# COVID-19 Private Sector Group

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## Memo from the Third Meeting on 3 April 2020

Confirmed cases of COVID-19 has exceeded 1 million globally. Governments around the world have one after the other laid out a wide range of measures to prevent major economic fluctuations and to pull through this crisis as smoothly as possible. In the face of the unavoidable mid and long-term impact of the outbreak, crisis management has become one of the immediate concerns for every business. On 3 April, the COVID-19 Private Sector Group (CPSG) met for the third time to discuss how to weather the storm and turn the crisis into an opportunity by looking at the bigger picture and preparing to transform. The meeting focused on the best ways to respond to a crisis, how to build a robust crisis management system and how to make the best of insurance in times of crisis. The meeting was organised and hosted by PwC as the group's secretariat. Highlights and insights from the meeting are summarised as follows:

### How to manage a crisis effectively

The sudden epidemic outbreak has brought the majority of business enterprises to a halt, temporarily for some and mid and long-term for others. When a major crisis like COVID-19 happens, most enterprises are caught unprepared and their response inadequate. This outbreak is a wake-up call for all of us to re-examine our understanding of crisis, our preparedness and how to best manage one. In the past, business enterprises have generally paid more attention to potential internal crises. However, they have lacked and overlooked preparations and attention to external crises, particularly those that may come naturally or socially. Even if an external crisis had been foreseen, it is unlikely that businesses would have taken the right steps and actions to developing an effective response plan. The emergence of COVID-19 has changed the environment in which any businesses operate, and even how the world operates. Its impact will last into the mid and long-term and will bring about unexpected risks. As for the future, this means the business world needs to adapt to this new reality, as well as to live learn and grow with it.

The CPSG members discussed the practical applications of crisis management from many different angles, to include the lifecycle model of crisis information, crisis management systems and response principles. We aim to help more enterprises to continuously improve their crisis management systems and incorporate it into their daily business operations. This will help to build their ability to turn a crisis into an opportunity and achieve new development . Don't really understand what this means in this context. What kind of new development.

# I. The nine R's of crisis management

Crisis management comes down to a science, and is a specialised discipline. It covers pre-crisis prevention, crisis event management systems and response measures aimed to effectively react to unforeseeable emergencies. It should help to mitigate unavoidable disasters and minimise losses. For an enterprise, effective crisis management can encompasses a range of activities, to include planning and decision-making, dynamic adjustments, crisis resolution and training. It also aims to eliminate or lower the threat as well as minimise potential losses.

Crisis management is generally divided into two parts: pre-crisis planning and prevention, followed by post-crisis response and management. CPSG members shared the nine R's of crisis management that they had refined from years of crisis management practices and expertise. They are Recognition, Rapid, Responsibility, Relation, Release, Rehearsal, Representative, Recovery and Reserve. These nine principles are equally important to each other and are all indispensable elements for effective crisis management.

| Recognition | • What really happened? What's the impact?<br>• How serious is it now?<br>• What are the keys for handling the situation? | Relation | • Whether victims have been compensated and taken care of?<br>• How to properly communicate with key media?<br>• Support and understanding from competent authorities?<br>• How to influence and communicate with opinion leaders? | Representative | • Whether the representative setup/team able to meet the public relation needs?<br>• How to ensure consistency among representatives and during the process? |
| --- | --- | --- | --- | --- | --- |
| Rapid | • Whether the crisis is understood?<br>• Whether the causes have been identified? | Release | • Whether investigations has been conducted and correct and true information acquired?<br>• Whether smooth information disclosure and communication channels have been established? | Recovery | • What changes are needed in the future?<br>• How to get understanding and support from the public during recovery? |
| Responsibility | • What role to play in taking the relevant responsibility in the crisis?<br>• Whether the enterprise is willing to demonstrate its commitment to meeting its responsibilities at all cost? | Rehearsal | • Whether sound internal communication mechanisms have been established?<br>• How to continuously improve crisis management system during a crisis? | Reserve | • How to effectively manage daily operations when handling the crisis?<br>• How to make well-thought post-crisis analysis and adjustments, and make changes to crisis management plan when needed? |

