



Ensuring Business Continuity Management Capabilities

Emergency risk management strategies to deal with "black swans" and "grey rhinos"



In the face of a rapidly changing global landscape and to safeguard efforts to maintain development and stability, businesses must not only maintain vigilance against "black swans", but also watch out for "grey rhinos".

"Black swans" and "grey rhinos" are two corresponding concepts – while the former refers to an unpredictable event that is beyond what is normally expected and has potentially severe consequences, the latter is a highly probable threat with a series of risk signals and indications.

The combination of "black swan" and "grey rhinos" will inevitably have a significant impact on companies' business continuity management (BCM) capabilities and business models. The coronavirus (COVID-19) outbreak is undoubtedly the first "black swan" of 2020. But even more dangerous are the "grey rhinos" that could follow.

Facing formidable "grey rhinos", how can boards, management and risk management functions react so that they can discover opportunities amid the crisis? Here, KPMG China analyses the best practices to adopt when organisations implement business continuity management (BCM):

Immediately launch emergency risk management plans

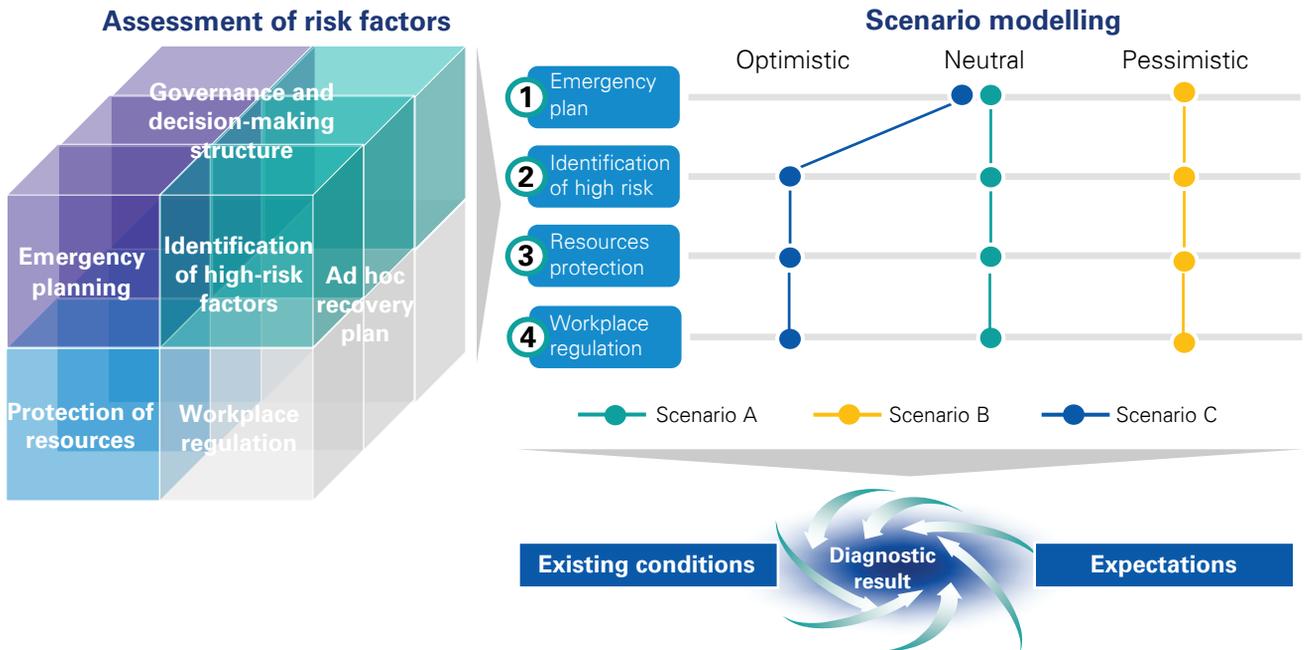
To counter the impact of the outbreak on business operations, companies should develop solid emergency risk plans and responsive risk response and recovery measures, aligning to their own strategic goals. These plans should include effective warning, control and response mechanisms for when sudden risk events occur. The below diagram identifies three levels of risk management planning, emphasising that preventative risk management measures should be in place at all times.



“Contingency risk assessment” and “recovery and response plan” refer to processes where a business’s resources are integrated and allocated to proactively manage the potential threats and continuous impact arising from an emergency. These are based on the rapid assessment and prospective analysis of the cause, progression and result of the emergency, in order to mitigate the damage caused and facilitate policy optimisation.

In the activation of the emergency control system and implementation of counter measures, businesses should adopt a staged approach and ensure a quick response to the internal and external dynamics according to an established plan. To address the impact of the outbreak, enterprises may break down emergency decision-making processes into multiple detailed and effective execution nodes. Under the multiplied effect of the execution of each node, “grey rhinos” will no longer be obstacles in the road to sustainable business development.

Emergency management risk diagnosis checklist



Dynamic monitoring of external uncertainties

In addition to the immediate start of internal risk controls during the COVID-19 outbreak, businesses should monitor the external risk factors in real time to prevent the outbreak of improbable events and identify potential threats in a timely manner. External risks may include the outbreak progression period and impact on the economic environment, or unforeseen circumstances resulting from external operations and responses to policies, or threats arising from competitors. To counter these risks, a business emergency risk management working group should deploy related functions or personnel for the real-time monitoring and analysis of risks. Such groups should also adjust the scenario parameters and goal factors within the emergency risk assessment framework according to the trend of external uncertainties. This will ensure immediate issue identification, response and resolution as well as responsive and accurate decision-making and contingency plans.

Effective ad hoc recovery planning and remedial actions

In respect to high-risk areas, businesses should develop contingency and recovery plans in advance and decide when to activate these recovery plans based on the progression of the outbreak. In respect of the damage already inflicted, they should establish dedicated departments to take care of the remedial work. If the crisis has adversely affected an enterprise's reputation, the company should handle it with great care to minimise the negative impact. In the face of the black swan or grey rhino that follows the outbreak, it is quick response and decisive management that truly help businesses discover opportunities amid threats, and minimise the negative impact of the outbreak on their business continuity.

These events may result in business disruption as well as significantly impact business operations and profitability. So how can an enterprise use insurance to mitigate the negative impact of these events on financial statements and business operations in the future? Companies may look for insurance products based on their own demand and industrial characteristics to ensure reliable protection against the next "black swan" or "grey rhino", and secure better growth prospects after the crisis.

At this critical moment in the battle against the outbreak, let's recap the takeaways for successful emergency risk management: 1) Maintaining keen vigilance against "black swans" while watching out for "grey rhinos"; 2) focusing on risk prevention while establishing actionable plans to address and mitigate risks; and 3) maintaining effective risk prevention and control while proactively looking for opportunities amid the crisis.

For more information:

KPMG has compiled a series of Business Continuity Insights to provide guidance to businesses across all sectors during difficult times. Further guidance can be found by visiting <https://home.kpmg/cn/en/home/topics/business-continuity-insights.html>.

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