



IDENTIFYING IMPORTANT BUSINESS SERVICES TISA BEST PRACTICE GUIDE (*In Association with the ORCG*)

November 2021

Introduction

The regulators recognise that in an increasingly complicated and interconnected financial services industry, where service outages occur these can cause significant and widespread disruptions. Both to the direct customers of a firm, to counterparties and to the market itself.

Technological innovations have brought significant benefits to the markets, but they have also brought risks, with the increasing complexity of systems, and the vulnerabilities to cyber attacks. Equally the increase speed of transactions and the expectations of customer and counterparties for business to be conducted at an accelerated pace means the tolerances for failures are narrowing.

Against this backdrop of increasing challenges, it is unfortunate that recent history has shown that firms have not always fully considered these risks and impacts, and effectively controlled against them.

The aim of the operational resilience requirements is to encourage firms to identify weaknesses in their processes, and developed enhanced frameworks that will better enable them to recover more quickly when disruptions do occur, and ultimately invest more in systems and controls to prevent disruptions.

And is this focus on the expectation of disruption (and the time required to resolve), which distinguishes Operational Resilience from Business Continuity and Operational Risk. That, and the clarity of focus on the impact on customers and counterparties, as opposed to the traditional focus on impact to the firm.

The FCA, PRA and Bank of England have co-ordinated their approach, and set out a structured process, for firms to follow, and they have set out expectations that firms will:

- Identify their important business services (with the emphasis on the importance to the customers)
- Fully understand and map the processes that support the delivery of these services (including where this is outsourced)
- Set impact tolerances, which reflect the level of disruption that is acceptable for customers and counterparties
- Develop a programme of testing and improvement

And across all elements, the regulators have a clear expectation that the Board will be playing a central role in assessing the firms capabilities, and directing the improvements required. This clear focus on the responsibilities of senior management is another factor that distinguishes Operational Resilience from other initiatives in operational control. There have always been management expectations under PRIN and SYSC but the Operational Resilience requirements expect a much more explicit 'attestation' from senior management that they believe the framework is fit for purpose. And for those holding SMF functions under SMCR this represents a significant personal risk.

This is assuredly not Business Continuity 2.0. And it is the customer/counterparty focus which is likely to be one of the biggest attitudinal shifts firms will have to content with. Across all the elements, putting that customer lens on areas such as identifying important business services and setting impact tolerances. This is distinct from the customary approach of such things as Business Impact Assessments, where the impact being assessed is customarily centred on 'the business'.

This document presents TISAs recommendations on an approach to be taken. The insights within are drawn from the expertise of a host of TISA members and associates and represent practical, real-world solutions.

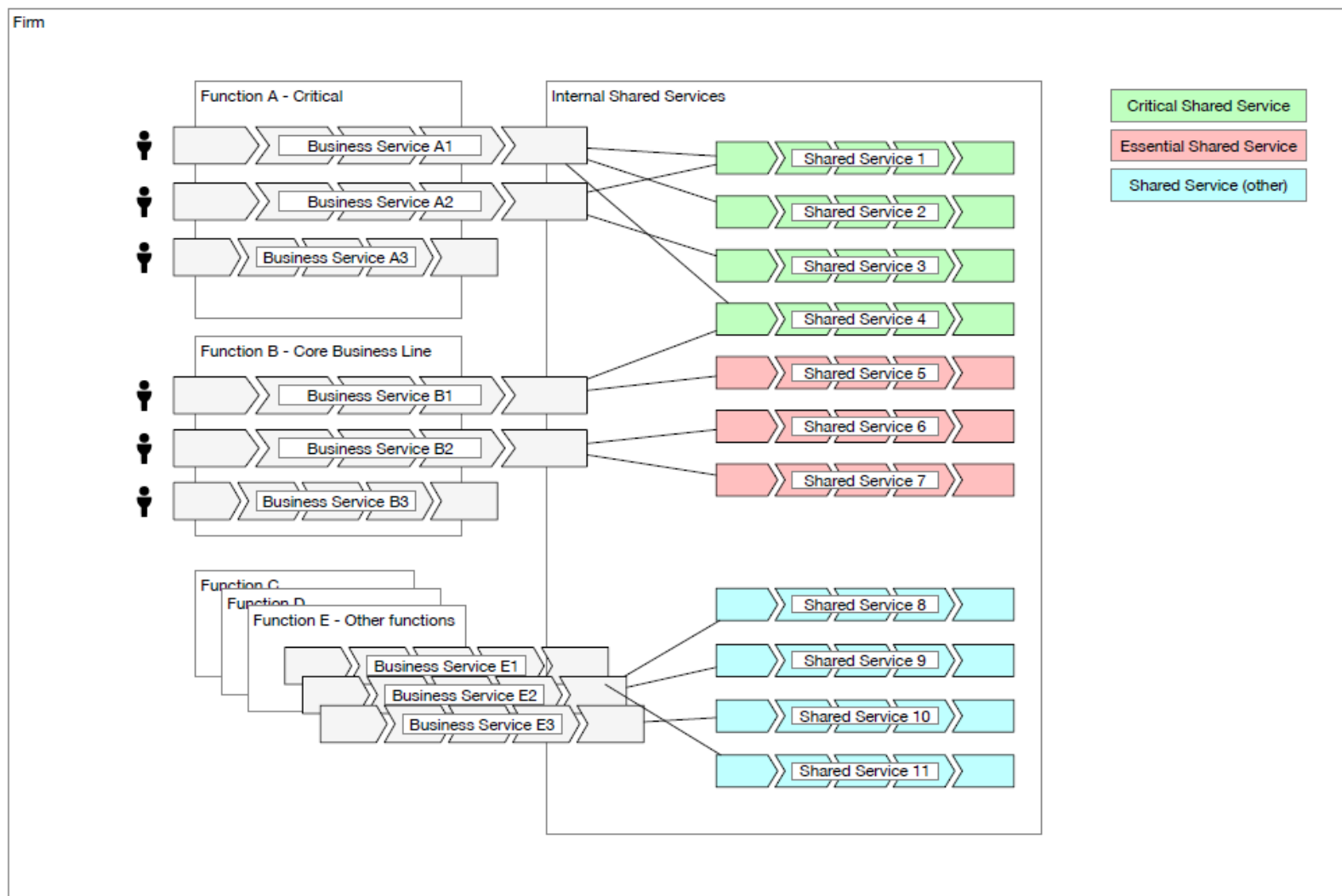
Taxonomy of Service Related Terms

To support alignment with common service-related definitions a taxonomy has been created.