# II. How to make crisis management more effective

A solid and effective crisis management system encompasses the whole lifecycle of a crisis throughout its three stages, namely, pre-crisis, during the crisis and post-crisis. As we have witnessed enterprises manage COVID-19 as well as other past experiences, companies have been paying more attention to the identification of crises, but lack a focus in other areas. These include early warnings, responses, business continuity and rehearsals. From our meeting discussions, we concluded that enterprises must place greater effort on the following four areas in crisis management to further improve their corporate crisis management systems.
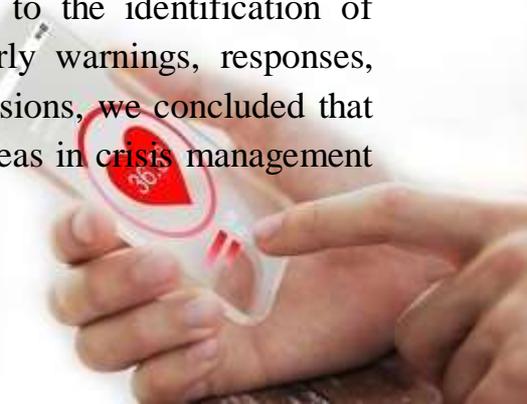
**Firstly, enterprises must establish early crisis warning and response mechanisms.** A well-established early warning body, including properly designed processes, operational procedures and complete rules, will help to detect and manage a crisis element early to manage in a timely manner. This will allow all members of the early warning body to work closely with other functional lines to remain alert to the possible intrusion of any forthcoming disruptive elements. They need to ensure the early warning system can safeguard the business and prevent any potential crisis from happening. The enterprise should design a proper risk indicator system to facilitate risk mitigation and monitor their daily crisis management. At the same time, external management experts may be engaged to help improve the effectiveness and efficiency of crisis management practices. This session of the CPSG meeting called for enterprises to at least incorporate a level of crisis management into their everyday activities. This is the beginning of any effective crisis management.
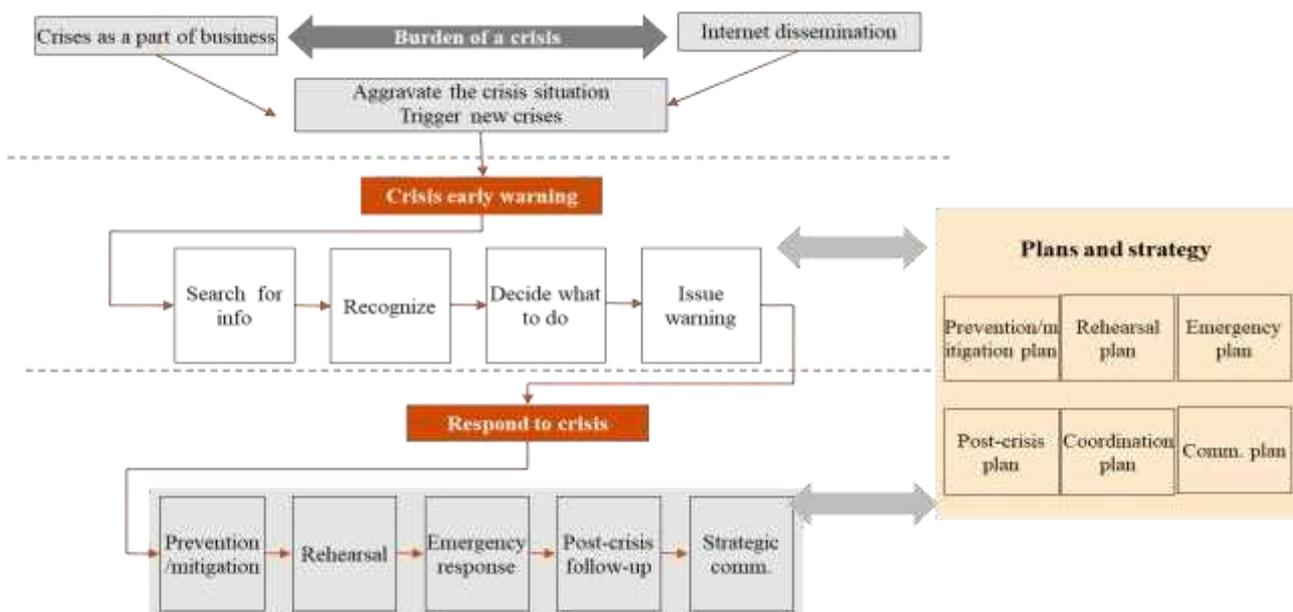


