

# An Introduction to Operational Resilience

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**Introduction**



**What is it?**



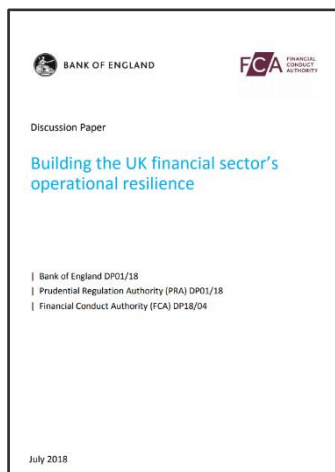
**Who it applies to**



**What do firms need to do?**

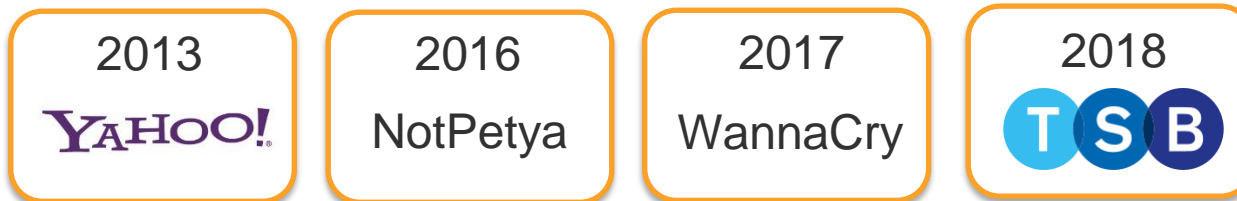


**When do firms need to do it?**



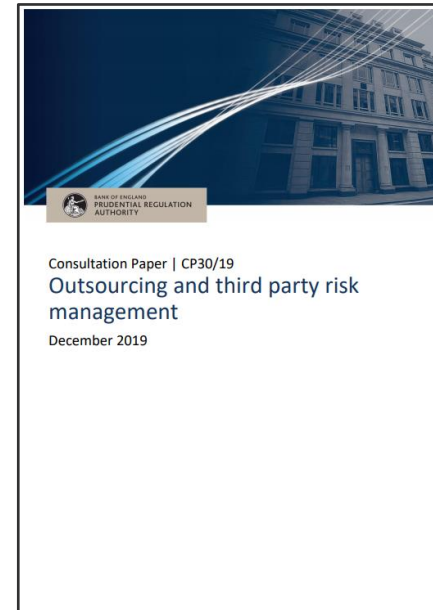
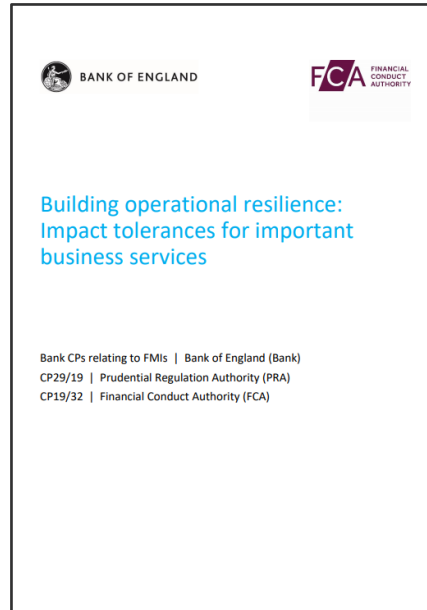
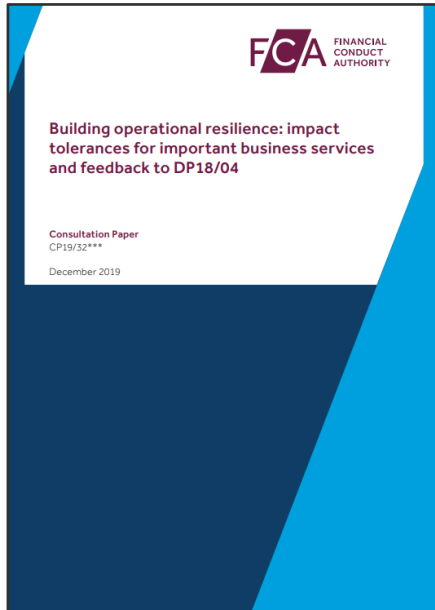
## July 2018 – Building the UK financial sector's operation resilience

FCA, PRA and Bank of England publish a Joint Discussion Paper (DP 01/18 or DP18/04). It is a response to an increasingly cyber-hostile environment and an increasing reliance on technology.



