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EXCELLING IN A CRISIS - LESSONS FOR FINANCIAL SERVICES FROM THE UK MILITARY APPROACH



SPEED READ

The UK Financial Conduct Authority and Prudential Regulatory Authority encourage firms to look outside the Financial services industry to learn from best practice in other industries and organizations. In crisis management the UK military approach stands out as both tried and tested. There are multiple elements to this.

- The first element is separating command from control and identifying individuals to support decision making, reliable information flow and implementation.
- A flexible, analytical approach to understanding the task and arrive at decisions is complemented by a planning process that is based on principles and considers how these decisions will be implemented.

- Mission command empowers managers throughout the organization with the understanding and authority to be able rapidly adapt to changing situations.
- The OODA (Observe, Orient, Decide and Act) loop provides a tool for firms to hone their decision making.
- Focused training and realistic and regular rehearsals prepare firms for the inevitable disruptive events.

INTRODUCTION

While COVID-19 has shone a harsh light on some organizations, the British military has demonstrated a clear ability to rise to the challenge, be it in creating 'Nightingale' hospitals, assisting NHS logistics or setting up testing stations – all with very limited notice. In this extraordinary year, service personnel also helped respond to the February floods while other units were deployed on operations in several countries.

How is an organization that recruits and trains to operate as a fighting force able to pivot and deliver results so rapidly across such a diverse range of tasks? In this paper, we will examine some of the elements that endow the military with the flexibility to respond to events quickly and effectively, and how they could be adapted to apply to a financial services environment.

The military approach we outline below is designed to sustainably address challenges and situations, to respond not just immediately but to deliver lasting results. This involves both gaining and then retaining the initiative over time and not just to address a single event. It is precisely this sustainable approach and adaptability that can make firms more operationally resilient if they can adopt some of the elements that we outline in this paper.

The military approach can be broken down into four components: organization, decision-making, execution and training. This paper analyses the military thinking behind each component and how these could be potentially be adapted to a financial services environment.

ORGANIZATION

Over the past couple of decades, flat structures and lean operations have become widespread across industry, including financial services. While the driver has typically been cost reduction and simplification, there are additional operational benefits that can be realized in allowing initiatives and ideas to rapidly bubble up and permeate via this organizational construct. However, this model of organization is largely predicated on a steady state environment with limited change. In these scenarios there is the time to employ risk mitigation tools such as RACI matrixes and consult widely. However, once firms encounter disruptive events, the luxury of time to think through and make decisions disappears, which can compromise the ability of such structures to respond in an optimal fashion.

It will come as no surprise that the military operates a more hierarchical structure, with clearly defined roles and very limited matrix reporting. This confers the capacity to plan and execute at speed, as there is both sufficient management capacity to address the task at hand and greater clarity around lines of responsibility. The key challenge that firms have when managing a disruptive event is in pivoting their decision making and execution approach from a BAU flat consultative one to a more top-down version, while at the same time maintaining control and, to the extent necessary, consensus.

SEPARATING COMMAND FROM CONTROL

Command and control are often talked about in the same breath, but a key element of the military approach is that command is achieved by relinquishing an element of control to others. The commander is supported by a key function, an operations room or headquarters, that provides continuity to the response by acting as a central point of contact, maintaining situational awareness of events, the status of the organization, recording the decisions taken as well as the flow of communications. Often it will have role in the execution of decisions once they have been taken. With this separation the commander has carved out crucial time so they can focus on making the right decisions confident that their organization is continuing to respond effectively and in a coordinated fashion.

In a financial services crisis response setting command is typically the responsibility of the executive committee under a nominated leader (maybe also referred to as a 'Gold' commander). The control element on some cases is combined in the same committee impacting the effectiveness of both command and control. Firms should look to set up an operations room in a similar fashion to the military example and include individuals in that team who do not have line roles (senior administrators or project managers for example). The individuals will

need to receive the required organizational training providing them with the materials (e.g. org charts, contact details, DLs etc.) in order to be effective.

