ROBUST OPERATIONAL RESILIENCE

Suzanne Allen

AGENDA

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Defining Operational Resilience

Operational Resilience Process

Addressing the Challenges of Operational Resilience

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INTRODUCTION

Strengthen Operational Resilience & Power Business Continuity With Robust Risk Strategies That Can Absorb & Adapt To Financial Shock & Disruption

- Which robust operational plans enable risk and compliance teams to deliver essential services that strengthen disaster recovery and mitigate impact?
- Power risk leaders to collaboratively monitor and manage emerging risks to strengthen operational continuity and deliver collaborative action across all three lines of defence
- Review impact tolerances and which operational vulnerabilities need attention to secure resilience investment for efficient operational risk strategies

DEFINING OPERATIONAL RESILIENCE

Resilience derives from the Latin word **"resilire"** which means to recoil or rebound.

"The ability of firms and financial market infrastructures (FMIs) and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions." (FCA)

"Both a process and a characteristic of an organization to adapt rapidly to changing environments and needs. It is an organizational trait that allows it to carry out its mission or business despite the presence of operational stress and disruption. In other words, it is the organization's ability to handle and control external factors that may hinder it from functioning." (Technopedia)

"The ability of an organization to absorb and adapt in a changing environment." (ISO2236 Standard)

***"Operational Resilience is defined as the ability of a bank to deliver critical operations through disruption."
(Basel Committee on Banking Supervision)***

Operational Risk vs Operational Resilience

Operational risk *is, as its name suggests, a risk. Its management is a process which results in acceptance, mitigation or avoidance of risk and of course a commensurate level of financial resources, both capital and liquidity, to manage this…**Operational resilience** on the other hand is an outcome."*

In other words, operational risk relates to the identification of particular types of negative outcome which may arise, and which firms must seek to manage or mitigate. By contrast, operational resilience is a goal – a resilient organisation is one which is able to respond appropriately and effectively when its business activities are threatened by operational disruption.

"Operational resilience is not about protecting the reputation of your firms or the reputation of the industry as a whole. It is about preventing operational incidents from impacting consumers, financial markets and the UK financial system." (Megan Butler, FCA)

OPERATIONAL RESILIENCE PROCESS

Before considering the various elements in more detail, it may be helpful to give an overview of the process. The FCA has summarised what it expects of firms in terms of three steps:

1. Firms should identify their important business services and map successful delivery back to the key underlying resources.

2. They should test their ability to withstand a severe event with reference to an impact tolerance.

3. 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 severely disruptive events happen.

The above definitions highlight the key characteristics of operational resilience. These are:

We need to be resilient to stressful and disruptive "shock" events, including events that result in a changed environment. These are referred to as "scenarios".
We need to be able to absorb/handle/control the events.
We need to be able to adapt to any new normal.

This gives rise to the five key focuses of operational resilience:
1. Prevention: Prevent your organization from being affected or impacted by the shock.
2. Robustness: If you are impacted, be robust by minimizing how the shock affects you.
3. Recovery: If you are severely impacted by the shock, recover quickly.
4. Adaption: If a new normal arises from the shock, be able to adapt.
5. Learning: Learn from the experience to become more resilient.

ADDRESSING THE CHALLENGES OF OPERATIONAL RESILIENCE

6 ways to address the challenges of operational resilience

1. Define the relationship between operational risk management and operational resilience

2 Clear definitions and terminology will support the industry and allow collaboration

3. Decide whether to rank criticality of business services and how

4. Use existing operational risk management practices to embed resilience

5. Get the correct level of granularity when defining important business services

6. Consider what is important to the firm, the customer, and regulatory and market requirements

OPERATIONAL RESILIENCE REGULATIONS

The Financial Services Industry over the last 3 years, has focused heavily on operational resilience.

To date, the key sources of this focus have been:

1. Financial conduct authority (FCA): Building operational resilience December 2019
2. Basel committee on banking supervision: Principles of operational resilience March 2021
3. Prudential regulation authority (PRA): March 2021
4. European council: Digital operational resilience act
5. Federal reserve: Sound practices to strengthen operational resilience

THANK YOU

Suzanne Allen

https://www.linkedin.com/in/suzanne-allen-risk-manager/