

Overcoming implementation challenges of operational resilience

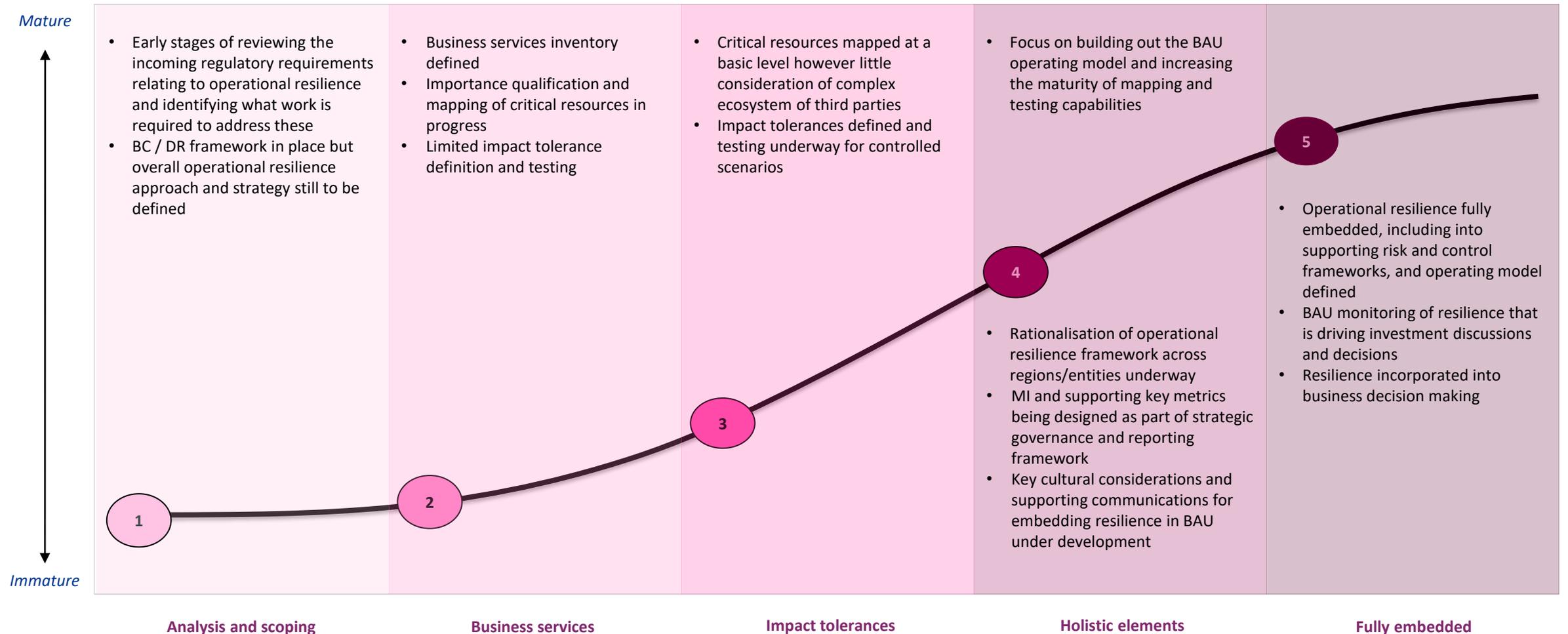
TISA Operational Resilience Forum

07 Dec 2021



Operational resilience developments

Firms are at varying stages of maturity on operational resilience, as they look to tackle the incoming regulatory requirements around operational resilience



Key implementation challenges



The incoming requirements have posed a challenge for firms, particularly as they try and develop an operational resilience framework that aligns to and leverages existing processes

General Considerations

Alignment Considerations

Important Business Services

- What are the factors that should be used to determine an important business services?
- What level of granularity should important business services be defined?

- How does the concept of services align to existing concepts of critical functions/operations, core business lines and key processes?
- How does the concept of services change the way the firm thinks about processes for risk identification, assessment and management?

Mapping Key Resources

- How do you define 'key' or 'critical' resources?
- To what level of granularity should mapping occur, particularly with regards to technology mapping?
- In what format or in what tools should mapping be undertaken?

- How does mapping of critical resources relate to existing processes for mapping critical resources for RRP and business continuity purposes?
- How can existing metrics be utilised to assess and monitor the vulnerability of critical resources?

Setting Impact Tolerances

- How does 'intolerable harm' differ from harm or inconvenience?
- What are the types of impact you need to consider when setting impact tolerances and how do you assess or quantify this?

- How do the concepts of risk appetite and impact tolerance relate?
- How do metrics for monitoring appetite breaches or RRP triggers relate to metrics for assessing and setting impact tolerances?

