

Why Do Black Swans Bite?

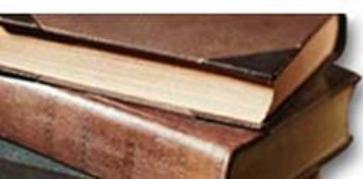
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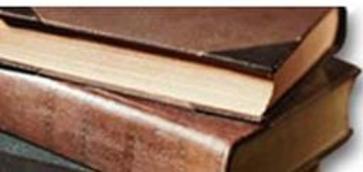
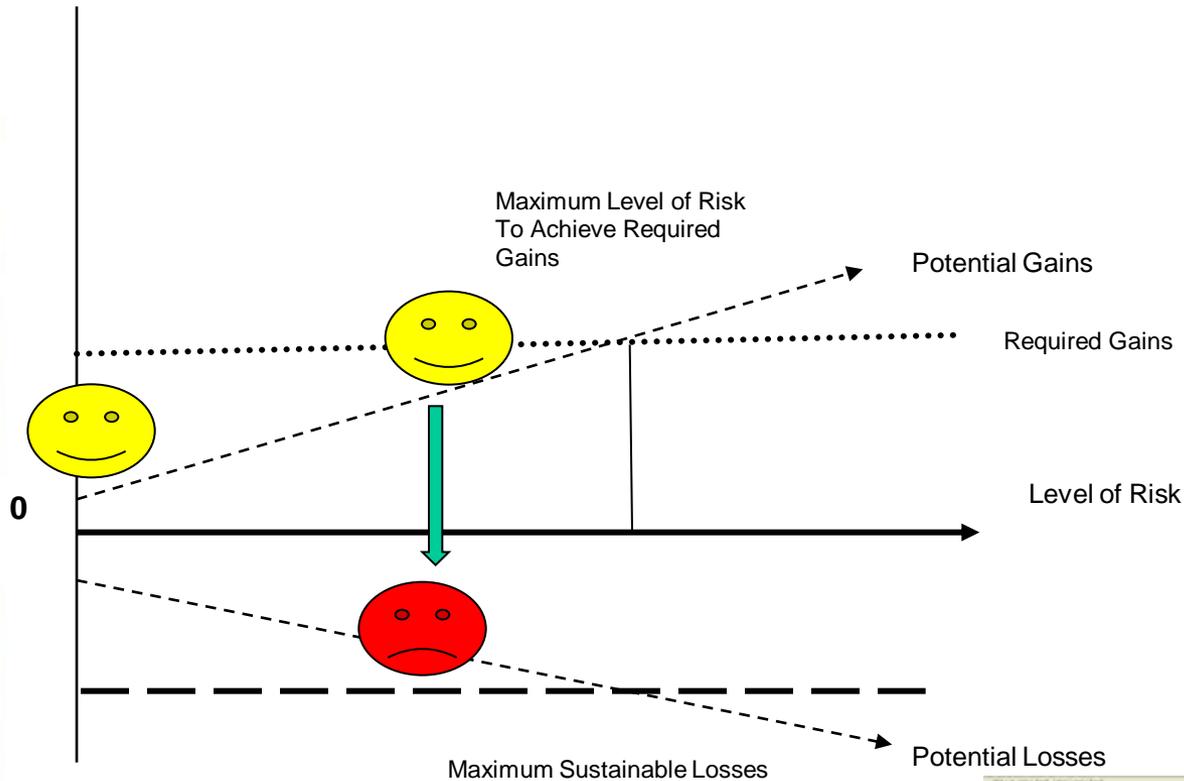
Regis Mutual Management

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A Way to Discuss Risk:

How Do Black Swans Bite?



What Are Black Swans

- *It is metaphor which describes a theory about how events can come as complete surprises and have a major effect. These events are often inappropriately rationalised, after the event, with the benefit of hindsight.*

Example: September 11th - Unexpected? There was a bombing of the same building in 1993!

In summary this is an illustration of a mental hurdle – we manage what we can measure,. We work our plans, and we are good at that. It's the unmeasurable, the unplanned, however, which can cause confusion and chaos. We call them black swans.