Term	Source	Definition
Business Service	PRA CP29/19 FCA CP 19/32	A 'business service' is a service that a firm provides to an external end user. Business services deliver a specific outcome or service to an identifiable user and should be distinguished from business lines, such as mortgages, which are a collection of services and activities. They will vary from firm to firm.
Important Business Service	PRA CP29/19 FCA CP 19/32	An Important Business Service means a service provided by a firm, or by another person on behalf of the firm, to one or more clients of the firm which, if disrupted, could: <ol style="list-style-type: none"> 1. cause intolerable levels of harm to one or more of the firm's clients; or 2. pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of financial markets
Important Group Business Service	PRA CP29/19	Important group business services are provided to external group end users by any part of the group.
Critical Service	FSB Guidance on Identification of Critical Functions and Critical Shared Services	Critical shared services are activities performed within the firm or outsourced to third parties where failure would lead to the inability to perform critical functions and, therefore, to the disruption of functions vital for the functioning of the real economy or for financial stability. Examples include the provision of information technology given the dependency of core banking processes on IT and other services such as facility management and administrative services.
Essential Service	PRA CP20/20	'essential services' as those services which, if they were to fail, would lead to the collapse of, or present a serious impediment to, the performance of the firm's core business lines.
(Operational) Shared Service	FSB Guidance on Identification of Critical Functions and Critical Shared Services	Operational shared services do not involve financial resources, but provide the necessary infrastructure to enable the firm or parts of it to function. As such, they are not specific to a bank, but are found in non-financial firms as well.
Critical Operations	BCBS Principles for operational resilience	The term critical operations is based on the Joint Forum's 2006 high-level principles for business continuity. It encompasses "critical functions" as defined by the FSB11 and is expanded to include, activities, processes, services and their relevant supporting assets the disruption of which would be material to the continued operation of the bank or its role in the financial system. Whether a particular operation is "critical" depends on the nature of the bank and its role in the financial system.
Critical Functions	Critical Functions: SRB Approach	These are "activities, services or operations the discontinuance of which is likely in one or more Member States, to lead to the disruption of services that are essential to the real economy or to disrupt financial stability due to the size, market share, external and internal interconnectedness, complexity or cross-border activities of an institution or group, with particular regard to the substitutability of those activities, services or operations"
Core Business Line	EBA Technical Advice on Critical Functions and Core Business Lines	Business lines and associated services which represent material sources of revenue, profit or franchise value for an institution or for a group of which an institution forms part.

Visualising the service relationships

The diagram below helps illustrate the relationship between the different types of services firms are expected to identify



Identifying business services and important business services

Phased approach for the identification of business services and important business services under CP29/19 and CP 19/32

Stage	1 Information Gathering & Framework Design	2 Identify Business Services	3 Determine Importance	4 Map & Assign Ownership	5 Review & Iterate
Activity	<ul style="list-style-type: none"> Agree the purpose Obtain existing list of Critical Functions/ Critical Economic Functions and Core Business Lines – if available/ applicable Where these do not exist use existing product/ service catalogues or relevant product/ service taxonomy Design a framework to support and define Important Business Services 	<ul style="list-style-type: none"> Using the information gathered from stage 1 along with the industry principles, engage with appropriate stakeholders to identify business services Discuss selections at industry/ ORCG level to ensure consistency and appropriate levelling (PR01) 	<ul style="list-style-type: none"> Define criteria for assessing importance. Leverage the industry principles although the criteria used should be firm-specific Use the assessment criteria to identify important business services Define group important business services where these exist Obtain internal sign off from relevant stakeholders on the understanding that the selections made are subject to change 	<ul style="list-style-type: none"> Map important business services and capture dependencies/ resources which support delivery; facilities, people, processes, systems, data, third parties Define important (and group important) business service ownership model/ owners 	<ul style="list-style-type: none"> Selections are subject to change based on; changes to guidance/ principles, changes to business models, outputs from process mapping/ changes to dependencies, setting impact tolerances, scenario testing, self assessment etc.
Output	<ul style="list-style-type: none"> Set of critical functions and/ or product/ service catalogues to drive business service selections Framework to provide guidance on important business services 	<ul style="list-style-type: none"> Longlist of business services 	<ul style="list-style-type: none"> Shortlist of important business services with demonstrable supporting evidence for the selections made 	<ul style="list-style-type: none"> Process maps Business service owners and ownership model/ responsibilities matrix 	<ul style="list-style-type: none"> Finalised set of important business services and process maps with governance activities defined and embedded
Governance	Ongoing governance and assessment of important business services and process maps				
	E.g. Management.	E.g. Syndicated through relevant legal entity Board.	E.g. Syndicated through relevant legal entity Board.	E.g. Syndicated through relevant legal entity Board.	E.g. Management.

FCA Objectives: PS21/3 1.25 – 1.27

Market integrity:

Ongoing availability of business services reduces risk to market integrity. Operational disruptions pose risks to the soundness, stability and resilience of the UK financial system and the orderly operation of financial markets. Our final policy will help build the resilience of the market to continue to function as effectively as possible and quickly return to full operations following a disruption.