The operations room control element needs to be orchestrated and this is the role of chief of staff in a military unit. In a financial services firm the individual filling this role needs to have sufficient seniority to ensure their directions are taken seriously plus enough organizational knowledge to navigate the corporate structure at speed. It is a critical role.

THE INTELLIGENCE FUNCTION

The role of intelligence in the military is to build a coherent understanding of the opposition. When in the midst of managing an event, the rate that information is being received is likely to be closer to the military tempo than normal/BAU business activity for a typical financial services firm. Therefore, firms should look to nominate and train a group of executives who can maintain a picture of what is going on externally (particularly in relation to how customers are being affected) and how the firm is being impacted and portrayed (perhaps by adverse media reporting). This will need to feed information coherently into the operations room and executive committee.

COMMUNICATION

COVID has demonstrated the effectiveness of the tools that we have to communicate with each other currently. However, these tools do not necessarily guarantee effective communication with the right person having the right information at the right time

The importance of effective communication to military operations is reflected in the way that there are individuals dedicated to ensuring the passage of information in each key component of the organization. Within each network there is a control station that is responsible for maintaining communications discipline, ensuring that critical information is passed on and that the communication 'nets' operate effectively. This is a function that should be covered by the operations room in a financial services firm.

In a fast-moving situation, anyone receiving critical information should immediately pass it to their network as a priority and only then decide what to do about it. In organizations not used to crisis management, managers tend to spend time trying to fix a new problem themselves before they tell others about it. As a result, there is a clear risk that other parts of the organization are unable to respond effectively because they have limited understanding that the situation has changed.

DECISION MAKING

The military rely on an analytical approach that breaks down problem identification and resolution into a series of defined stages.

INTELLIGENCE PREPARATION OF THE BATTLEFIELD (IPB)

To understand the impact of the battlespace on operations, a careful analysis is undertaken of the terrain to fully understand the environment and the associated factors that will impact decision making.

In an Operational Resilience setting, this equates to the identification of important (or critical) business services and setting impact tolerances. While it can be expanded to cover the broader activities of a firm, they need to be prioritized accordingly as well as thoroughly understood. This acts as the foundation for subsequent decision making.

MISSION ANALYSIS

Typically orders will cascade down through a military organization. To aid understanding and act as the starting point for planning, on receipt they need to be deconstructed.

- What is the operational leader's concept of how the head of the organization's intent should be achieved?
- What are the specified and implied tasks?
- What are the freedoms and constraints (resources, time and space, etc.)?
- Has the situation changed?
- Are there any points requiring clarification?

The output of this process is the mission statement that defines both the task and the purpose of that task. Our mission is to do X in order to achieve Y. While we do not see firms following this to the letter, the discipline of creating a concise mission statement focuses minds on the task at hand and can be useful in a crisis response. One example of a mission statement relevant to the FS domain may be that "an organization must bring back up the payments capability within 3 hours in order to process all high priority payments by End Of Day close". This is clear and measurable and an assessment can be made at regular intervals regarding the mission's progress.

THE COMBAT ESTIMATE

The intent behind the next series of questions is to identify the relevant factors that underpin the decision-making process for a specific situation. Once these factors are identified, the next question is 'so what': this is not to challenge the relevance of those factors but rather to identify their impact on potential solutions.

Parallel examples are helpful here:

MILITARY

Factor > Enemy Equipment: The enemy relies on old Soviet tanks with limited night vision capability

- So what: We should move into position while it is still dark
- So What: We need to have finished our move by 0430 am
- So what: We can use noise to divert the enemy into thinking we are elsewhere

FINANCIAL SERVICES

Factor > Location: Environmental protestors have announced that they intend to protest at the office location tomorrow

- So what: Most staff arrive by 9am, so any WFH protocols should be triggered by 6am
- So what: The 6am timeline is tight in a typical morning so staff should be warned that it is likely the day before
- So what: If we need critical staff in the building we need to ensure that they are in place by 6am
- So what: that is before the mass transit system is up and running, so hotels and taxis will be needed to be ready for staff the night before.

The key to success is to consider only the factors that are relevant.