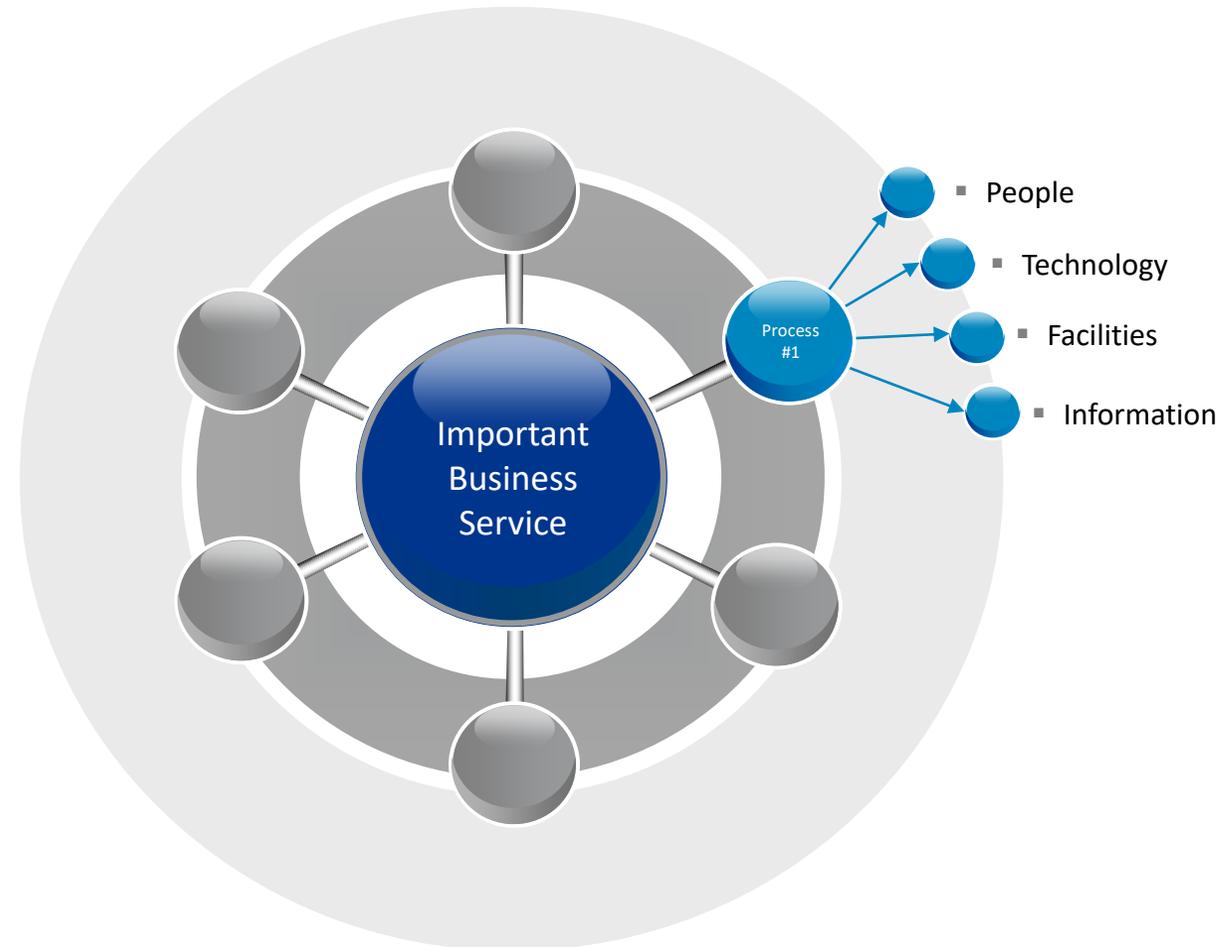
Impact Tolerance Testing

- What type and volume of impact tolerance testing is required in the short term?
- How do you address the testing of scenarios that could impact multiple important business services?

- How does impact tolerance testing relate to existing testing capabilities, including testing for business continuity, disaster recovery and RRP purposes?

Effective mapping of critical resources

Firms need to identify critical resources for their individual important business services, whilst also building a picture of concentration of resources across multiple services



Firms can leverage existing mapping work undertaken as part of RRP, business continuity and operational risk management

Effective mapping of critical resources is supported by consistent firm-wide data hierarchies. This enables usage of the same resources across multiple important business services to be easily identified. Pockets of concentration risk around specific resources can then feed the design and development of suitable scenarios for testing a firm's ability to remain within their impact tolerance(s).