Effective competition:

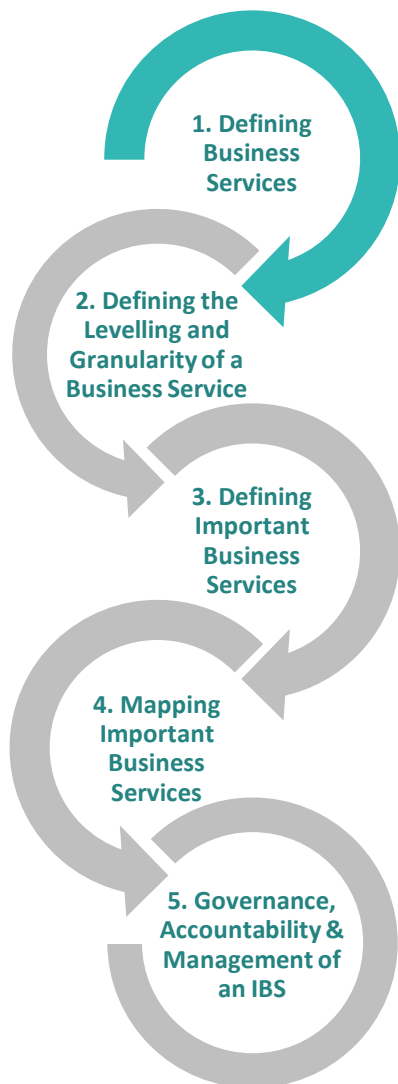
Resilient firms can promote effective competition. We consider that consumers may be more likely to choose firms that are more resilient to operational disruptions. This may drive firms to improve their operational resilience as one way to compete for, and keep, customers.

Consumer protection:

Ongoing availability of business services reduces consumer harm. In identifying their important business services, setting impact tolerances and restoring their important business services quickly after a disruption, firms can ensure consistent provision of important business services and supply of new business to consumers.

Principles For – Defining Business Services

To support the Financial Services industry in identifying important business services (IBS), a list of principles have been identified to support organisations defining a business service, an IBS, the appropriate levelling and granularity of a IBS, and for the governance, accountability, mapping and management of IBS.



- ❑ **PR01. Business services should be defined consistently to allow an assessment of systemic impact and to facilitate cross-industry comparisons.**

Why? – Consistency allows effective comparison and sharing for mutual benefit. While organisations don't have to use the identical service names or identical mapping, they should be able to demonstrate how they can align sufficiently to allow comparison. A list has been proposed as a starting point for defining generic business services and mapping them to FSB guidance on Economic Functions. This allows market & systemic impacts to be evaluated and supports consistency with other relevant regulation such as Resolution planning.

- ❑ **PR02. A business service must have a clearly defined external end user / set of users (“customers & consumers”) which allows for the identification of both distinct services and “instances” of such services where needed.**

Why? - This is to ensure we can understand the specific harm caused to the business service's consumers (direct and indirect), if the business service was degraded. E.g. If mortgage disbursement was impacted, the firms consumer would be directly impacted, as well as other consumers within the mortgage chain who would be indirectly impacted.

- ❑ **PR03. A business service must be provided to an entity external to the firm or group. Shared and internal services that are fundamental to the provision of the business service should also be captured, mapped, and tested.**

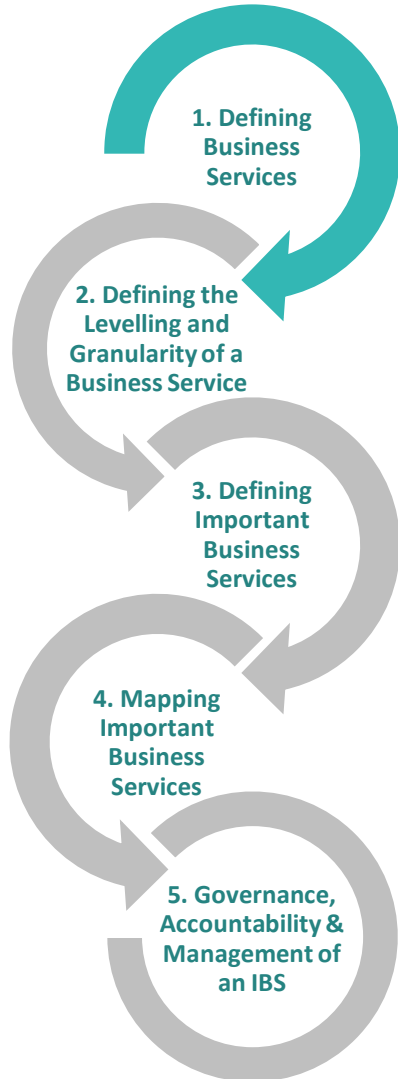
Why? – It is important to understand the context of failure from an external perspective. Internal shared services may underpin many external facing business services, and therefore should be included within the context of the business service as many times as required.

- ❑ **PR04. Business Services can be distinguished from supporting services or capabilities if they could be considered as providing value to consumers on a stand-alone basis. If a service has no consumer value on it's own then it is part of another business service.**

Why? – If a service cannot be offered to a customer without having to consume another service at the same time, then the articulation is probably too low level. This avoids introducing internal or shared services to the top level business service list, but also prevents activities, or stages within a business service such as KYC being called out separately.

Principles For – Defining Business Services (continued)

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- ❑ **PR05. Business services should be described in a way that is agnostic of the means of accessing the business service.**

Why? – Business service requirements should remain fairly constant. However, the channel used to access those business services will change depending upon market trends. Firms with single-channel business services will have different requirements for those business services which can be delivered through multiple channels. By focusing on a specific channel, the validity of multi-channel resilience may not be challenged sufficiently. Example: Access to Cash vs. Branch cash withdrawal.

