



A Journey To Operational Resilience

Terry Downing, Resilience Manager & Head of Operational Resilience, Legal & General

Thursday, 21 April 2022



A Word From Today's Chairman

Professor Michael Mainelli
Executive Chairman
Z/Yen Group





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Today's Agenda

- 16:00 – 16:05 Chairman's Introduction
- 16:05 – 16:25 Keynote Presentation – Terry Downing
- 16:25 – 16:45 Question & Answer



Today's Speaker

Terry Downing
Resilience Manager & Head
of Operational Resilience
Legal & General





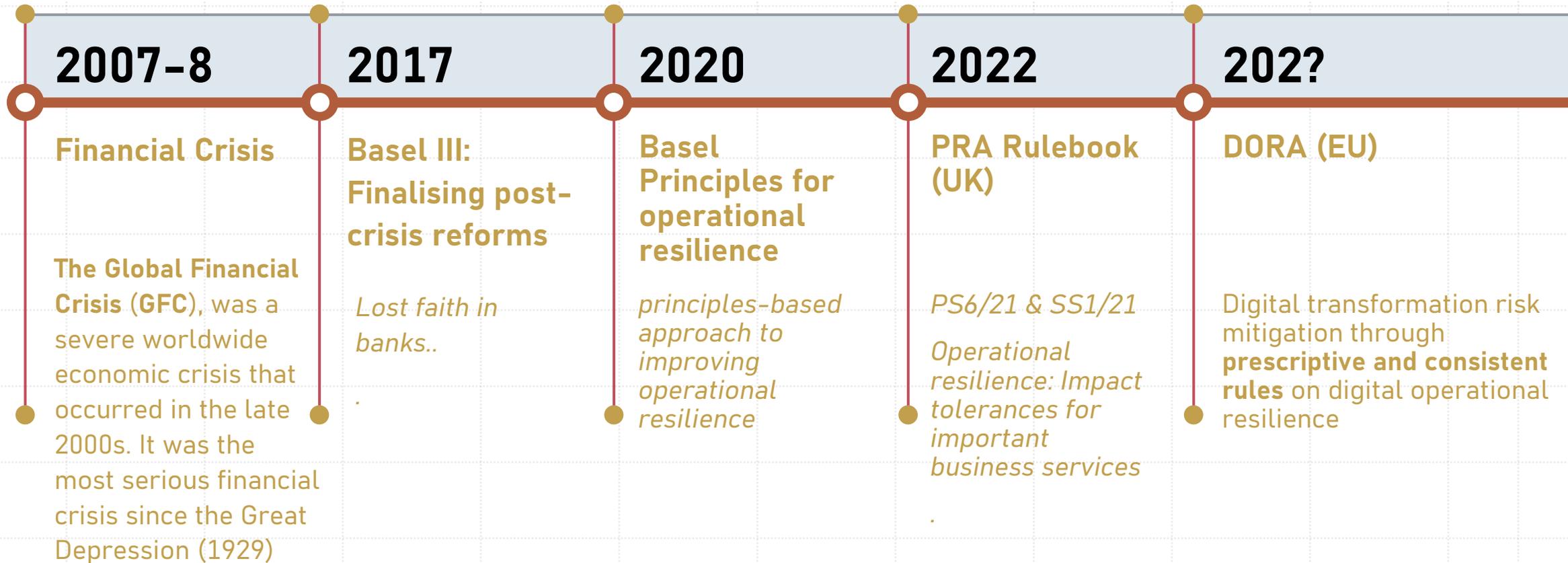
A Journey to Operational Resilience.

Terry Downing FBCS F.ISRM MBCI CITP CBCP NCSP



These are my personal observations or views and not necessarily those of my current or past employers.

Timeline



Where do these Regulations come from?

Due to the global financial markets crisis of 2007 -2009 , terrorism, pandemics and numerous other impacts, the worlds governments via their regulators are drafting and implementing regulations to ensure that the financial services markets are resilient.

Regulations are coming from:

- Financial Authorities
- European Central Bank
- European Banking Authority
- Basel Committee in Banking Supervision
- International Organisation of Securities Commissions
- International Organisation of Insurance Supervisors
- Bank for International Settlements
- Country Banks i.e. Bank of England
- UK Prudential Regulation Authority (PRA)
- UK Financial Conduct Authority (FCA)

“Guidelines” came in to force as of the 30th September 2019 prior to regulations.

What does the Regulations say?

