identify information synergies, ensure buy-in on design principles and familiarise front line staff with how a recovery plan might work in action.
- Design and develop materials to facilitate the exercise: presenter packs, meeting agendas, likely challenges and mitigants.
- Put forward facilitators and independent observers to support governance forums.

### Implementation

#### 3. Implementation

##### Evaluation of dry-run, integration of relevant stake holders

- Brief the relevant stakeholders ahead of the dry-run and follow up post implementation.
- Execution of the dry-run exercise:
  - Release trigger
  - Shadow the relevant stakeholders and their process steps
  - Document the results

### Analysis

#### 4. Evaluation

##### Use a qualitative scale to benchmark progress over time

- Provide feedback following meetings.
- Produce an evaluation report following the exercise.
- Prepare a self-assessment documentation pack including detail on (i) design and planning of the scenario; (ii) how the exercise unfolded; and (iii) lessons learnt.
- Prepare questionnaire to provide quantifiable feedback and benchmark for future exercises.

#### 5. Next steps

##### Provide feedback in a timely manner and track actions

- Produce a recommendations document based on evaluation report.
- Incorporate lessons learned from dry-run into the recovery plan.
- Prepare a presentation to both board and authorities.

## Practical insights and best practice

Based on KPMG's experience, dry-runs can be an effective tool to improve the elements of a recovery plans including the playbook. For the preparation and evaluation phase of a dry-run, banks usually consider some of the following questions:



### Timing:

- How much time is available for preparation (usually 3-6 months)?
- When is the dry-run scheduled to take place?
- Is there sufficient time allocated for the dry-run at Board Level?

### Governance arrangement:

- Has a detailed playbook been developed for the dry-run?
- Has the availability of all relevant stakeholders been ensured? Are there alternatives to key stakeholders available?
- Is the level of detail in the process description sufficient or are more details required?

### Recovery option execution:

- Which recovery options are going to be tested as part of the dry-run?
- Is the level of detail in the description sufficient or are more details required?
- If so, how can such information be made available at short notice?

## Key points

### Communications plan:

- Which internal and external communication measures are going to be tested as part of the dry-run?
- Is the level of detail in the description of the measures or the communication process sufficient or are more details required?
- Do all key personnel agree with the prepared communication template and the process?

### Management information capabilities:

- Will management information be prepared in advance of the dry-run or will the dry-run also test the speed and accuracy of management information presented?
- Do relevant stakeholders (e.g. recovery option owners, support functions) have all required information?
- How will the need for additional information be handled during the dry run?



### Gathering and usage of the results:

Following the dry-run, institutions should document their outcomes and use them to improve the overall quality of the recovery plan as well as the level of integration with the bank management – in particular, banks should focus on usability, efficiency, effectiveness, and transparency. In some cases, banks also attach the results of the dry-runs to their recovery plan for documentation purposes and to demonstrate its importance to the regulators.

# 04. KPMG – Your experienced partner



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## Recovery planning expertise

KPMG's experienced teams across member firms have a strong understanding of recovery planning by supporting a broad range of financial and non-financial institutions, and significant and non-significant institutions in the development of their recovery plans, playbooks, dry runs, and in providing responses to the supervisory and resolution authorities.



2

## Extensive experience in the production of recovery playbooks and dry-runs

KPMG member firms have been involved in the preparation of recovery playbooks and in performing dry-runs for several European and non-European Systemically Important Financial Institutions (SIFI) and Less Significant Institutions (LSI), leveraging multi-disciplinary capabilities.



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## Best practice across Europe

By leveraging the insights of the KPMG ECB Office and KPMG's global network, member firms are able to share expertise and best practice from working with banking institutions covered by both the Single Supervisory Mechanism (SSM) and Prudential Regulation Authority (PRA).





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