- ❑ **PR06. For a business service to be valid the firm must be accountable for the provision of the service delivery. If there are any activities in which the firm acts only as an introducer, broker, or intermediary, regardless of the branding of the service, then the activity does not need to be included as a business service.**

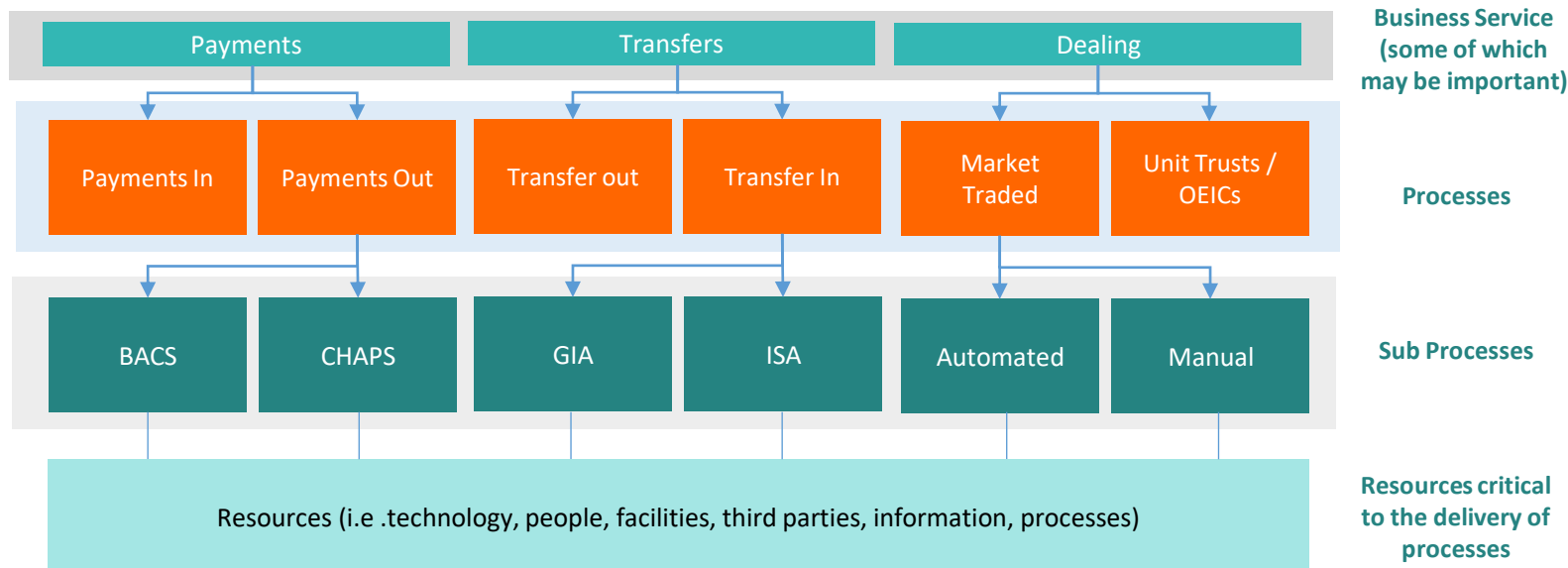
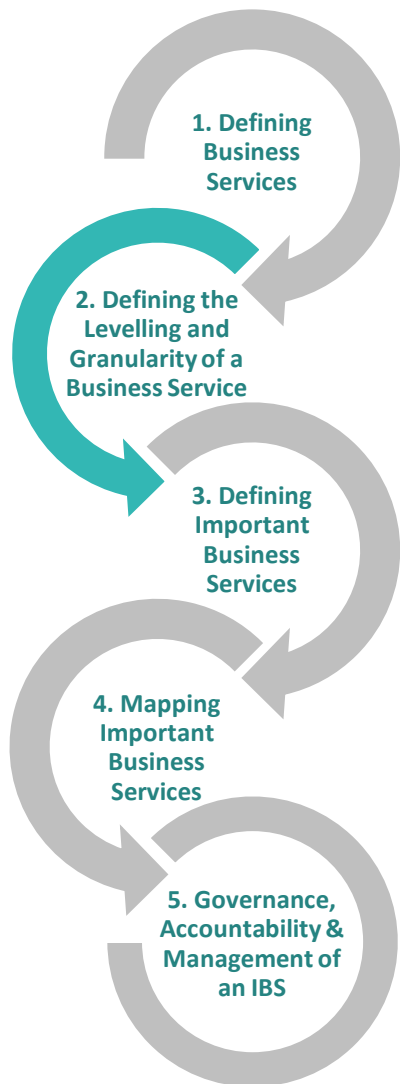
Why? – This will avoid a firm taking accountability for a service wholly owned by another entity. It could be that the service in question forms a business service for another firm, for example an insurance providers' product offered through a retail bank.

Principles For – Defining the Levelling and Granularity of a Business Service

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❑ **PR07. Business services are the highest-level a single consumer outcome can be achieved, distinguishable from individual product lines.**

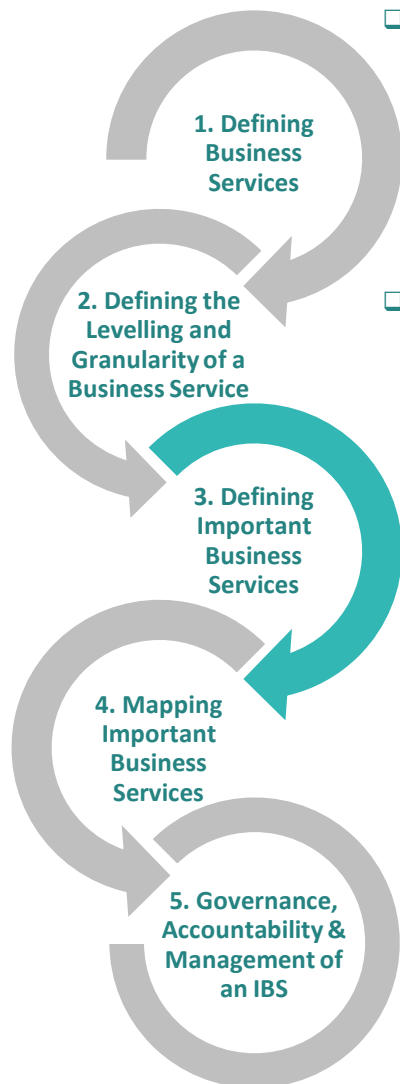
Why? – The failure of individual business services needs to be assessed, grouping of multiple business services identifies aggregate impacts, and can mask the importance of individual business services. If a business service is too low, or too high, there is risk of the following: 1 – preventing firms from being clear in how “harm” is caused / identified, 2- obscuring how organisations inherently seek/offer resilience through existing business services, 3 - increasing the number of business services considered as important, making the list unmanageable, 4 - ownership can be too junior to drive top down action or split across too many stakeholders, 5 - focuses moving to the component or asset level rather than on the adaptability of business services to achieve outcomes.



