10 conversations about operational resilience

July 2019

Operational resilience is high on the regulatory agenda in the UK. In a joint discussion paper in 2018 took a broader view of operational resilience to cover all risks to the provision of critical business services with a greater emphasis on recovery and response when incidents occur.

Their approach outlined seven key regulatory themes and acknowledged the greater vulnerability of financial institutions and economies through digitalised services, greater use of outsourcing, exposure to cyber threats and customers' demands for high quality services.

Regulators now place the same importance on operational resilience as on financial resilience. This represents a fundamental shift that companies are at different stages of addressing. Based on discussions with clients and regulators here are ten conversations to help guide you through this new landscape.

1 How does operational resilience differ from what I'm doing now?

Clients tell us they already have risk management and business continuity processes in place. But operational resilience is a fundamental reset – not just business continuity planning done properly.

Regulators want boards to take responsibility to protect all aspects of their most important businesses from disruption. When incidents occur companies should be able to respond and recover to protect consumers and the financial system. That means identifying people, data, systems and processes and testing for resilience throughout your supply chain.

2 Which companies does this affect?

Retail banks have suffered high-profile disruptions and in an unfriendly political environment these companies are most obviously in the crosshairs. But this regime will apply across the financial services industry. By focusing on operational resilience, regulators are pulling together risks to consumers and financial stability.

The seven regulatory themes

3 How do I get my board to agree to this when there are so many other demands?

It's not easy to sell operational resilience as a piece of regulation and discussions with clients often focus on how to get board support for the necessary investment. Companies that have embraced the opportunity stress the importance of clear communication with the board. Be upfront about what you are trying to achieve and by when and present to the board in the simplest way possible. The board needs to see operational resilience as a business case, not a compliance exercise, and to take responsibility.

4 What are others in the market doing?

Some companies are choosing not to do anything so far despite external pressures and momentum for change. Some are waiting for further clarification from the forthcoming consultation paper – though little will change from the 2018 discussion paper. Others are moving forward and treating operational resilience as an opportunity to become more resilient over time, improve their businesses and reap benefits. A broader range of clients are securing board buy-in and giving managers specific responsibility for operational resilience.

5 What are the business benefits?

Operational resilience can generate efficiencies by simplifying processes, eliminating duplication and rationalising overlaps. Disrupted services damage customer trust and may lead to a loss of business whereas an effective response that protects customers can enhance a company's reputation. It will also allow you to assess, improve and rationalise end to end controls across services, and consequently strengthen the risk management within the business. If you think about your customer from the start you're not going to go too far wrong. Operational resilience minimises the cost of putting things right when disruption occurs and can help reduce capital requirements, fines and other regulatory sanctions. A clearer understanding of your business should also make acquisitions and moves into new business areas easier.

6 Is this just a UK requirement?

The UK is setting the pace on operational resilience and the importance of non-financial risks. But other major jurisdictions are following this lead and international regulation is starting to converge around non-financial risks. This convergence is based on principles rather than standards and rules. Part of operational resilience's appeal is that it is top-down, overarching, realistic and built for today's world. Regulatory requirements will vary but international financial institutions should consider adopting a consistent approach to embed best practice across the group.

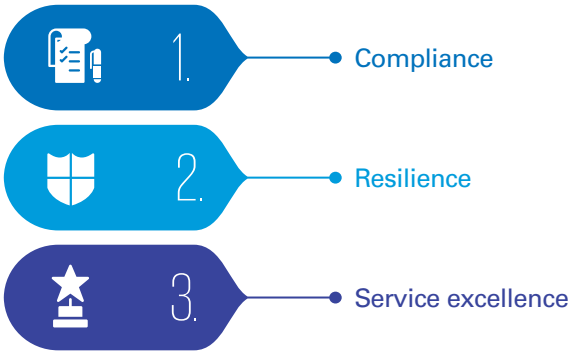
7 How quickly does this need to happen?

