

Operational resilience put to the test



Operational resilience has always been an important consideration for banks, as well as for their regulators and supervisors. Usually defined as the ability of an organization to adapt rapidly to changing environments, operational resilience encompasses systems and processes, and is, more generally, the ability of the organization to continue to operate its business when a disruptive event occurs.

To state the obvious, the Covid-19 pandemic has been a disruptive event. It has tested banks' operational resilience and required unprecedented support from regulators. Maintaining such an environment—where operational resilience is jointly held by banks and regulators—will be key moving forward.

Lessons from the pandemic

Jordanian banks proved to be resilient during the Covid-19 crisis. Even so, the pandemic provides valuable lessons for improving the banking sector's operational resilience under pressure. Faced with an increased threat landscape, banks need to accept that it's impractical—and too costly—to prevent all disruption. Instead, their whole organizations should be ready to limit, respond to, recover and learn from a wide variety of events. This means investing in operational resilience.

A bank's operational resilience framework allows it to absorb internal and external shocks, ensuring the continuity of critical operations by protecting key processes and resources

such as systems, data, people and property. To achieve this, an effective framework for operational resilience needs to be:

Enterprise-wide: Moving away from siloed functions to develop an end-to-end view, driven by customer needs and linked to banks' goals

Measurable: Putting operational resilience on the same footing as financial resilience, with specific and quantifiable KPIs, thresholds, stress-tests and reporting

Flexible: Enabling the bank to react appropriately to unknown situations and adapt to changing circumstances, instead of following rigid action plans

Top-down: Integrating operational resilience into overall bank management, starting at the top with adequate attention from senior management

Faced with creating such an operational resilience framework—and integrating it with existing functions—banks can learn from their experience of strengthening

financial resilience after the crisis of 2008. As well as enhancing financial risk management through monitoring and stress-testing, this involved a structural program to build recovery and resolution planning into day-to-day management. Institutions can use a similar approach to build the key elements of an effective operational resilience framework:

- Overarching crisis governance including clear roles and responsibilities among senior management, well-defined escalation mechanisms based on measurable indicators, and an effective reporting framework.
- Identifying and prioritizing important business functions, their underlying operational resources and key interconnections and interdependencies.
- Promoting enterprise-wide cooperation and strengthening existing interfaces and communication channels, for example through creating playbooks and performing dry runs.
- Creating recovery and communication strategies to deal with severe disruptions, and performing paper-based and live scenario exercises that put each element—and their interplay—to the test.

Resilience as a business opportunity

In adopting a purposeful and effective operational resilience plan, banks can realize cost savings and can boost their efficiency through effective leveraging of data, data models and systems architecture. Improved operational

resilience often requires convergence, simplification and an end to duplication of regulatory, risk and control frameworks; and rationalizing service and process overlaps. Such gains have the potential to enable headcount rationalization and to unlock a broad range of efficiency savings.

1. Generate synergies across strategic, financial and operational resilience

At the highest level, a firm's overall enterprise resilience can be divided into strategic resilience (the resilience of the firm's strategy and market position), financial resilience and operational resilience. Elevating operational resilience to equal status to strategic and financial resilience should help firms to align their approach to operational resilience with the firm's strategic goals and to anticipate and navigate both the operational and the financial risks that emerge from increasingly complex and inter-connected business models.

2. Enhance customer trust and loyalty

Recovering rapidly to deliver good customer outcomes and retaining customer trust and loyalty in increasingly competitive markets should be a key driver of success for firms. Customer trust and loyalty may be enhanced through the ability of a firm to out-

perform its competitors in terms of both preventing disruptions from occurring and continuing to deliver its key business services as seamlessly as possible when adverse shocks do occur. The alternative is that firms run the risk that the costs of mitigating and redressing disruptive events may be compounded by the potential damage to reputation and customer confidence and a resulting loss of business.

3. Reduce operational risks and the costs of disruption

A greater end-to-end focus on business services, and clearer accountabilities based on such a focus, should enable a firm to reduce its operational risks, reduce both the probability of disruption and the impact of disruptions when they do occur, and thereby drive down regulatory capital requirements and the costs of fines and other regulatory sanctions.

4. Enhance positioning for mergers, acquisitions and moves into new areas of business or new ways of doing business

A clearer understanding and mapping of business services and the people, data, systems and processes on which they depend should enable a firm to undertake mergers and acquisitions more efficiently and

effectively, and enable a firm to move more smoothly into new areas of business or new ways of doing business.

5. Allocate resources more effectively and efficiently

Rebalancing efforts from trying to prevent disruption to focusing more on response and recovery when disruption does occur should enable firms to allocate resources more effectively and efficiently. Basing investment decisions on what is most important to the continuity of key business services, on the results of scenario tests and on whether a service can be recovered within impact tolerance thresholds should reduce costs and contribute to competitive advantage.



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