Note: mapping of these resources is expanded on further in PR.11 below

Principles For – Defining Important Business Services (IBS)

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- ❑ **PR08. There is no single correct answer to what is important – firms must be able to justify the criteria, metrics and thresholds for determining importance and be prepared to continuously iterate and refine their selection. Defining a time boundary within which intolerable harm is likely to materialise is one mechanism that firms can use to ensure focus on its most important business services. The approach adopted should be consistent across the firm.**

Why? – Firms must consider a proportionate response – ensuring that they apply an appropriate level of resilience given their significance to customers and markets. Flexibility and iteration is required as the understanding of services increases and the customer base, markets and firms themselves change.

- ❑ **PR09. For a business service, to be identified as an important business service, it should have an external end user and be expected to cause an intolerable level of harm (directly or indirectly to consumers or risk to market integrity) to:**

A. Consumers. Where the outcome of disruption passes significant inconvenience, constitutes harm of which consumers cannot easily recover, and is detrimental to one or more of the following:

- ✓ Physically or emotionally: disrupts access to basic needs e.g. food, utilities, transport, shelter
- ✓ Financially: loss of income/earnings, charges incurred, loss of opportunity, settlement of debt, disruption of supply
- ✓ Impact to vulnerable consumers: whether some users of a service are more vulnerable than others (pre or as a result of an event).

B. Firm Safety and Soundness / Economic Stability. Where the outcome of a disruption could lead to an impact on the safety and soundness of the firm leading to a systemic outcome that affects economic stability in a country or region, including:

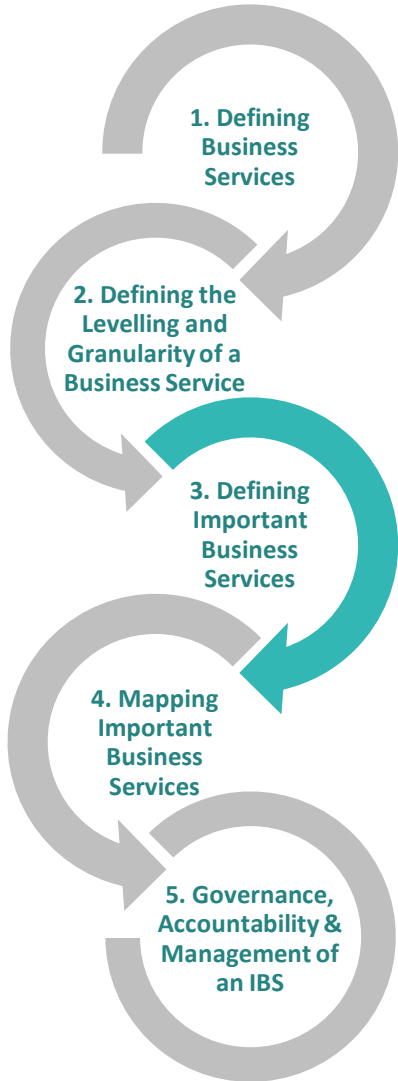
- ✓ Financial institution to lose its financial institution licence or liquidity
- ✓ General loss of confidence in the financial system
- ✓ Run on the financial institution
- ✓ Extreme regulatory censure
- ✓ Extreme firm reputational impacts
- ✓ Loss of confidentiality, integrity or availability of data
- ✓ Impact to capital

C. Market (recognised this may be uncommon in savings and investment firms, but should still be considered). Where the outcome of disruption detrimentally affects:

- ✓ Another organisations ability to function normally or
- ✓ The consumers of other organisations
- ✓ Confidence in the financial system