The stated aim of the regulators in 2018 was require senior management to build more resilience into their businesses by setting, monitoring and testing specific impact tolerances for key business services.

# Introduction



The consultation period closed in October 2018 and in December 2019 a joint Consultation Paper was issued (CP29/19 or CP19/32) together with a Policy Summary, and the PRA issued CP30/19 on Outsourcing and third party risk management.

# What is it?

## DISRUPTION



In a broad sense it is a hybrid between risk management, disaster recovery and business continuity planning based on the acceptance that disruption will occur and all concentrated on ensuring continuity of service to customers.

The intention is that Operational Resilience will include the prevention, adaptation to and recovery and learning from operational disruption. It is a living and dynamic experience.

### Important Business Services

What are these and what is the chain of activities which make up a business service. Which of those activities are critical to its delivery. All resources required to deliver that critical activity are then required to be operationally resilient.

### Impact Tolerances

Tolerance levels for disruption which must be monitored. Firms will also be expected to invest in removing any gaps or weaknesses.

# What is it?

## Important Business Services (IBS)



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“It is a service which a firm provides to an external end user”.

- It is not a line of business.
- Not expected to include internal services like provision of payroll unless necessary for delivery of IBS.
- “Important” if its “disruption could pose a risk to the firm’s safety, soundness or financial stability, or for insurers, the appropriate degree of policyholder protections” (not outcomes).
- Examples of risks to financial stability, firms soundness and policyholder protection provided.

“Services which, if disrupted, would be most likely to cause intolerable harm to consumers or market integrity”.

Provides considerations: - impact on those potentially affected, impact on the firm itself and impact on financial system.

It is a matter of judgement for Boards and senior management to determine.

# What is it?

## Important Business Services (IBS): Examples



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- Payment services by banks
- Payment of annuities by life insurers
- Policy issuance – from receipt of premiums to provision of cover by GI insurers
- Disbursement of mortgages by building societies
- Currency hedging services by investment bank
- ATM cash withdrawals for retail banks
- Ability to withdraw cash or check account balance
- Customer authentication on telephone banking
- Administration of investments for wealth management
- Misuse of data for custodian service providers
- Auto-renewal of policies

# What is it?

## Important Business Services (IBS): Examples

Services	Additional services	Activities
<ul style="list-style-type: none"><li>• Underwriting and policy issuance</li><li>• Mid-term adjustments</li><li>• Claims</li><li>• Renewals – particularly automatic renewals</li></ul>	<ul style="list-style-type: none"><li>• Motor - Roadside assistance</li><li>• Travel - Repatriation</li><li>• Engineering or Property – risk management services</li><li>• Professional indemnity – risk management</li><li>• Household – emergency services such as plumbers &amp; alternative accommodation</li><li>• SME/commercial – cyber risk cover – release of locked IT</li></ul>	<ul style="list-style-type: none"><li>• KYC and customer authentication</li><li>• Claims management and payment systems</li></ul>

All third party outsourcing arrangements where a third party delivers important business services (and activities) for a PRA regulated firm



# What is it?

## Important Business Services (IBS): Principles

- The chain of activities need not be activities which have been contractually agreed to.
- The activity may be more about how the service is provided rather than what is being provided.
- Internal “services” unlikely to be included.



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- There must be a significant risk to the market integrity or the firm itself (including reputation) or policyholder protection from a failure of the service.
- The risks to a firm’s soundness, policyholder protection and financial stability are key to determining importance.
- Must be clearly identifiable as a service (activity).
- The users of the service must be clearly identifiable.
- Considerations of harm to consumers, impact on the firm and UK financial system are key in determining the importance of the activity.

