

EMBEDDING RESILIENCE SERIES

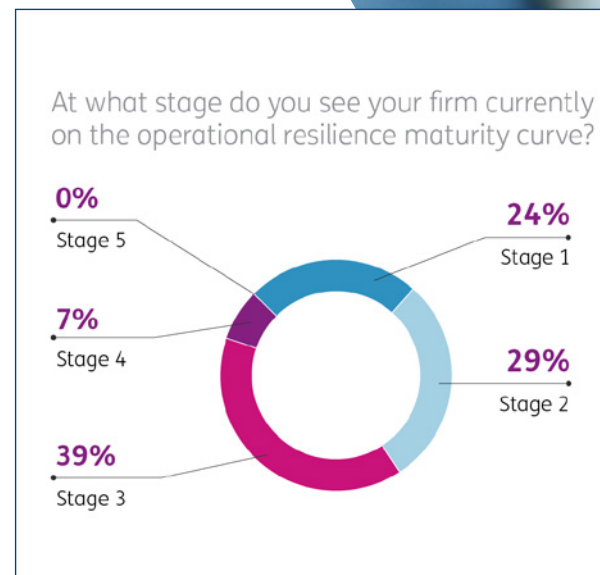
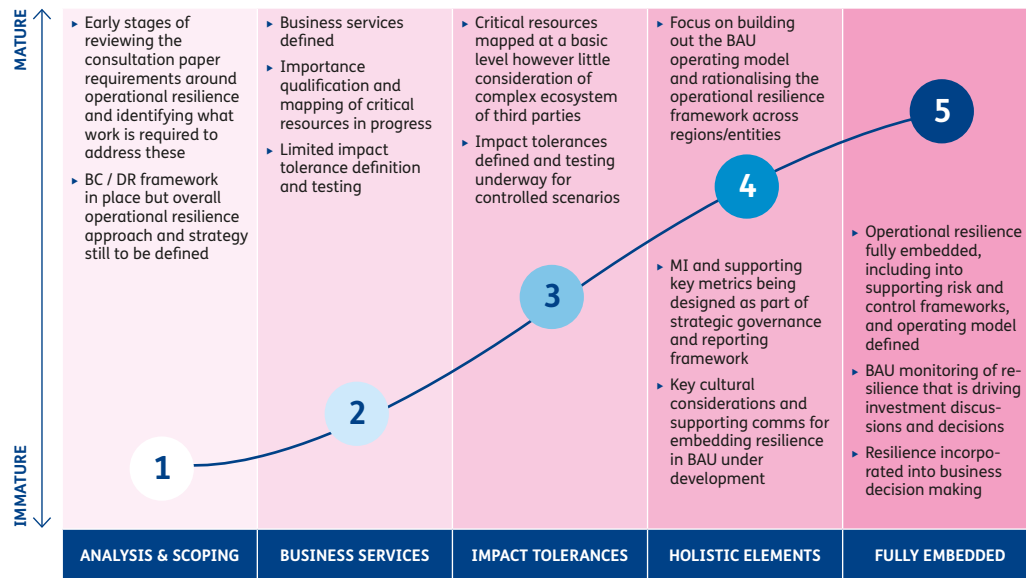
Industry Roundtable: Operational Resilience

KEY TAKEAWAYS ON THE **TRENDS, INSIGHTS** AND
CHALLENGES FACING FINANCIAL SERVICES FIRMS

ON 25TH MARCH 2021 BARINGA PARTNERS HOSTED AN **OPERATIONAL RESILIENCE ROUNDTABLE**, BRINGING TOGETHER **OVER 50 FIRMS FROM ACROSS FINANCIAL SERVICES** TO DISCUSS **TRENDS, INSIGHTS, AND CHALLENGES**. THIS PAPER SUMMARISES THE KEY TAKEAWAYS FROM THE DISCUSSION.

Current State Assessment

Initially firms were asked to provide a view on their own programme maturity in advance of the FCA and PRA policy statements being published (since published). Firms were asked to score themselves against the following stages to represent how progressed they were in relation to operational resilience, with stage 1 being the least mature and stage 5 being fully mature:



The majority of participants saw themselves within the first three phases of this maturity progression, fairly equally split between them, indicating most firms are currently focused on the specific regulatory requirements with more work to do to fully embed resilience in the organisation.

- ▶ CURRENT STATE ASSESSMENT
- ▶ POLICY STATEMENT AND GLOBAL REGULATORY REQUIREMENTS
- ▶ IMPORTANT BUSINESS SERVICES AND MAPPING
- ▶ IMPACT TOLERANCE SETTING AND TESTING
- ▶ MI AND REPORTING
- ▶ CONTACT



Policy Statement and Global Regulatory Requirements

THE PLENARY SESSION FOCUSED ON THE CLARITY FIRMS WERE SEEKING FROM THE IMPENDING POLICY STATEMENT, SINCE PUBLISHED, AS WELL AS THE COMPETING REQUIREMENTS FROM GLOBAL REGULATORS.