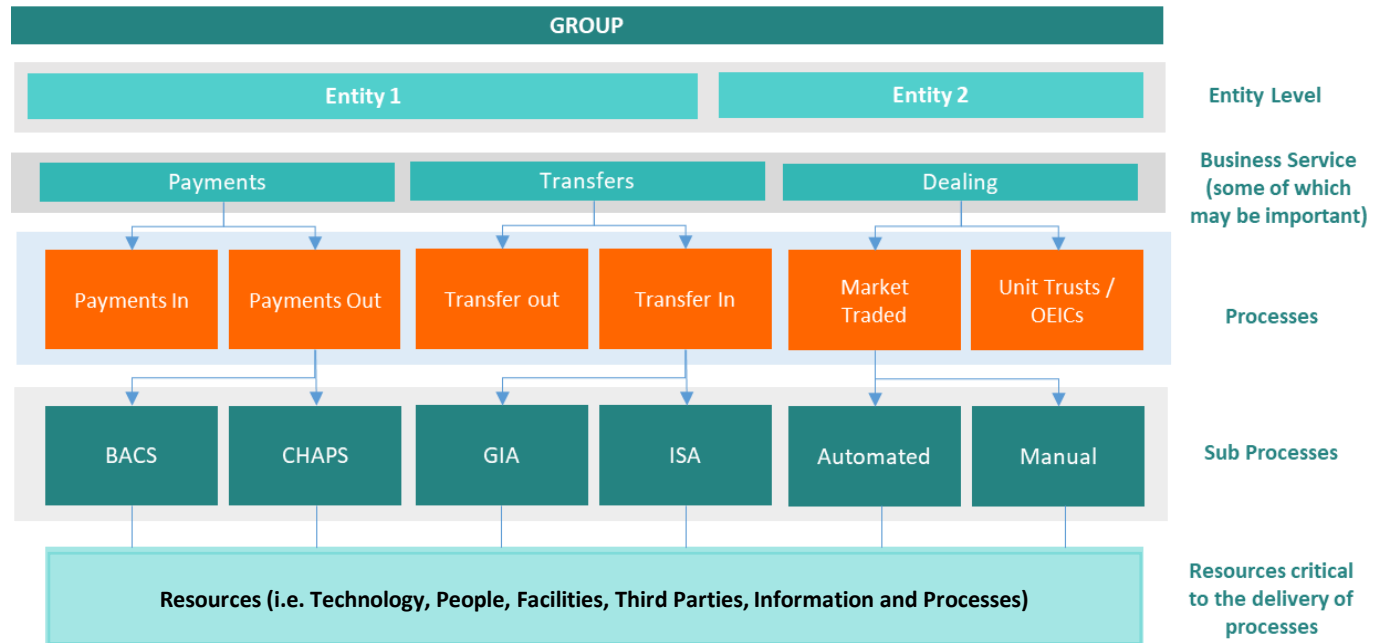
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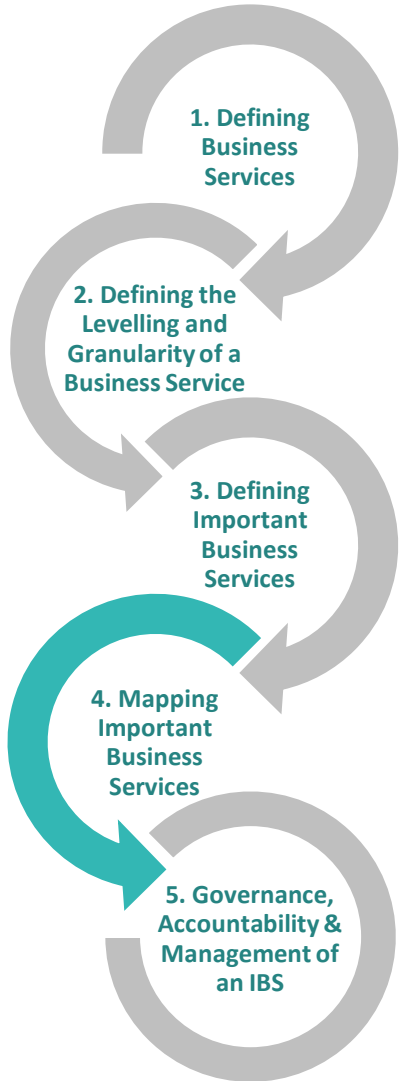
- ❑ **PR10. (if applicable)** Firms who form part of a wider Group structure may identify Important ‘Group’ Business Services in addition to regular Important Business Services. These are services delivered by a different entity within the group and in a different jurisdiction that may cause intolerable harm to another entity or financial market if they were to experience disruption. All other principles should still be applied when identifying Important Group Business Services as regular Important Business Services.

Why? – This regulation is focused on UK firms, however, it is possible that impact to non-UK services as part of a wider group structure could have impact on UK firms, markets or policyholders. This will not apply to all firms, and those it does apply to are likely to identify relatively few Group Important Business Services in comparison to their UK entity delivered services.



Principles For – Mapping Important Business Services (IBS)

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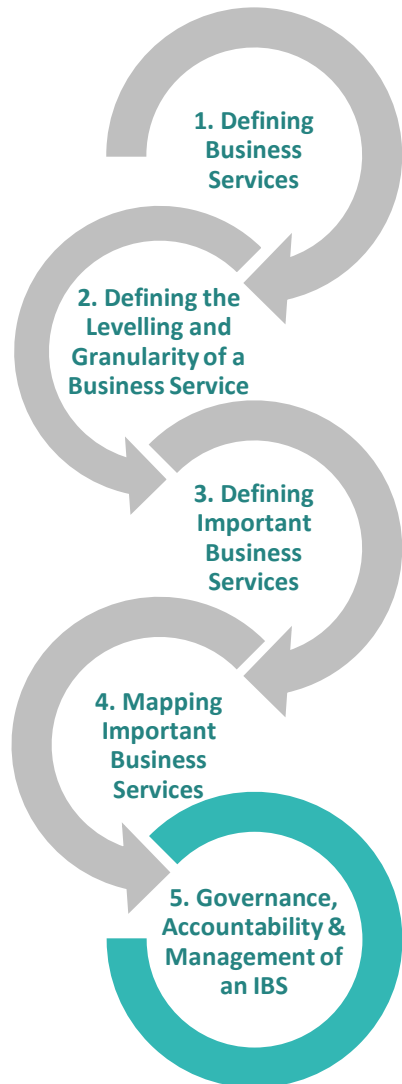
- PR11. Firms must map all assets (technology, people, facilities, third parties, information and processes) which critically support their IBS.

Why? - To ensure there is a robust control process in place, all assets which critically support your firms IBS must be mapped and stored in an easily accessible place. This allows all required members of the firm to access the information, have an accurate view of each asset and the level of resilience required, and allow for adequate assessments to be undertaken.

Change Resilience					
Security					
Technology	People	Facilities	Third Parties	Information	Processes
Which applications support your IBS? Which of these are critical to the delivery of your IBS, and do they require increased resilience? What physical technology is relied on?	Which colleagues are critical to the delivery of your IBS? Do they have sufficient knowledge and capability? Are there any key training requirements?	Which locations are critical to the delivery of your IBS? Do they have sufficiently robust resiliency measures and backup facilities?	Which suppliers/ third parties are critical to the delivery of your IBS? Do their internal policies meet your IBS required resiliency standards? Who are the 4 th / 5 th / non-suppliers?	Which data feeds are critical to the delivery of your IBS? Are there sufficiently robust resiliency measures in place?	Which processes are critical to supporting the delivery of your IBS? Are there sufficiently robust resiliency measures in place?

Principles For – Governance, Accountability & Management of an IBS

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- ❑ **PR12. Important business services should each have an accountable person / owner, at a senior level within the organisation.**

Why? - Because the accountable business area is responsible for the resilience of their services and must have a holistic view of end to end resilience capabilities and risks, so that Important Business Services can remain within their Impact Tolerance. Accountable person needs to have enough seniority to make recommendations to the SMF24 or equivalent. The SMF24, where there is one, could be the accountable senior person for Operational Resilience, but they may have others feeding in to facilitate.