The headline descriptors that the military use to generate factors (e.g. routes, enemy equipment) are not appropriate for the financial services environment. Below are a selection of FS orientated ones; more can be found in the [OODA](#) (Observe, Orient, Decide and Act) loop section below.

- People
- Location
- Important business services
- Regulators
- Legal Entity
- Communications

The output of the 'combat estimate' will be a limited number of courses of action. Once the pros and cons of each have been identified, and one selected, the next stage is the creation of the plan.

EXECUTION

'No plan survives contact with the enemy' – Anon.

While this saying may sound like an excuse to avoid planning, the opposite is true. The plan gives the organization a common starting point and an initial direction of travel that can be pivoted as necessary; the ultimate goal, as identified in the mission statement, remains more constant (though not necessarily fixed).

When planning, commanders are trained to think two levels down the chain of command in terms of how to achieve the result that they seek while directing one level down. This sees a battalion commander (~650 strong, level 3) thinking of platoon (~30 strong, level 1) tasks while giving orders to their company commanders (~120 strong, level 2).

Guiding the creation of the plan are the 'Principles of War'. These are the distillation of centuries of experience and have been added to the appendix – most of these principles directly apply to operational resilience in a financial services setting. It is worth highlighting the overriding principle however – the selection and maintenance of the aim.

One military technique that can help improve the plan is the concept of the red team. This originates from the Israeli Defense Forces and involves an independent team critiquing the plan and coming up with an alternative.

The output of the planning phase is the issuing of orders. There are extensive protocols around this process presented in a clear and understandable format. The use of warning orders is also encouraged to allow subordinates to prepare while the planning process is ongoing, ensuring maximum concurrent activity

MISSION COMMAND

Following the Second World War, the British Army carefully analyzed its performance, relative to the German Army and chose to replicate the concept of mission command. This is an approach predicated on centralized intent and decentralized execution. Subordinate commanders are given their mission along with the commander's overall intention, the result that they are expected to achieve and the reasoning behind it. They then create a plan to best achieve these criteria as they see fit, given the resources they have available. This relies on a high degree of training and trust but also offers the flexibility to cope with unforeseen events.

This is very similar to the concept of empowerment in modern management theory. There are significant benefits if firms can train their people to be able to operate in this quasi-directed, quasi-autonomous fashion during an event. Ensuring the right level of communication - not too much, but with a priority focus on escalating the right information - is key to operating successfully in this fashion.

THE OODA LOOP

To bring all these elements together, organizations may find it beneficial to adopt a concept, created by US fighter pilot John Boyd, that breaks down the decision-making cycle into optimizable chunks – the so-called OODA Loop

The aim of the OODA loop is to gain and retain the initiative. Each of the four phases (Observe, Orient, Decide, Act) is optimized and improved in terms of speed and accuracy before being recombined

and run at pace to dislocate the ‘enemy’. The same approach serves as a response to disruptive events and combines the elements that we have covered already in a process that makes the response flexible and, critically, adaptive to changing circumstances.

The OODA loop is not designed to be consciously cycled through as each new situation arises. It is more a way of optimizing the whole crisis response apparatus in advance.

Receive information on the evolving situation

1. Are you in touch with regulators and local authorities?
2. Do you have an adequate flow of information about your business services and people across geographies?
3. Have you nominated someone to stay abreast of the latest information?
4. Is the effectiveness of the steps that you have taken so far being monitored?
5. Are there established communications with your third-party suppliers BCP functions?

OBSERVE

ORIENT

Understand what the information actually means

1. Do you understand their impacts over time?
2. Have you mapped critical functions and who is required to perform them?
3. Have you modelled the impact on your clients?
4. Are all factors around delivering services identified along with the sensitivity to them?
5. Is there a ‘War Room’ to keep track of your firm’s status and act as a control point for all information?
6. Have you reviewed the information through the lens of legal entity?