- **EBC Basic High Level Principles (Extract):**
 - The financial institutions should look at financial systems as a whole and not what is outsourced.
 - The financial institutions are responsible for their services irrespective to outsourcing of elements of their infrastructure.
- ▶ **Ultimate responsibility for Business Continuity Management rests with the organisations board of directors.**
- Regulatory concerns about the risks of outsourcing.
- *Business continuity plans should develop, implement and maintain a **regular business continuity exercise encompassing critical operations and their interconnections and interdependencies, including those through relationships with, but not limited to, third parties and intra-group entities.***
- *Among other business continuity goals, business continuity exercises should support **staff's operational resilience awareness including training of staff**, so that they can effectively adapt and respond to incidents.*
- **Firms should formalise their relationships with 3rd parties and intra-group entities through written agreements which should cover how to maintain operational resilience in both normal circumstances and in the event of disruption.**
- *These written agreements should reflect: the respective functions' due diligence; banks' supervisory and resolution authorities access to third parties; and the bank's operational resilience expectations*
- *Firms should develop appropriate business continuity and contingency planning procedures **and exit strategies** to maintain their operational resilience in the event of a **failure or disruption at a third party impacting the provision of critical operations.***
- *Scenarios under the bank's business continuity plans should assess the substitutability of third parties that provide services to the bank's critical operations, and other viable alternatives that may facilitate operational resilience in the event of an outage at a 3rd party, such as bringing the service back in-house.*

New World ways of Business

Traditional vs. Digital

▪ Traditional

- Product(s) focus
- Transactional not Relational
 - **One and done**
 - No idea who the consumer is (example MS Office package)
- Repeatable
- Standard
- Quality
- Stove pipe
- Waterfall
- Slow to turn
- Little Cyber attack surfaces (pre-Internet)

▪ Digital

Its not all about the "App"

- Service(s) focus
- Service Relationship and/or Partnership
 - **Not one and done**
 - Knows the consumer very well (O365 service)
- Repeatable
- Standard and tailored products/services
- Quality
- Value Stream
- Agile
- Quick to change
- Increased Cyber attack surfaces
- ***Its not the Big that eats the Small anymore***
- ***The Quick eats the Slow!***

What do you need to know and do?

Operational Resilience

- **identified your important business services** that, if disrupted, could cause intolerable harm to consumers of your firm or risk to market integrity, threaten the viability of firms or cause instability in the financial system
- **set impact tolerances** for the maximum tolerable disruption to these services (NOT RTO or RPO)
- **carried out mapping and testing** to a level of sophistication necessary to identify important business services, set impact tolerances and identify any vulnerabilities in its operational resilience
- **conducted** lessons learnt exercises to identify, prioritise, and invest in your ability to respond and recover from disruptions as effectively as possible
- **developed** internal and external communications plans for when important business services are disrupted
- **prepared self-assessment documentation**

What is an IBS anyway?

IBS Criteria

Each Important Business Service is set an Impact Tolerance, which is a maximum tolerable period of disruption.

Regulator (PRA, FCS, BoA) Requirements

- First, firms should identify their important business services and map successful delivery back to the key underlying resources,
- Second, they should test their ability to withstand a severe event with reference to an impact tolerance, and
- Third, they should use the test results to identify resilience gaps - and make investment choices that increase their ability to provide these important business services - **even when severe disruptive events happen.**

What does Impact Tolerance mean?



Operational Resilience Collaboration Group Impact Tolerances

[Financial Conduct Authority FC21/1 Guidance for firms on the fair treatment of vulnerable customers](#)

Intolerable Harm

Consumer is seeking litigation

Firms may be unable to put their consumer back into the correct financial position

Consumer has suffered a consequential loss or financial impact

An impact causing significant distress to the end-investor

Harm

Consumer is disadvantaged and dissatisfied

Adverse financial situation has been put right by the firm

Protracted disruption that has been resolved

Inconvenience

No adverse financial impact

Short term effect

Consumer issue has been rectified, but is still unhappy

What by When?

FCA- PS21/3: Building operational resilience: Feedback to CP19/32 and final rules

IBS Mapping

"In response to consultation feedback and to make it easier for firms to implement the mapping requirements, and to a sufficient level of detail, we have changed the final requirements in this area.

*We have included a transitional provision at SYSC TP 10 setting out our expectation that firms only need to carry out mapping, **by 31 March 2022**, to a level of sophistication necessary to identify important business services, set impact tolerances and identify any vulnerabilities in their operational resilience.*

*Firms will then have **until 31 March 2025**, at the latest, to continue performing mapping with a view to being able to remain within impact tolerances for each important business service."*

<https://www.fca.org.uk/publication/policy/ps21-3-operational-resilience.pdf>

How much testing?

FCA- PS21/3: Building operational resilience: Feedback to CP19/32 and final rules

Frequency of Testing 5.16

<https://www.fca.org.uk/publication/policy/ps21-3-operational-resilience.pdf>

"We have changed the frequency of testing requirement at SYSC 15A.5.7R. *Our final rules do not require testing to be undertaken at least every year as proposed. Instead, firms are required to scenario test when:*

- *there is a material change to the firm's business, the important business services identified in line with SYSC 15A.2.1R or impact tolerances set in line with SYSC 15A.2.5R*
- *following improvements made by the firm in response to a previous test*
- *in any event, on a regular basis.*

This approach recognises the benefits of providing firms greater flexibility to tailor the frequency of testing to the characteristics of the important business service concerned.

We expect firms to set the frequency of their scenario testing prudently and in a way that meets the ultimate goals of the policy.

We have also removed 'any' from 'following any improvements made by the firm in response to a previous test' to clarify that firms can be proportionate about the improvements they need to make in this situation."

What does “Contingency /Exit planning” mean?