- ❑ **PR13. Organisations must be clear on the responsibility and accountability for setting Impact Tolerances, Mapping, Testing, Addressing identified vulnerabilities and Self-Assessment of each Important Business Service.**

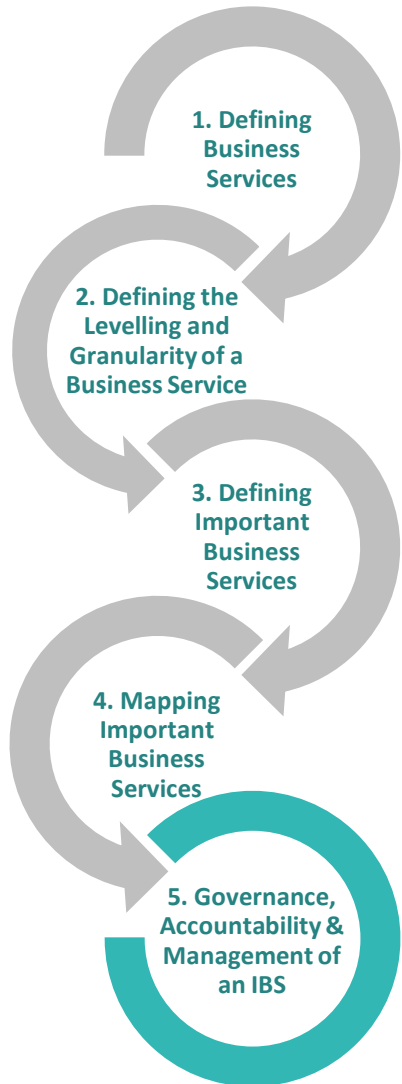
Why? – Complex, siloed delivery models can lead to gaps in understanding the resilience of business services. Understanding the detail of who is accountable and responsible for ensuring business services are resilient reduces the likelihood of gaps. Nominating a single accountable owner may be a good way of meeting this principle, however this is optional and firms can decide the best way which suits them.

- ❑ **PR14. An organisation’s important business services should be reviewed at least annually, or sooner if a material change has occurred, and approved by the organisation’s Board or governing body.**

Why? – Firms, markets and the operating environment (including threats) are constantly evolving. This means that the importance of existing services may alter (higher or lower importance), or new services may be introduced. An example of a material change would be a firm beginning to carry out a new activity, and/or ceasing to provide an existing activity, or outsourcing a new or existing service to a third party provider.

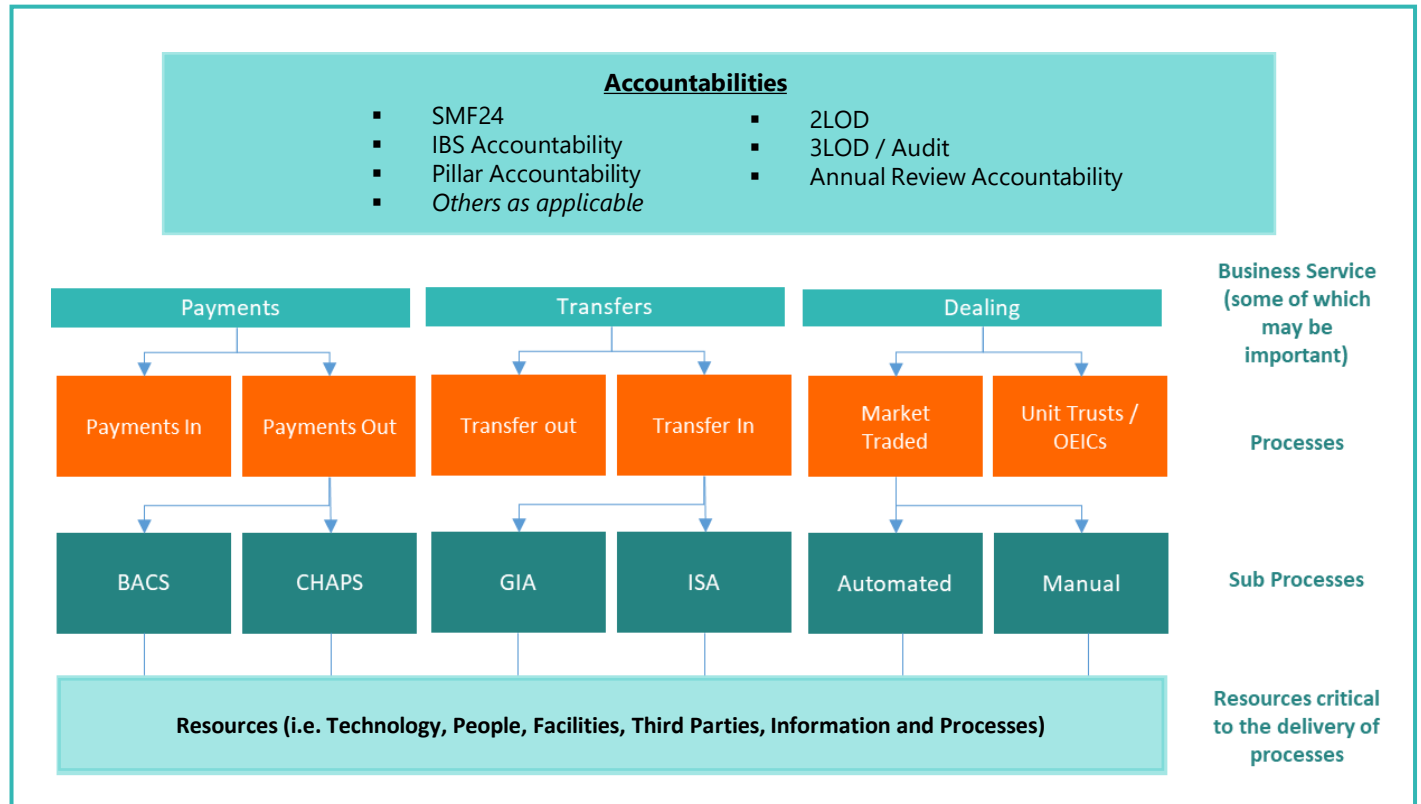
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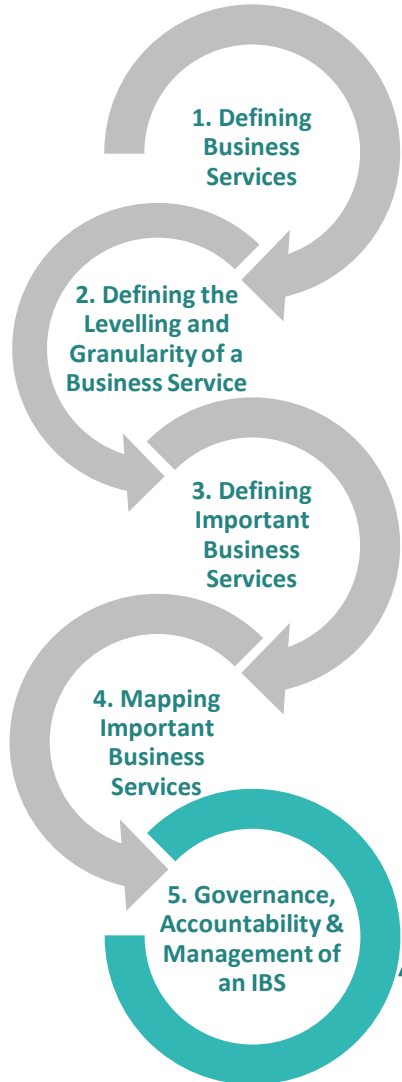
- PR15. Senior management (including relevant Senior Managers) should be able to demonstrate clear accountability for the firm’s operational resilience framework, with delegations and shared responsibility being well-articulated. Role-holders should have sufficient authority, expertise, resources and access to the board for reviewing and approving the firms operational resilience self assessment.

