Operational Resilience
ICSR Market Briefing 4

Service and Activity Mapping

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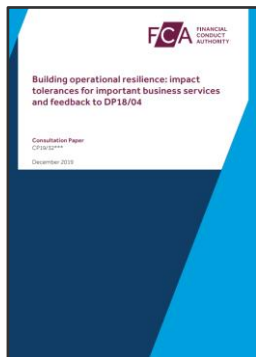
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Introduction

Update: Consultation closed 1st October 2020. Policy Paper expected Q1 2021.

Solvency II Firms	• Insurers • Mutuals • 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 is it?

ICSR
Implement Compliance
Solutions & Resources

DISRUPTION

Risk Management

Disaster recovery

Business Continuity

It brings together elements of risk management, disaster recovery and business continuity with acceptance that disruption will occur and requiring continuity of service to customers where harm (end user, market or firm) may result. It requires significant governance at Board level and a function to support the assessment, monitoring and responses to that disruption. It is a living and dynamic experience which required significant investment from firms.

Important Business Services
These are the services provided to end users. They and the chain of activities which make up the service must be identified. The activities which are critical to delivery of the service are then required to be mapped and operationally resilient.

Impact Tolerances
Tolerance levels for disruption must be monitored. Firms will also be expected to invest in removing any gaps or weaknesses to ensure they remain within the Tolerances in order to ensure continuity of service.

Important Business Services

BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY

FCA FINANCIAL CONDUCT AUTHORITY

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

- Important if risk to firms safety or soundness or policyholder protection
- It is not a line of business or a product
- 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

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

- 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

- It is a matter of judgement for Boards and senior management to determine.
- Boards must document in an auditable manner their justification for inclusion or exclusion of services/activities from their definition.
- 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.
- Purely internal "services" unlikely to be included. Proximity test is good approach.

Mapping – Process Phase 1

Scope your project

- Create a Project Initiation Document
- Develop a project timetable in a Gantt chart or similar format with deliverables and milestones
- Create a governance and reporting process for the project
- Create a communications plan, and

- Cost assessment and planning

Create an Operational Resilience Framework

- Conceptualisation of BAU and Governance (to be completed as the project progresses)
- A definition of Important Business Services and a high level understanding of harm which may be caused to end users, the firm or market
- A review of strategy documentation to identify the part Op Res will play
- An analysis of how Op Res will interplay with day to day activity, such as underwriting, distribution arrangements, BCP, DR, Risk Management and change management
- Identification of the monitoring and reporting processes/channels for Impact Tolerances
- An outline of the possible resources required to manage Op Res on a day to day basis when BAU

The earliest possible engagement of the Board is critical for the success of the project and to ensure that Op Res results in a cultural change to the way all levels of the business look at the services which it is providing and interact within the framework which is created.

Mapping – Process Phase 2

Process for Mapping

Step 1: For each legal entity or line of business identify at the highest level the business services offered to customers/end users

Step 2: Identify the activities which are related to those services both internal and external including any outsourced activities

Step 3: Determine at a high level the potential impact the failure of each activity may cause to the end user, the firm or the market

Step 4: Create a template map for an Important Business Service

Step 5: Complete the template as a proof of concept

Step 6: Commence mapping all other Important Business Services

Requirements

To be mapped:

- People
- Processes
- Technology
- Facilities
- Data
- Third party arrangements (Outsourcing requirements)