With early warning and response mechanisms in place, it is also of critical importance in learning how to determine anomalies in crisis information. The most widely used method is Failure Mode and Effect Analysis or FMEA. A FMEA analysis assigns a Severity value (S) to a specific failure mode based on the level of impact to the system. It identifies the causes for such a failure and determines the probability of its Occurrence (O) as well as the probability of its Detection (D). It then determines the ranking of this failure in accordance with the adopted ranking criteria. The Risk Priority Number (RPN) is calculated for each of the causes of the failure mode using the formula RPN=S $\times$ O $\times$ D. When the RPNs have been calculated, the 80/20 principle is applied to select the correction targets, namely the 20% of the causes with the highest RPNs shall be first targeted for correction, with the other 80% to be decided on a discretionary basis.

**Secondly, business continuity management mechanisms must be put in place.** Business continuity management (BCM) has become a more immediate concern in corporate risk management due to this epidemic, especially for private enterprises. CPSG members shared their knowledge and experience with respect to the BCM framework, noting their tools and measures, implementation for private enterprises, and its inclusion in emergency response planning. It is also important to note how BCM mechanisms are operated and managed towards efforts in ensuring business continuity and minimising negative impact on operations.

**Thirdly, crisis rehearsals should be conducted regularly.** Many enterprises have prepared their crisis management plans, but have seldom put them to practice, and they aren't actually aware of the outcome. Crisis rehearsals aim to heighten the enterprises' crisis management and prevention awareness, boost their ability to manage and respond to crises through experiments and simulations in different scenarios, and improve the response efficiency. Desktop rehearsals can be conducted to discuss the course of actions in a crisis situation in accordance with crisis management plans and standard procedures. Functional rehearsals can be conducted for a specific emergency response function to test the planning capability and responsiveness of the responsible persons or function. A comprehensive rehearsal can be conducted to test and assess the ability of all or most of the emergency response functions covered in the crisis management plan to stay resilient in an emergency situation. Although comprehensive rehearsals generally require several hours and are conducted in an interactive manner, they have to be as lifelike as possible and involve more responsible parties to test the enterprise's ability to respond to an emergency situation in a coordinated manner.

**Fourthly, crisis response needs effective decision-making mechanisms.**
When a crisis occurs, a decision-making team should be set up to determine the level of response needed and initiate the response plan accordingly. In doing so, it ensures an effective communication of information and decisions as well as a successful implementation of the decisions in the response process. The crisis leadership team should address all the critical components in the business continuity management, including people management, treasury, supply chain and business transformation. The CPSG members shared their decision-making mechanisms and plans for this epidemic (as shown below) as a reference for other enterprises. The decision-making mechanisms are critical in delivering an effective crisis management. The shorter the decision chain, without the need of approval layers will enable an enterprise to make quicker decisions. This results in more effective communications and decisions can be consistent among all parties.

| COVID-19 work group | Determine the level of response | Clarify when to do what | Re-assess |
| --- | --- | --- | --- |
| • Leadership team<br>• Office sanitation team<br>• People care team<br>• Protection supplies procurement team<br>• Corporate social responsibility team<br>• Public relation team<br>• …… | Consider the following factors:<br>• Epidemic cycles<br>• Affected areas<br>• Epidemic morbidity<br>• Routes of transmission<br>• Epidemic mortality<br>• Impact on the enterprise<br>• …… | • Develop specific emergency response plans for each response level<br>• Specify the decision-makers and decision-making process for implementing a specific plan<br>• …… | • Re-assess the response mechanisms, decision-making process and other practices in light of changes in external environment and overall situation, including deliberations in decision-making meetings, supporting processes, and adjustments to the response process, etc.<br>• …… |