Additional data elements also support both the effective mapping of resources as well as supporting the vulnerability assessment of these resources. These include:

- Legal entities and/or countries
- External third parties
- Risks and controls
- Events and issues

Assessing the point of safety and soundness

Dual-regulated firms can leverage RRP work to help define the PRA impact tolerance for their important business services

- ▲ As part of recovery and resolution planning, firms will have a defined trigger and escalation framework through which they monitor their financial viability. This in turn should align to their BAU liquidity and capital management frameworks
- ▲ In the same way, thresholds and indicators for determining the point at which disruption to a business service would pose a risk to the firm's safety and soundness (i.e. the PRA impact tolerance) should align to the overall risk management framework of the firm



- ▲ Key categories of indicators that firms could consider when assessing the point of risk to safety and soundness of the firm include the following:

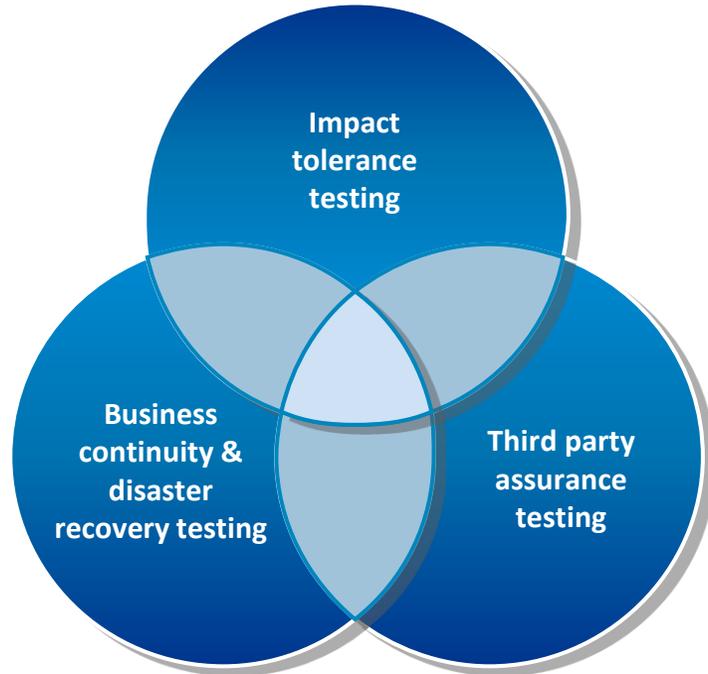
| Category | Example indicators |
|---------------|-------------------------------|
| Capital | CET1 ratio, Total capital |
| Liquidity | LCR, NSFR, Survival days |
| Profitability | Operating risk loss, P&L loss |

It is likely that the point at which disruption to an important business service causes a significant impact on one of these metrics (and thus the PRA impact tolerance is breached) will be AFTER the point at which the FCA impact tolerance is breached. As such, firms may manage to the more stringent FCA impact tolerance, but will still need to demonstrate it has considered the PRA objectives when setting its impact tolerance

Co-ordinated testing capabilities

How can firms integrate their testing programs in order to increase efficiency but still get the distinct outputs they need?

- ▲ In the short term firms are looking at undertaking desk-top scenario tests in order to test their ability to remain within impact tolerance for their important business services. Longer term, firms can (and should) look to align and/or their testing arrangements across other areas of the organisation in order to avoid duplication



Impact tolerance testing

Mapping of critical resources identifies that the delivery of an important business service is dependent on a specific system that is provided by a third party. Scenario testing therefore focuses on disruption of that system for a short or extended period

Business continuity & disaster recovery testing

The system in question is identified as a key system as part of BC/DR planning and as such has a RTO associated with it, which should align with the impact tolerance of the service it is associated with. BC/DR testing focuses on the ability to recover in line with the RTO, and testing identified workarounds

Third party assurance

Impact tolerance testing performed in conjunction with the third party system provider in question forms part of firms' assurance work on third parties, to assess whether the provider is providing the service effectively and in compliance with the firm's operational resilience obligations

About Baringa Partners

Baringa Partners is an independent business and technology consultancy. We help businesses run more effectively, navigate industry shifts and reach new markets.

We use our industry insights, ideas and pragmatism to help each client improve their business.

Collaboration is central to our strategy and culture ensuring we attract the brightest and the best. And it's why clients love working with us.

Baringa. Brighter together.

Contact us:



Salina Ladha (Director, Finance, Risk & Compliance)

Salina.Ladha@baringa.com



This document: (a) is proprietary to Baringa Partners LLP ("Baringa") and should not be re-used for commercial purposes without Baringa's consent; (b) shall not form part of any contract nor constitute acceptance or an offer capable of acceptance; (c) excludes all conditions and warranties whether express or implied by statute, law or otherwise; (d) places no responsibility or liability on Baringa or its group companies for any inaccuracy, incompleteness or error herein; and (e) the reliance upon its' content shall be at user's own risk and responsibility. If any of these terms is invalid or unenforceable, the continuation in full force and effect of the remainder will not be prejudiced. Copyright © Baringa Partners LLP 2021. All rights reserved.