POLICY STATEMENT

Firms expressed current challenges they were facing and therefore the areas of clarification they were seeking from the FCA and PRA. The key discussion points were as follows:

- ▶ **Leveraging Existing Work** – Participants are seeking to leverage existing processes and knowledge as far as possible, to avoid ‘reinventing the wheel’, whilst acknowledging that there will be some incremental work around specific ‘pain points’. It was discussed how reusability would be on a case-by-case basis: some firms have found process-mapping resources already exist in the organisation e.g. linked to data privacy, business continuity or disaster recovery work. But, by comparison, there is less existing material that firms can leverage for setting impact tolerances. Therefore, firms tended to seek further clarification from the regulators where existing materials cannot be leveraged.
- ▶ **Scoping** – Participants expressed some frustration around the scope of the emerging operational resilience regulatory framework. Some firms mentioned that the regulatory direction fails to sufficiently account for existing good practices, for example around ISO standards, business continuity, capital planning for operational risk and scenario-management. For some, the process of identifying and testing important business services has therefore felt dissatisfying: even for larger institutions, there may be very few such services, and they are already tested regularly. All firms agreed they were waiting for the policy papers to clarify their concerns about the scope of the regime.

- ▶ **Customer Harm Definition** – Several participants mentioned that the definition of “intolerable harm” was unclear with respect to the impact on the customer. This was particularly the case for investment banking and inter-dealer broking firms, where institutional clients can typically trade away from individual banks with ease. There was broad agreement from attendees that they were seeking some refinement of terminology from the regulator in this area. This challenge was also considered in more detail in our second break out session. (Note: this was not clarified in the policy statements.)

GLOBAL REGULATORY REQUIREMENTS

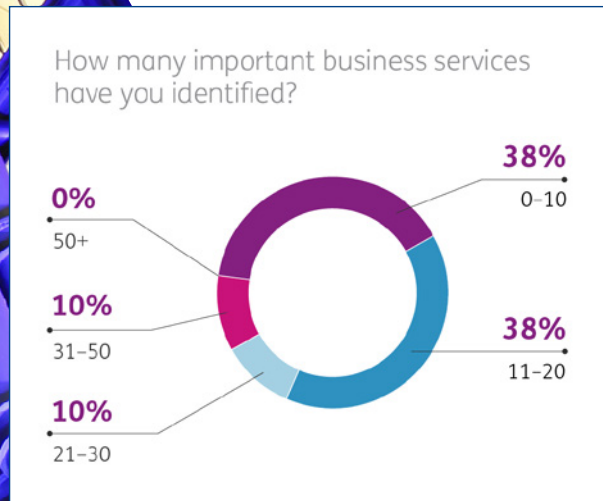
Another key challenge discussed by the group was the emerging nature of the international regulatory architecture, with the UK’s FCA and PRA being relatively advanced.

- ▶ Several firms suggested they were focusing on the FCA and PRA requirements in isolation until the broader international regimes were confirmed. A number of other participants revealed they are aiming to design an approach that is high-level enough to be used in any jurisdiction, and flexible enough to be tailored to specific regimes.
- ▶ Attendees generally agreed that, in order to establish a globally consistent approach, you would need to involve a broad array of people, given that, for instance, the UK regime places accountability with the SMF 24 whereas other international regimes place more accountability on the CRO function.

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Important Business Services and Mapping

FIRMS DISCUSSED THE CHALLENGES AROUND IDENTIFYING IMPORTANT BUSINESS SERVICES AND MAPPING SUPPORTING RESOURCES THAT RELATE TO THOSE IMPORTANT BUSINESS SERVICES.



IMPORTANT BUSINESS SERVICES

Firms were asked to indicate approximately how many important business services they had identified. The majority of firms (80%) had identified between 0-20 important business services with 20% having identified 20+. This indicates that, whilst there is no right or wrong answer as to how many important business services a firm should have, complex organisations will have far more important business services due to the breadth of their activities across potentially multiple geographies.

The group agreed that business service identification and assessment of importance is the beginning of the operational resilience journey – it is the main foundation for subsequent activities to meet the regulatory expectations; it is therefore important to get this activity right.

Conversation then focused on the lessons learned and key challenges presented with identifying important business services. The key discussion points were as follows:

- ▶ **Ownership and Accountability** – The discussion highlighted that the business areas delivering a firm’s services were critical stakeholders in assessing their importance. These individuals will be managing the services in practice and ultimately are the ones that understand their customers the best. In order to facilitate early engagement with the business, translating operational resilience jargon into

language that is easily understood by those who are not necessarily operational resilience practitioners should be given due consideration.