**Specific plans**   Work space mgmt.  People mgmt.  IT system support  Reshaping of business processes

- Implement flexible work policies and provide resources and support needed;
- Store sufficient protection and sanitary items, including disinfectants, masks, and hand wash liquid, etc.
- For necessary travels during the outbreak, adopt temporary approval process, strictly assess travel risks, and comply with government disease control and prevention requirements to ensure the health and safety of the employees.

# III. The principles of 5S in a crisis response

The five S's in a crisis response refer to principles adopted in how to resolve a crisis situation after it has occurred. They include Shoulder, Sincerity, Speed, System and Standard. The five Ss, nine R's and the 80/20 principle are in line with each other, with the five Ss emphasising more on feedback.

**Shoulder.** After a crisis has occurred, it is often that a blamed party become the focal point of public attention. Regardless of who is in the right and who is in the wrong, the enterprise should shoulder the responsibilities. Even if the victim bears part of the responsibility for the incident, the first thing to do is not for the enterprise to pursue the former's responsibility, as this will lead to both sides sticking to their own positions, deepen conflicts, antagonise the public and it will offer no help in the resolution of the problem.

**Sincerity.** In the midst of a crisis, the enterprise will remains the primary focus for the public and the media. It should never take the chance that the storm will blow over and that people will turn their attention elsewhere. Instead, it should take the initiative to contact the media, communicate with the public as soon as possible, and explain things truthfully to seek mutual understanding and eliminate doubts and unease.

**Speed.** In the first 12 to 24 hours after the occurrence of a crisis, news will often go viral, and spread quickly. This requires an enterprise to be decisive, respond quickly and act resolutely in communicating with the media and the public. This will help to get things under control quickly, otherwise a crisis may erupt much farther and can easily get out of hand. When a crisis occurs, the first priority is to gain control of the situation and prevent it from expanding, progressing and spreading. This is critical to an effective crisis management.

**System.** In the course of handling a crisis, an enterprise should follow its crisis response plan and act in a swift and orderly fashion. The handling of a crisis needs to be looked at as a holistic and whole process. It has components that are interlinked with one and another, and all components should work systematically, and no component should be overlooked at the expense of another. By following this, an enterprise can more easily understand if there is too much focus on anything too superficial, and can resolve the crisis in a more creative way by turning it into an opportunity.

**Standard.** When a crisis occurs, the smart way for an enterprise to handle a situation is to take a step back and invite a respected third party to represent and speak for the business to help remove distrust from the public and restore their confidence. At the same time, it is important to increase the amount of information disclosed and communicate it with the public. To get the understanding and support of the public is a fundamental strategy in crisis management. [24]

# IV. The use of new tools and technologies in crisis management

The Emergency Decision Support System (EDSS) is designed to combine various leading technical and technological means and methods to provide decision-making support tree with an emergency management process. It has become a major tool in managing public emergencies.

In recent years, technologies using case-based reasoning (CBR). It is a paradigm in artificial intelligence and has been widely employed in the emergency decision support system. CBR not only enhances the robustness of emergency decision-making, it also helps save valuable decision-making time and solidly improves the efficiency in emergency decision-making. CBR draws on the experience and knowledge from similar prior problem-solving cases, adapts their solutions and to help develop a solution to the new problem. It will form new cases to add to the case library for future reference. CBR has many advantages in addressing complex problems and also has multiple-attribute decision-making. Its most important feature is to emulate human thinking, including associations, instinct, comparison, induction, learning and recollection, to facilitate problem solution and decision-making.