Implement Decisions

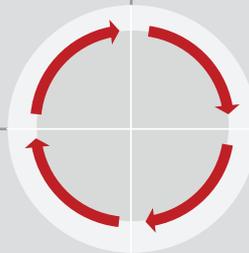
1. Are there designated individuals who will ensure that decisions are actioned?
2. Are there clear communications to your teams, clients and suppliers on current impact and actions you plan to take in the future?
3. Are the steps you are taking straightforward?
4. Are you physically reinforcing those steps by restricting access etc. where possible?
5. Are you operating through the normal management chain?

ACT

DECIDE

Devise, evaluate and select courses of action

1. Is the right governance structure in place?
2. Have clear priorities been agreed and set for short and medium term?
3. Has one individual been assigned overall responsibility?
4. Do impacted areas all have representation?
5. Are the board and regulators being updated on a regular basis?
6. Have you considered how you will unwind the actions that you are taking?
7. Is information being logged on a timeline to allow for lessons learned?
8. Have you considered setting up a red team?
9. Does the plan account for situations in which key individuals are not available?



TRAINING

'Train hard, fight easy'- Alexander Suvorov

The UK Armed Forces put significant effort and resources into undertaking training exercises to simulate the environment that units need to operate in. Technology that simulates the effects of weapons is often used to simulate warfare against a live enemy and make for the most realistic experience possible. An example to set the tone for realism: [the US Air Force went to the lengths of obtaining a squadron of Soviet MiG fighter jets during the Cold War to familiarize their pilots with their opponents.](#)

The training cycle usually starts by focusing on the smallest element before building up with each successive exercise.

After every exercise there should be a 'wash-up' session that runs through the events, highlighting what went well and what could be improved. This is a key element in teasing out all the lessons and materially adds to the training benefits of the exercise. All the 'players' in the exercise should take part to fully benefit from the experience.

While firms cannot be expected to train to anything like the same extent, conducting regular rehearsals of the response to potential disruptive events and in as realistic way as possible is highly recommended. The timeframe is variable but semi-annually is a minimum approach. Moreover, firms should look to train executives and those who reasonably could be expected to be part of the response in:

- The delivery processes behind Important Business Services
- The nature of the threat
- Techniques for decision making under pressure
- Operating with the firm's response apparatus

It is only worth carrying out full-scale rehearsals once this training has been conducted. The delivery process for each of the Important Business Services should practice its response to disruption as well on a regular basis.



CONCLUSION

It is hard to think of a more demanding human activity than armed conflict; the price of failure is extreme at a personal as well as societal level. Coupled with experience that dates back into pre-history the military approach offers a rich source of methodologies and materials to inform and focus firms' operational resilience preparations. We have looked to lay out the most relevant elements in a practical and applicable fashion so that firms can review their approach to managing disruptive events and improve their response to them using some of the elements of the military approach.

APPENDIX – THE PRINCIPLES OF WAR

- Selection and Maintenance of the Aim - A single, unambiguous aim is the keystone of successful military operations. Selection and maintenance of the aim is regarded as the master principle of war.
- Maintenance of Morale - Morale is a positive state of mind derived from inspired political and military leadership, a shared sense of purpose and values, well-being, perceptions of worth and group cohesion.
- Offensive Action - Offensive action is the practical way in which a commander seeks to gain advantage, sustain momentum and seize the initiative.
- Security - Security is the provision and maintenance of an operating environment that affords the necessary freedom of action, when and where required, to achieve objectives.
- Surprise - Surprise is the consequence of shock and confusion induced by the deliberate or incidental introduction of the unexpected.
- Concentration of Force - Concentration of force involves the decisive, synchronized application of superior fighting power (conceptual, physical, and moral) to realize intended effects, when and where required.
- Economy of Effort - Economy of effort is the judicious exploitation of manpower, material and time in relation to the achievement of objectives.
- Flexibility - the ability to change readily to meet new circumstances – comprises agility, responsiveness, resilience, acuity and adaptability.
- Cooperation - Cooperation entails the incorporation of teamwork and a sharing of dangers, burdens, risks and opportunities in every aspect of warfare.
- Sustainability - To sustain a force is to generate the means by which its fighting power and freedom of action are maintained.

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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