- ▶ **Consistency and Calibration** – For firms who had already undertaken the exercise to identify their important business services, there was suggestion that consistency and calibration of important business services played a pivotal role in concluding their final list. It is acknowledged that across an organisation most individuals will think their business service is important, which can result in quite a challenging application of the intolerable harm criteria. A calibration and consistency check was an effective way of managing stakeholder expectations and ultimately ensuring the final population of business services was correct.
- ▶ **Evidencing Challenge** – Many firms expressed that, given the level of engagement with senior stakeholders in their organisation, there was strong challenge on the identification of important business services. There was agreement that an effective way of being able to evidence this challenge was to have detailed records outlining how business services have been assessed and established as important.
- ▶ **Evolving Maturity** – There was broad agreement that the important business services inventory is not set-in stone and will continue to take into account the change and evolution of any business over time.

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IMPORTANT BUSINESS SERVICES

The group then shared thoughts on the lessons learned and key challenges presented with mapping their important business services. The key discussion points were as follows:

- ▶ **Mapping Detail** – All firms agreed that there is a risk that organisations go to the n^{th} degree in mapping resources to important business services, which may defeat the point of what the regulators are asking. The group agreed that regulators are asking firms to demonstrate the business services that they need to keep delivering and what are the critical supporting components that enable that delivery should something go wrong.
- ▶ **Test and Learn** – A number of participants shared their experience of opting for a pilot or test and learn approach, mapping one important business service ‘end-to-end’ followed by more detailed roll out once stakeholders were comfortable with the output. This ensured those firms did not waste time mapping business services, only to revisit it if stakeholders were not happy with the output.

- ▶ **Existing Artefacts** – As discussed briefly during the plenary session, some firms are leveraging and using existing artefacts to facilitate and expedite the mapping of their business services. This included leveraging work undertaken as part of firms’ operational risk assessments, recovery and resolution planning, compliance with outsourcing guidelines and business continuity and disaster recovery planning. However, there was agreement this wouldn’t work for all organisations, depending on the existing material they could access and the level of granularity at which previous mapping exercises have been performed.
- ▶ **Formatting** – One point raised was the importance of the format used to perform the mapping exercise. There was a suggestion that not only do firms need to update this information on a regular basis – they also need to be able to interrogate the data sets and be able to view the mapping of resources across multiple business services. This will enable them to more easily identify where concentration risk exists (e.g. in vendors, processes, systems or people). Whilst more complex, building out this data model beyond just an excel spreadsheet will be more helpful in the longer term, where the data is more usable and can support scenario testing, metrics and reporting on resources.



Impact Tolerance Setting and Testing

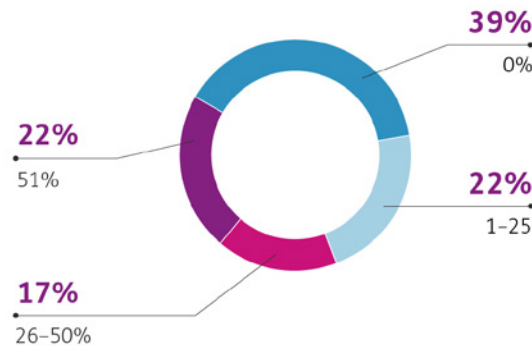
FIRMS DISCUSSED THE CHALLENGES AROUND **SETTING AND TESTING IMPACT TOLERANCES** FOR THEIR IMPORTANT BUSINESS SERVICES.

Firms were asked to indicate for approximately how many important business services they had already set an impact tolerance. Participants were mixed in their advancement of setting tolerances for their business services, with more than a third still at square one. Given the early stage of this process, this fact should not be unduly alarming and policy statements have since provided more guidance.

The group discussed the various staged of setting impact tolerances with a general suggestion that this falls into four stages: measurement, setting, testing and recalibrating. Put simply, firms should work out: what helps you understand the effect on outcomes to the end-customer; establish a point of material harm; test it using plausible scenarios (a complex and subjective proposition); and finally using the information from running those tests to refine impact tolerances.

The group then shared thoughts on the lessons learned and key challenges presented with setting and testing important business services. The key discussion points were as follows:

For what proportion of your IBS have you set a provisional Impact Tolerance?



► **Utilising Existing Data** – A number of firms shared their experience in setting impact tolerances and stated that utilising existing data, such as from customer surveys, have made this part of the process more straightforward. There was a suggestion that data enabled firms to more easily set the context of the harm which may occur.