Why? To ensure robust, clear governance and accountability of operational resilience throughout the organisation.



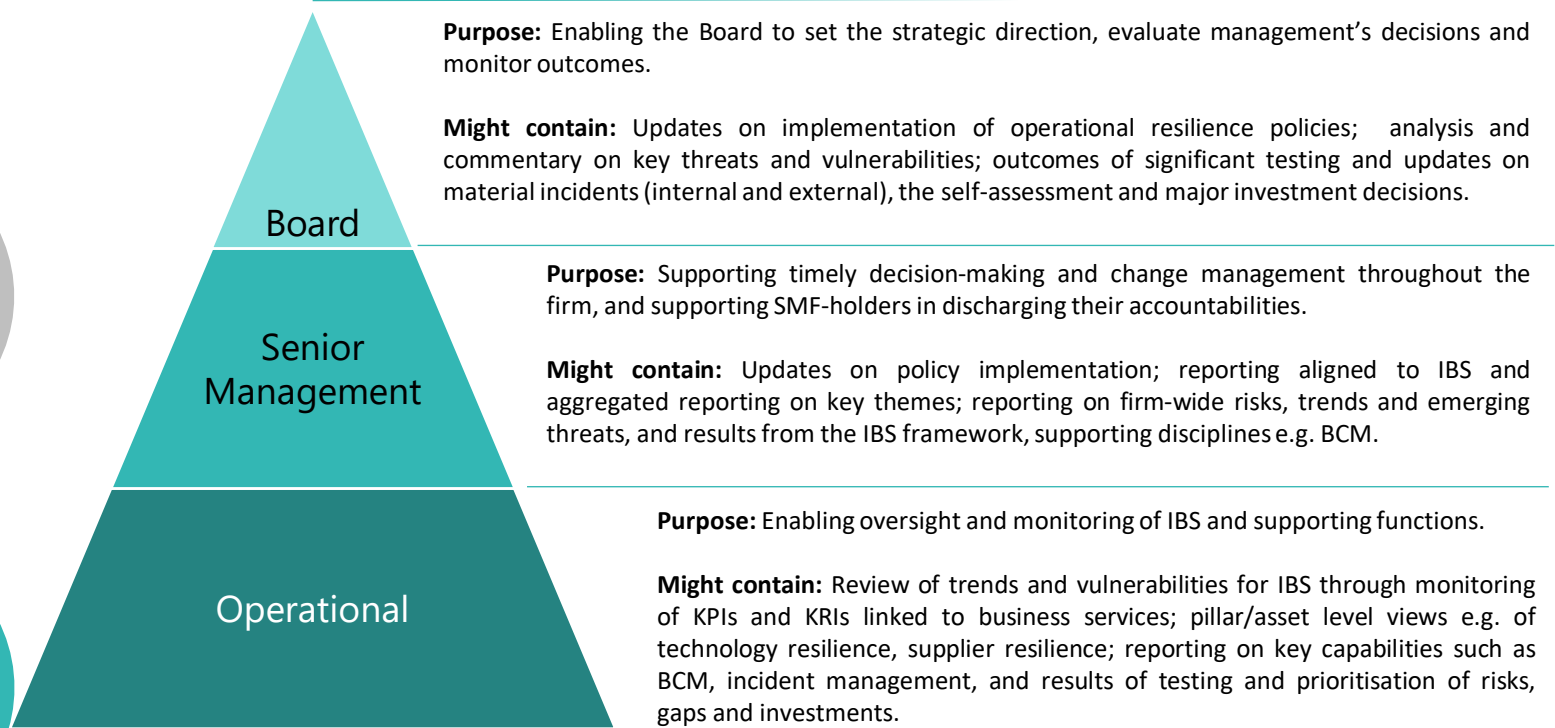
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- ❑ **PR16. There should be a meaningful, end-to-end flow of information on resilience related matters within the firm which enable effective direction, evaluation, monitoring and management of operational resilience outcomes.**

Why? To ensure sufficient reporting metrics are defined, and the correct colleagues are accountable to support management of operational resilience. It is also important to enable Senior Managers and Boards to evidence that they are discharging their accountabilities effectively.



**Indicative principles for differing levels of reporting as part of the operational resilience framework*