**All third party outsourcing arrangements where a third party delivers important business services (and activities) for a PRA regulated firm**

# What is it?

## Important Business Services (IBS): Impact Tolerances



Impact tolerances to quantify the maximum acceptable level of disruption to an IBS:

- Tolerances to be set at the point at which disruption to a firm's IBS would pose a risk to either the firm's safety and soundness or financials stability or the appropriate degree of policyholder protection.
- Must be set by boards and senior management.
- To be expressed as a clear metric including duration for which IBS would be affected.
- Can also measure extent of disruption e.g. maximum value or number of transactions, number of customers affected, or other relevant factors.
- Set by reference to a single disruption.
- Firms should stay within the tolerance.
- Tolerances should be used by boards and management to drive improvements to resilience.
- Set on basis disruption will occur.

# What is it?

## Important Business Services (IBS): Impact Tolerances



The first point at which a disruption to an IBS would cause intolerable harm to consumers or market integrity:

- Intended to change management mindset to accept that disruption will occur but needs to be managed effectively
- Must be set by boards and senior management.
- Is a planning tool. It does not limit responsibility for ensuring compliance with conduct and other rules.
- Can take account of annual cycles where IBS may have increased activity. But also different times of day or other broader factors.
- To be expressed by reference to specific outcomes and metrics including maximum duration
- In determining harm to consumers or market integrity firms to consider:
  1. Numbers and types of consumers affected and nature of impact
  2. Financial loss to consumers
  3. Financial loss to firm where it could impact consumers, UK financial system or operation of financial markets
  4. Level or reputational damage where it could harm consumers, UK financial system or operation of financial markets
  5. Impact to market or consumer confidence
  6. Spread of risks to other business services, firms or UK financial system
  7. Loss of functionality or access for consumers
  8. Loss of confidentiality, integrity or availability of data
- Single or combination of metrics as appropriate.
- Firms must set and review at least once a year or more if material change to business or environment

# What is it?

## Other Requirements

### Consequences of Impact Tolerances:

- A firm should be resilient beyond the impact tolerances they have set. Service should be resumed before the tolerance is breached.
- Identify the gaps and invest in the service to ensure you are reliant above the tolerance level.
- Regulators see the Impact Tolerances as a goal to be achieved.

### Scenario Testing:

- Identify severe but plausible scenarios and then test your resilience against these - regularly.

### Communications Plan:

- Have a communications plan for use in the event of a disruption to an IBS.

### Governance:

- Have a Framework in place for the governance of Operational Resilience covering the continual assessment and updating or the mapping, impact tolerances, scenario testing and communications plan which also ensures that there is a lessons learned process and reporting process.

# Who it applies to

## Solvency II Firms

- Insurers
- Mutuels
- UK branches of overseas firms

## SM&CR Enhanced Scope firms

- CASS Large firms
- Intermediaries with more than £35 million in revenue on a rolling 3 year average
- Groups?

# What do firms need to do?

## Respond to the consultation paper

Seek clarity on what is an Important Business Service!

Undertake an assessment of what has or has not worked in terms of Business Continuity Planning during the lockdown including reviewing the performance of any outsourced providers.

Commence the work to determine the depth of the expected project required. Scoping the project out now is an important first step and the earlier the better. It is likely the phases will include:

- Scoping and project governance,
- Mapping IBS,
- Documenting and defining impact tolerances – Board approval,
- Developing the ongoing governance and reporting processes – Board approval.
- Undertaking a gap analysis between current and desired resilience,
- Developing the project to close the gaps – Board approval.
- Identifying the severe but realistic scenarios and developing testing environment and methodology – board approval
- Developing communications plans, lessons learned and reporting.

Thereafter: ongoing remediation of any gaps and building resilience.

# When do firms need to do it?

**Consultation Period:** has been extended to 1<sup>st</sup> October 2020.

**Policy Statement:** expected early in 2021.

**Timeline:** Firms are expected to be given a year to complete their projects, have their governance in place and be developing their resilience in line with their gap analysis.

**FCA:** Must be resilient and be able to stay within tolerances as soon as reasonably practical but no later than 3 years from the rules.

## Will this remain the case?

**Questions?**



**Please contact Kenneth Underhill with any questions**

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