SS2/21 page 39

SS2/21 comes into effect on Thursday 31 March 2022. For more information, please see: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/outsourcing-and-third-party-risk-management>

The PRA identified the following good practices, which insurers may wish to consider when conducting their contingency planning:

- Evidence of awareness of the challenges of utilising step-in rights where there are shared services.
- Evidence that the contingency plans had been signed off at an appropriately senior level given the criticality of the outsourced service.
- A list of named contacts and details of individuals and teams responsible for implementing the contingency plan.
- **Evidence that contractual provisions took contingency planning into consideration, for instance, by including provisions on:**
 - ⑩ **step-in rights;**
 - **provisions to transfer employees of the service provider to the insurer under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE); and**
 - ⑩ **access by the insurer to necessary data and systems of the service provider.**
- Consideration of a range of scenarios in which a contingency plan may need to be used, including:
 - ⑩ financial and/or operational failure of the service provider; and
 - ⑩ if the service provider enters or is at risk of entering into administration or liquidation.
- **An assessment of the:**
 - **substitutability of the service being outsourced;**
 - **availability of alternative service providers;**
 - **cost and resource implications of implementing a given contingency plan. For example, if an insurer intends to bring an outsourced service back in-house as part of its contingency plan, it should consider whether it would require more staff, where these staff would be based, and whether the necessary infrastructure is in place to support its continued delivery of the service; and**
 - ⑩ **time it would take to implement a given contingency plan.**
- Evidence that key assumptions made in the assessments have been tested.

Terrys Tips for Operational Resilience

- *Operational Resilience is focused on the protection of **Value** to the consumer.*
- *Operational Resilience is not instead of Business Continuity.*
- *Operational Resilience is the overarching framework that includes:*
 - Business Continuity
 - Business Resumption
 - Disaster Recover
 - Cyber Response
 - Incident to Crisis Management
 - Risk Management
- *This is Business Risk Management NOT Compliance*
- *OpRes is NOT One and Done.*
- *Work with your Regulators (they are on a learning journey too).*
- *View your Important Business Services holistically not via vertical or siloed departmental structures.*
- *You must include all Material Outsourcers (MO) with an Exit Strategy and Plan(s) that are validated.*
- *Each IBS, should have a Senior Business Director holistically responsible to the board (Ownership).*
- *Embed Operational Resilience in all aspects of Business Management including:*
 - Strategic Reviews
 - Project Management
 - Change Management
 - Risk Management
 - Communications
 - Continuous Improvement
- *Have a Learning Culture . Educate Everyone*
- *Validate all plans regularly and after every major change. Does not mean annually!!!*
- *Formalise collection of evidence for everything including IBS identification.*
- *One single source of truth (DATA)*
- *Start with one IBS*
- *Simplify your approach once it works for one.*
- *Automate where appropriate but don't lose the human knowledge.*



Q & A

Thank you

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Comments, Questions & Answers





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Thank You For Listening

Forthcoming Events

- Tue, 26 Apr (11:00-11:45) Nature As The Next Wave
- Wed, 27 Apr (15:00-16:00) Global Security Challenges: What Is Achievable To Make Us Safe?
- Thu, 28 Apr (09:00-10:00) Launch Of The Global Green Finance Index 9
- Wed, 04 May (11:00-11:45) Two More Certainties In Life & How They Will Impact Financial Services

Visit <https://fsclub.zyen.com/events/forthcoming-events/>

Watch past webinars <https://www.youtube.com/zyengroup>
<https://app.pzaz.tv/app/pzaz/store/zyentv>

Bibliography

- Basel Committee Banking Supervision (BCBS)
 - High-level principles for business continuity
 - Outsourcing in Financial Services
- UK Financial Services Authority- Interim Prudential Sourcebook for banks.
- Prudential Regulation Authority (UK)
 - PRA Rulebook
- Financial Conduct Authority (UK)
 - FCA FG21/1 Guidance for firms on the fair treatment of vulnerable customers
- Bank of England
- European Banking Authority
- European Union
- ChicagoFIRST

Regulations Links

⑩ [Supervisory Statement | SS1/21 Operational resilience: Impact tolerances for important business services](#)

*4.12 The Operational Resilience Parts are effective from Thursday 31 March 2022. By this point, firms must have **identified their important business services** and **set impact tolerances**. In order to achieve this, and to **identify any vulnerabilities** in their operational resilience, firms should have **mapped their important business services** and **commenced** a programme of scenario testing.*

4.13 Firms are not expected to have performed mapping and scenario testing to the full extent of sophistication by Thursday 31 March 2022. Both mapping and scenario testing are ongoing processes, and firms are expected to perform them at varying levels of sophistication over time. The PRA expects that firms' approaches to both mapping and scenario testing should evolve over time.

⑩ [Supervisory Statement | SS2/21 Outsourcing and third party risk management](#)

⑩ [PRA Rulebook](#)

⑩ [Policy Statement | PS6/21 Operational resilience: Impact tolerances for important business services](#)

⑩ [Supervisory Statement | SS35/15 Strengthening individual accountability in insurance](#)

⑩ [Financial Services and Markets Act 2000](#)