► **Identifying Type of Harm** – There was discussion on the relative complexity of identifying the type and extent of harm on the end user of the business service. There was broad agreement from the firms on the call that where an individual consumer is involved, harm is much easier to identify than it is for commercial customers or external bodies.

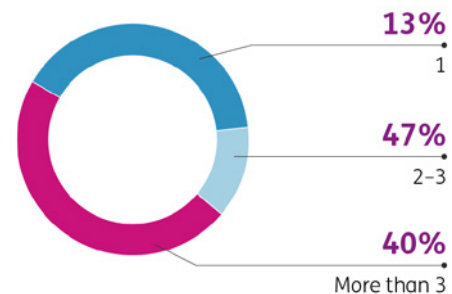
- ▶ **Definition of Customer Harm** - Several participants reiterated the definition of “intolerable harm” was unclear with respects to the impact on the customer. For some larger investment banks there was a broad agreement that until further clarity was provided by the regulators they would be focusing on liquidity. Whereby they would assess whether the end user of their service would be impacted by an inability to access liquidity and the severity of this in qualifying the harm.
- ▶ **Third Parties** -Most firms agreed that, where they were able, they would engage third parties to help setting impact tolerances. However, there was broad acknowledgement that for some of the larger third parties this may prove difficult and they would be seeking guidance from the regulators on how to address those concerns.
- ▶ **Specificity** - Some firms questioned how precise or ‘scientific’ you can be in setting an impact tolerance, given there

is often a lack of data points and high level of subjectivity around customer harm. One approach suggested was that firms use a mix of subjectivity and data, with the goal to keep in mind is creating an impact tolerance that can be measured, eventually.

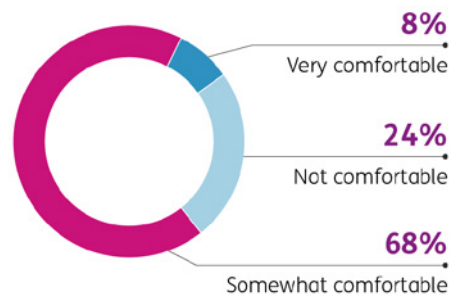
Participants were asked to indicate how many scenarios they were considering testing for each impact tolerance. There was broad agreement from firms that one scenario was not sufficient to satisfy the requirements of the regulator.

The group discussed whether the outcome of impact tolerance testing would drive meaningful action across the organisation to address identified weaknesses or vulnerabilities. The consensus among the group was that, so far, senior executives were appreciative of the outputs because, while the topic of operational resilience has always been around, this new lens is giving a clearer indication of what is important vs what isn't.

How many scenarios are you considering using within a single test of the Impact Tolerance of an individual IBS?



How comfortable are you with your current ability to measure and monitor the operational resilience of your IBS?



MI and Reporting

BEFORE CLOSING, THE GROUP DISCUSSED THE **MI AND REPORTING** THAT WAS REQUIRED ON THE BACK OF IMPORTANT BUSINESS SERVICE IDENTIFICATION, MAPPING, IMPACT TOLERANCE SETTING AND TESTING SO THAT MEANINGFUL ACTION COULD BE DRIVEN.

Firms were asked to provide a view of their level of comfort with being able to measure and monitor the resilience of their important business services. Very few participants were fully comfortable with their current ability to measure and monitor the resilience of their important business services. This is largely unsurprising given that very few existing measures of resilience are constructed to align with the scope of individual important business services, nor do firms generally have a raft of existing data points that can serve as leading indicators of the ability to withstand disruption.

The group then discussed what measures were required to understand resilience and the principles which had been defined to establish these measures. The key challenges and insights shared by the participants were:

- ▶ **Agreeing Expectations** – Fundamentally, firms need to define what it is they're trying to answer with their resilience MI and then level set with management and the Board in terms of the depth of the insight that can be generated to support the understanding of the individual IBS and enterprise resilience position. It is likely that

most firms will mature the breadth and depth of their data set over time, so the reporting of resilience on 'Day 1' will likely only be a fraction of the end state vision.

- ▶ **Current availability** – Firms agreed that the first step in determining what measures to use to monitor the resilience of business services was to understand what was currently available in the business. Firms agreed that existing reporting on resilience will still be useful however it may be that additional insights will be required on the back of the new requirements.
- ▶ **Gap Analysis** – Linked to the above, firms discussed how an exercise would be required to identify where there are current gaps in MI availability which are required to satisfy the requirements of the regulators as well as internal stakeholders. The work to then identifying what's useful and reusable, and what's missing.
- ▶ **Enterprise Level MI** – One complexity is that MI at enterprise level is typically more thematic or horizontal in nature than would be required for operational resilience profiling.

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