Key Points

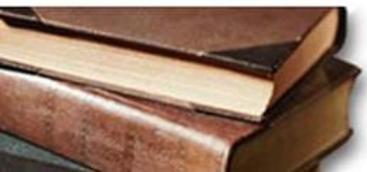
- *There can be positive black swans - winning the lottery or tort law reform!*
- *There can be a degree black swan – a typical hurricane vs Katrina.*
- *They are hard to define, understand, when in middle of them. (GFC)*
- *Remember: They can kill: Author Anderson, Lehman Brothers.*



Frequency of a Loss Event - Likelihood



Size of a Loss Event - Impact



Is Someone Breeding Black Swans?

- The media shows us much, but little of it has any relevance to us. (BP Oil Spill) – don't confuse **news** with **relevance**
- Rare things happen because there are so many people around. (India & China – 1 billion people each) – so **expect** a one in a billion event on occasion.
- We are hardwired to be **optimistic** – so can be caught by surprise when bad things manifest.
- We make cost/benefit decisions based in **imperfect data models**.



We Live & Work in a World of Risk

Typical University in Australia

- 426 Reported Accidents on Campus
- 152 Employees Injured
- 200+ Known Student Injuries
- 219 Insurance Claims
- 20 Fires on Campus
- 100 Thefts on Campus
- 7 Robberies on Campus
- 2 Assaults on Campus
- Research Misconduct incident



Black Swan Events

- Natural Disasters: turning in to grey swans – as we've had experience: bushfire, flood, etc.
- Ebola?
- Bitcoins?
- The growth of Atheism (vs Religions)
- Solar Storms
- Asteroid strike
- Interconnectivenss - Icelandic volcano –and your airflight)
- Japan: we knew they had earthquakes, tsunamis and nuclear power in heavily populated coasts areas – but their connection was seems as remote/improbable.



- *Estab*
- *Form*

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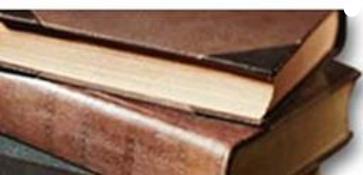
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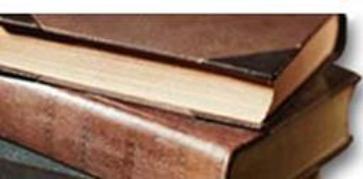
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What's a Sensible Board to Do?

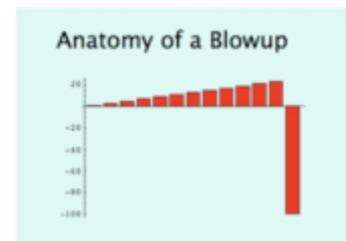
- Psychology of survival – mental ability to respond to a black swan and remain functional. Comfort in dealing with unknown. Solutions do not exist – they must be created, on the spot.
- Resist the urge to plan for the ridiculous – but for crisis & emergency planning beyond the easily predicted or known. (Cost benefit between the impossible and the probable) – as a risk professional you have to find that point and ensure it is considered.
- Have a Black Swan Response Team. Out of box thinkers, taken away from day to day operations. Risk, IT, subject matter experts.
- Extend planning to include resilience. Post-event plans have flexibility. For example, know what your critical services, the ones you really need to have running.



What To Do - 2



- Be informed to what's happening in your sector and economy. Industry groups, media, etc. Keep looking at emerging risk issues.
- Know your data – look for trends in losses
- Understand your key vulnerabilities (supply chain? Cash flow?) so you know where severe pain will be felt first.
- Know that you will be blindsided, and your planning may have overlook the cause. -some advance arrangements might pay off (sources of funding, alternative distributing channels, relationship with insurers, PR firms)
- These consideration may be behind Capex or strategic decisions- build larger warehouse or new one in a different state?
- Learn to live with Plan Bs. Most response to black swans have to be multiple response, not the lineal models we see for normal disaster planning.



A Way to Discuss Risk: What is Risk

Your Institution's Plans and Objectives



BCP Should Address:



- Brisbane flood = closed 86 childcare centres
- Created another dilemma for staff necessary for recovery staff
- Summer break
- Had to construct “Kindy City”