Granularity – as may be necessary to identify activities which if disrupted may cause harm
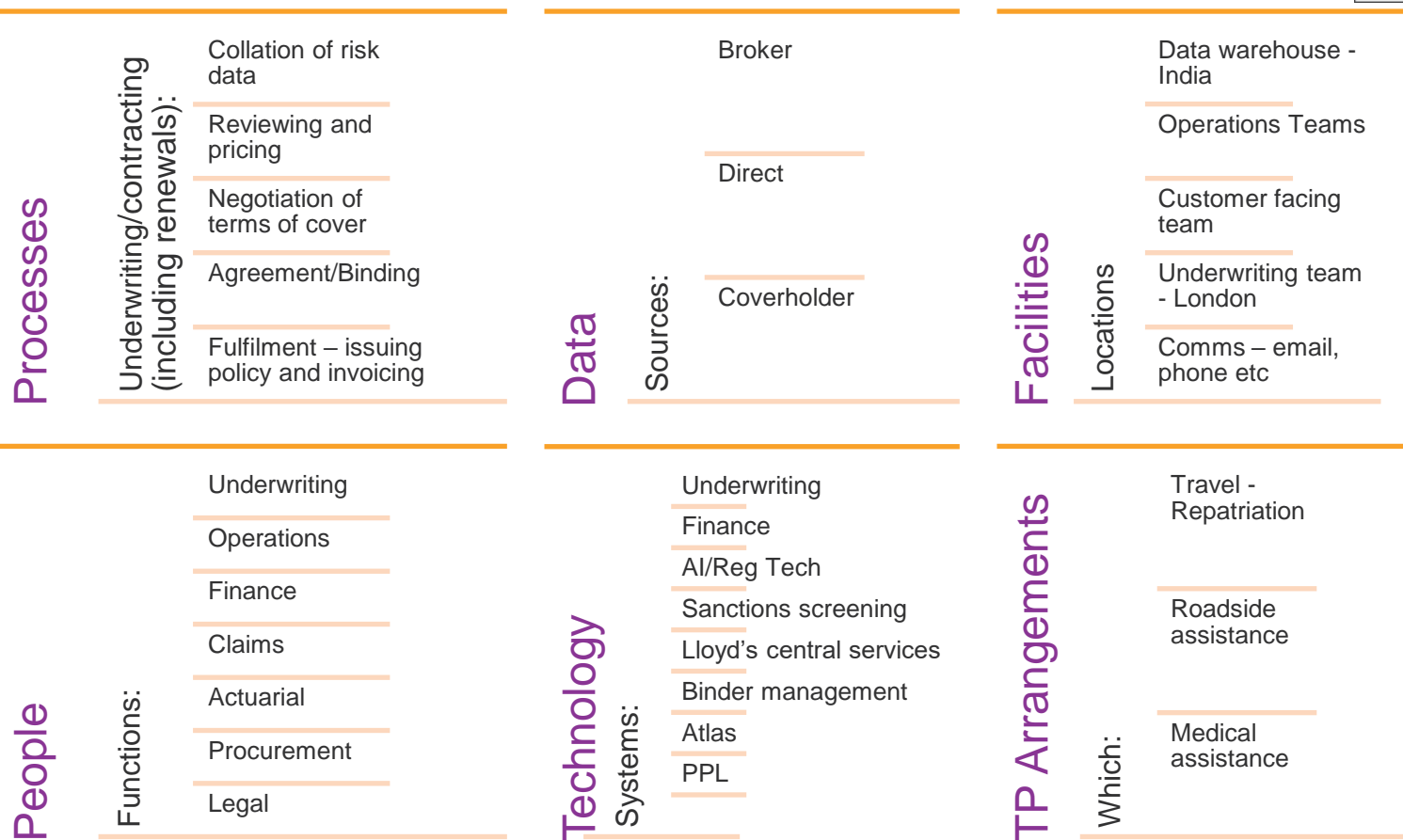
The Product Lifecycle

Development

Sales and distribution

Claims and servicing

Feedback and review

Our thoughts on mapping:
Services and Activities

Services	Activities	Additional Services
Product development	• Actuarial pricing • Wording development	
Sales and distribution	• KYC and customer authentication • Underwriting • Development of distribution network	• Risk management services
Servicing: mid-term adjustments	• Underwriting • Complaints	
Claims	• Claims assessment • Claims payment	• Cyber – release of locked IT • Motor – roadside assistance • Travel - repatriation
Renewals		

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

Activity Example: Travel

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Processes
Underwriting/contracting (including renewals):
- Collation of risk data
- Reviewing and pricing
- Negotiation of terms of cover
- Agreement/Binding
- Fulfilment – issuing policy and invoicing

Data
Sources:
- Broker
- Direct
- Coverholder

Facilities
Locations:
- Data warehouse - India
- Operations Teams
- Customer facing team
- Underwriting team - London
- Comms – email, phone etc

People
Functions:
- Underwriting
- Operations
- Finance
- Claims
- Actuarial
- Procurement
- Legal

Technology
Systems:
- Underwriting
- Finance
- AI/Reg Tech
- Sanctions screening
- Lloyd's central services
- Binder management
- Atlas
- PPL

TP Arrangements
Which:
- Travel - Repatriation
- Roadside assistance
- Medical assistance

All third party outsourcing arrangements where a third party delivers important business services (and activities) for a PRA regulated firm have very specific requirements for due diligence, contracts and oversight.

Question

Questions?

Please contact Kenneth Underhill with any questions

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