With the increased applications of systematic and digital analytic tools, many enterprises have established a digital early risk warning system. It's important to remember that the early risk warning system must be integrated with the business information system to make its impact. For example, available data can be used to build an integrated information dashboard, develop analytic models and design a early risk warning system to make estimations based on historical data. They can also be continuously upgraded by adding more business indicators. Enterprises can also use data analytic tools to regularly and dynamically monitor risk indicators, with visual changes and trends, present movement routes of existing products, and build an open and transparent information sharing platform, among other things.

# Practical experience from the fight against COVID-19

A crisis is a test, an ultimate subject matter that drives rethinking, and the touchstone of an enterprise's corporate value (business model) and growth potential. A crisis like this COVID-19 epidemic can change all elements in relation to a business development strategy, management mechanisms, as well as priorities and targets. During this session of the CPSG meeting, members shared their crisis management experience while dealing with this epidemic.

## I. Four management capabilities in crisis management

Corporate value is driven through effective management, and for the purpose of crisis management, agility, flexibility, adaptability and resoluteness are particularly critical.

**Agility.** It demands that an enterprise needs to have agile response mechanisms, which determines whether or not the leadership can respond quickly to a crisis. When they became aware of the outbreak, the CPSG members quickly set up their response teams, conducted comprehensive analyses and laid a solid foundation for subsequent crisis management.

**Flexibility.** A crisis may change rapidly, and it's often not possible or in the best interest of the enterprise to manage things and make decisions by strictly following the established rules and processes. There has to be a higher degree of flexibility to enable decision-makers of the organisation to act quickly in different situations and make decisions most beneficial to the enterprise.

**Adaptability.** The epidemic situation differs by regions, and crisis management measures should also be tailored to local needs. Different disease control and prevention measures and business adjustment strategies may be adopted for different regions in accordance with local cultures and resources, among other considerations.

**Resoluteness.** This demonstrates the leadership's confidence in leading the team to overcome the crisis. Only by being resolute, can the leadership forge a solid team to pull through the difficult time.

## II. Key issues to consider in an epidemic crisis

As CPSG members can testify, the epidemic crisis affects business operations and productions in various ways. However, there are six areas that call for more serious attention and active response measures.

**First,** changes in contract management and performance. Attention must be directed to whether contractual terms entered can still be met. The assessment of conditions on whether they have become insurmountable and how related parties can work together to resolve issues in the current situation. The legal, business and finance departments must come together and even engage their clients to discuss these issues to create optimal solutions.

**Second,** internet channels and business operations. Due to the self-isolation policies adopted to minimise the spread of the disease, all business lines that can go online should do so as soon as possible. This may prove to be a new opportunity that could be great for businesses.

**Third,** make the best use of policy measures. Enterprises should follow closely the latest policies and measures issued at home and abroad, stay tuned to government websites and remain current with policy updates and changes. Comprehensive analyses should be organised internally to identify applicable policies in a timely manner. These policies may provide critical conditions to improve business resilience and hold the potential for new business opportunities.

**Fourth,** effectively manage your cash. On one hand, cash flows of businesses will be affected by the epidemic in various degrees, and the cooperation between an enterprise and its suppliers may require re-negotiations. On the other hand, an enterprise may consider various methods to ensure sufficient funding, minimise uncertainties and stabilise its supply chains to better manage the crisis.

**Fifth,** politics versus the economy. The crisis management of COVID-19 has gone far beyond a public health emergency, as the disease has caused varying but profound impacts to the economic systems and international political relations. In a time of crisis management, enterprises should also consider the changes in the economic environment, policies and political relations. In the future, geopolitics may well become a more critical factor in the business development of private enterprises.

**Sixth,** improve corporate social responsibility and establish your brand name. From ensuring the health and economic well-being of the community, enterprises should play an active role in meeting their social responsibilities. Those who increase their efforts in meeting their corporate social responsibilities or undertake more, or greater, social responsibilities will receive favourable recognition from the society at large. The efforts will go far in cementing a distinct corporate brand name.