Becoming and remaining operationally resilient is a process. In the words of a chief operating officer, being able to look "straight down" through a business is a huge task that is likely to take years, not months. Making sure your third, fourth and fifth-party suppliers are resilient is a major undertaking. Regulators want to see boards and senior management taking a lead and allocating clear responsibility for setting tolerances and testing and monitoring systems and processes.

8 How do we get started?

Set your ambition. Achieving operational resilience will differ from company to company. What does it mean for your operating model? Take incremental steps to build on your existing risk management framework. Clients that are pushing ahead talk about a proportionate response that doesn't completely redesign something that is already there. Pilots should be carefully thought out and assessed to check what worked and where the gaps remain. Think about your customers – which end to end services are critical to them?

Financial Services need to think of their Operational Resilience ambition in three stages, compliance, resilience and then service excellence:



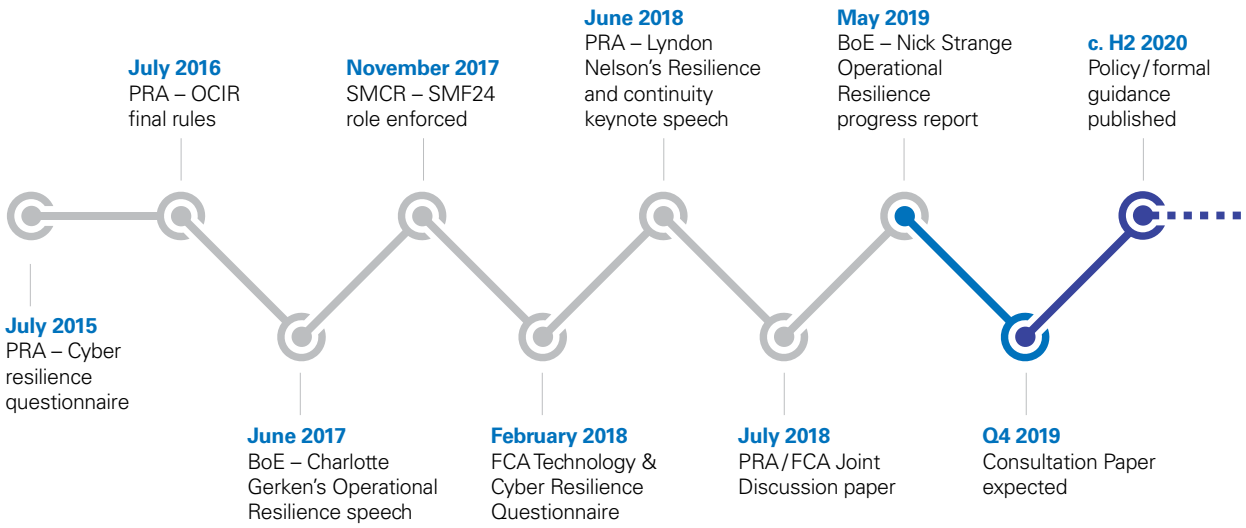
9 What are the challenges?

Barriers to achieving operational resilience will vary from company to company. One of the common challenges is ensuring you are protected from problems at service providers – not just third parties but fourth and fifth parties. Even clients that are embracing operational resilience say this is a new, big undertaking. Deciding what are your most important businesses and getting an end-to-end view of business services means breaking down long-established siloes and getting business managers on board. As one client commented: "The challenge isn't lack of buy-in. It's 'productionalising' it [resilience] and turning it into business as usual."

10 I need more clarity before making a commitment. When will there be more detail from the regulators?

The regulators are expected to issue a joint consultation paper towards the end of 2019 with some more details for individual subsectors but the basics won't change. The Bank of England's discussion paper set out the approach and it's now up to boards to interpret its requirements. It's a deliberately principles-based approach and how you respond is up to you. But the desired outcomes are clear. Companies need to ensure continuity of critical business services to protect consumers and the financial system.

The regulatory agenda



For more information, please get in touch

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