# Becoming resilient in the insurance ecosystem

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The insurance sector is a complex ecosystem.

**How can firms harness this ecosystem to become more resilient, and what challenges does this ecosystem create?**

## The background – Operational Resilience

Regulation to date has focused on financial, rather than operational resilience. New operational resilience regulations are expected to go live in Q3 2021 and will require firms to have a robust, end-to-end capability to recover from severe, but plausible disruptions.

Firms must act now to enable them to assess their resilience across their important business services, and to develop an operational resilience framework and a plan to bridge any gaps.

## The insurance ecosystem

Insurers and distributors operate in an ecosystem of ever-increasing complexity. Your third party partners may provide distribution, balance sheet capacity, technology or technical services.

With the continuing advances in technology and the ever-increasing pressure on costs and on acquiring and retaining customers, the need for partnering and collaborating with other firms will only increase as business models evolve.

## Resilience cannot be achieved by working alone

The regulators have been clear that:

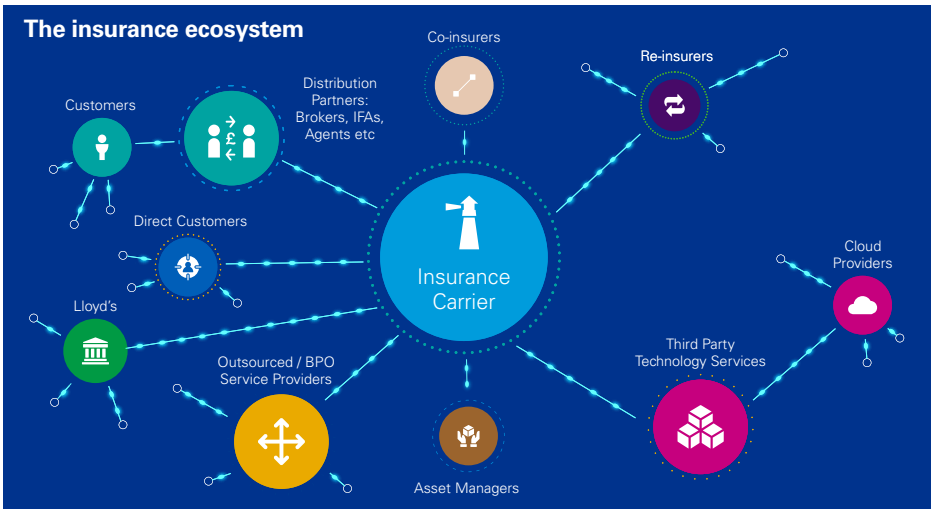
- resilience applies over important end-to-end business services; and
- firms are responsible for overseeing the resilience of third party providers.

Regulated firms typically rely on partners across a range of operational processes including assessing and payment of claims, introducing new business, annuity payments and investment management. Similarly, other financial firms will be reliant on you. Firms will need to take account of how their resilience could be impacted by third parties, even if those third parties are also regulated.

This means that firms will need to obtain assurance over its third parties' resilience to the range of severe but plausible scenarios it is testing. However, this might not be enough. If either firm is disrupted, it is also the interface between your firms that will need to continue to operate. In this way, the interface will need to be flexible to respond to a range of different situations.

**So what?**
This could introduce a new level of collaboration between a firm and its partners which should include some level of joint disruption testing.

> Firms remain responsible for obligations outsourced to third parties, therefore it is key that firms take account of how their resilience could be impacted by their partners, and their partners' partners.
>
> It is not enough for third parties to be resilient in themselves – it is also the interface between your firms that needs to be able to recover from a disruption.



### What about the customer?

One of the objectives of the new regulation is to reduce end customer or client harm. The regulators are expecting firms to decide on the level of customer harm the firm is willing to tolerate in the event of significant disruption. Some customers might be more severely affected by disruption than others.

Some firms will serve end customers directly and will have a closer idea of customers' expectations. Others will operate as a B2B2C player.

It is important to understand the end customer in order to set appropriate impact tolerances. This may require dialogue with your ecosystem partners to build up a fuller picture of end customers' needs.

### Making your resilience easier to achieve

In the short-to-medium term, there are a number of factors where the ecosystem can help a firm become more resilient.

- As operational resilience is a challenge being faced by all in the financial services sector, engage with partners and peer firms to establish and understand common issues.
- Whether your firm is a carrier or a distributor, discuss and even jointly set impact tolerances with your larger trading partners.
- Consider migrating trading relationships towards partners who are able to increase your firm's resilience.
- Joint resilience testing with key partners.
- Look at establishing new partnerships to improve resilience.

In the medium-to-longer term, a firm may decide to consider how it operates in the ecosystem by consolidating its third party supply for its important business services or by reviewing the balance between make and buy.

### What should you watch out for?

There are a variety of challenges to increase a firm's resilience through the ecosystem.

- Third party providers may become inundated with requests for due diligence or joint testing. There may be a case for a sector supplier accreditation scheme or joint due diligence.
- Larger third parties or those who operate beyond financial services e.g. cloud providers may show less flexibility to insurance firms trying to improve their resilience. This will need to be taken into account in setting a firm's impact tolerances.
- Existing third party contracts or TOBAs may get in the way, or may be more focussed on punitive measures rather than on collaboration for resilience. Some agreements may be renegotiable.
- Setting impact tolerances that are out of kilter with the sector may invite regulatory scrutiny or may be harder to implement with a firm's ecosystem partners.

## KPMG top tips

**1**

**Engage in discussion with your partners.** Tell them what you are thinking and understand where they are and how they are planning their resilience.

**2**

**Agree customer harm and impact tolerances** with larger partners first – then look to roll out to other partners.

**3**

**Take the initiative.** If you are ahead in your thinking and preparation, discussions with your partners are more likely to deliver positive outcomes for your firm.

**4**

**Thoughtful collaboration.** Operational resilience has more to gain through collaboration than competition, however bear in mind that there may be some aspects where competitive advantage is the right outcome.

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