# How to make better use of insurance in a time of crisis

According to surveys , less than 5% of Chinese enterprises have purchased commercial insurance, and the coverage for business interruptions accounts for less than 2% of the commercial insurance taken out. Foreign enterprises, in comparison, have generally stronger awareness where insurance is concerned. Insurance coverage can serve as a major measure for enterprises to tide through a crisis. The CPSG members shared their insights regarding the role of insurance in crisis management and the future trends.

## I. Insurance works on three levels

With a greater variety in insurance products and the increase in insurance density , insurance has become an integral part in every aspect of our economic and social lives. Insurance has made solid contributions to the fight against the coronavirus, including donation of insurance policies and free coverage of contagious diseases to those fighting on the frontlines. There are three aspects for insurance to have a lasting role in crisis management.

**First,** individualised insurance and self-insurance. Individuals and enterprises should purchase commercial insurance to provide a comprehensive coverage of their health, property safety and stability , and this is the starting point for insurance to deliver its benefits. In the face of a public health crisis, the basic protections of insurance coverage for individuals and enterprises should be mobilised first. At present, the market offers a whole selection of health insurance products for personal customers and property insurance products for businesses. The key issue here is to raise the awareness of individuals and enterprises to get themselves properly insured.

**Second,** risk sharing as a general practice. The scope of social security coverage in China continues to expand. The level of protection also continues to rise, demonstrating a remarkable improvement in the social welfare for the Chinese. However, protections for public safety and against emergencies, among other special areas, are not well-established yet. This requires additional protections specifically targeting critical areas and special segments of society. The additional protections are where commercial insurance can deliver its potential. The product offerings should aim primarily at promoting public welfare and be priced to cover the costs with a thin margin. Special government subsidies should also be considered to really lower the financial pressures of enterprises and individuals.

**Third,** the diversification of financial risks. For insurance to help diversify financial risks, it requires a combination of catastrophe insurance, catastrophe reinsurance and catastrophe bonds. The core function is to create a huge pool of funds to help alleviate the destructive impact of funding pressures to the economic and social activities in a major crisis. For governments, the shift of the social emergency response system from pure reliance on fiscal funding to the combined strength of governmental and private resources will significantly improve the utility of emergency funding and enable fiscal funding to serve more effectively as leverage. At the same time, this will also allow fiscal spending to avoid drastic hikes and help maintain stability in national economic development.

## II. There is significant room for improvement for insurance to help boost crisis management capabilities of Chinese enterprises

Through years of explorations and development, disaster insurance has become a major component in social governance. Production safety liability insurance, environmental liability insurance and mandatory vaccine liability insurance, among others, have been included in the social governance system. In the future, the development and applications of risk management insurance products tailored for catastrophes will be major areas for governments to improve their risk mitigation capabilities. For previous disaster management times, the government's fiscal spending for disaster prevention and response remained basically fixed. In the years that are disaster-free, the budgeted spending could not be utilised, while in the years with major disasters or crises, fiscal spending is not able to offer sufficient help. Some local governments have begun to consider the inclusion of catastrophe insurance in their social governance systems and its use as a major tool for moderating the fluctuations in fiscal spending. In this outbreak, the Hainan government has, in line with the risk management needs of local enterprises, joined hands with insurance providers to offer comprehensive insurance coverage for COVID-19 control and prevention to Hainan enterprises that have resumed operations and production. It has also encouraged local enterprises to purchase this product with a 70% government subsidy. Once they are insured, the local enterprises may claim compensation for salaries and expenses for employees during their self- isolation period. They may also claim for losses on their products, among other things. This provides strong incentives for local enterprises to resume their operations.

The CPSG members agree that insurance is not just a tool for safeguarding against financial risks but can serve as a platform for promoting social security and governance and effective pooling and relocation of resources. They call for joint efforts in developing catastrophe management packages and working together to help integrate insurance in various crisis management solutions to serve by bringing different crisis management efforts and response mechanisms together to create synergies.

We express special thanks to the following special guests and representatives of the CPSG member organisations who shared their insights in the meeting:

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Sadina Wu, Risk Assurance Partner, PwC China