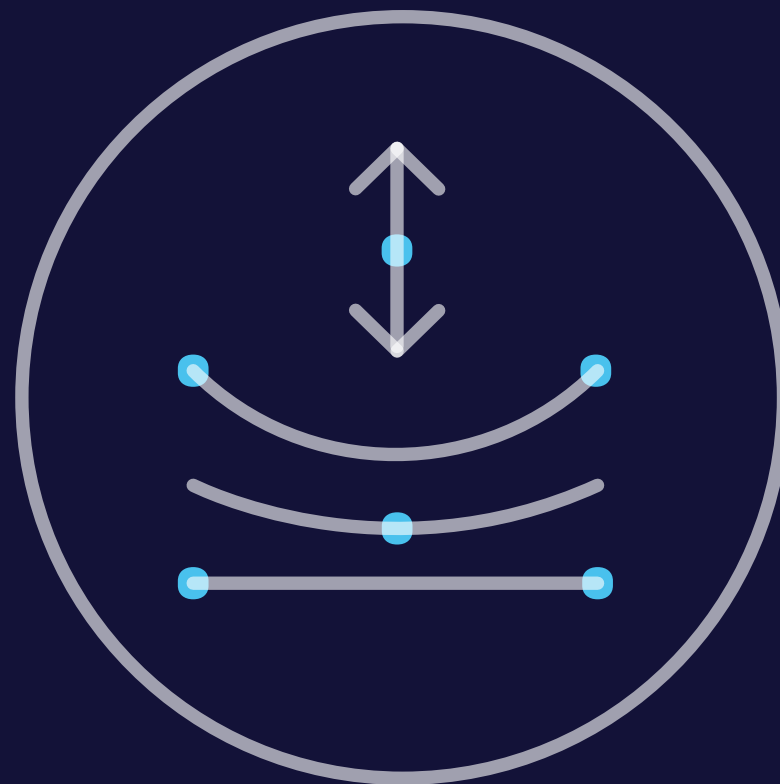O.R.X

Operational resilience

Addressing the regulatory challenge
Summary report

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This resilience study is part of the "strategic development" area of our world-leading research programme, where we explore topics of strategic focus for financial institutions.

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Executive summary

Introduction

Operational resilience has been an area of increasing focus within the financial services industry for a number of years.

More specifically, regulatory attention has been on resilience around technology, information security, cyber and outsourcing risks. However, more recently and led in the main by UK regulators, the operational resilience perspective is shifting from being focused on improving preventative controls and reducing risk exposure to ensuring that institutions can respond to and manage the impact of disruptive events. This assumes that they will occur at one time or another, and institutions are being encouraged to learn and adapt through times of significant disruption.

Published in August 2020, the Basel Committee on Banking Supervision (BCBS) consultation paper on its **principles for operational resilience** has ignited the debate at a global level. In addition to this, the ongoing coronavirus (Covid-19) pandemic has also tested organisations' and the wider industry's ability to manage during disruption, meaning that operational resilience is a topic of focus in Boardrooms.

Following discussions with ORX members, this study – ORX's first study on operational resilience – is designed to support responses to the requirements set out in the UK Bank of England (BoE), PRA and FCA **consultation paper** (CP). More widely, it is also designed to support the application of consistent practices in operational resilience across the ORX operational resilience member community.

The study results, as well as subsequent member working group discussions, have found that overall organisations are still in the early stages of their journey of embedding operational resilience into their risk frameworks, culture and wider business strategies. ORX has identified several challenges facing the industry and have found a number of unanswered questions that will need to be addressed as industry practice matures.

Although this research has been conducted primarily with UK active institutions and is focused on aspects of the UK operational resilience regulation, we think the challenges identified will have industry-wide implications as practice develops across the globe. ORX intends to undertake further work with the membership to support addressing these challenges.

About this report

This is the highlights of a study we ran with some of the financial organisations who make up our membership. Our members wanted to better understand the direction of travel within the industry with regards to operational resilience and, in particular, progress towards compliance with the BoE regulation.

To support them, ORX carried out this first study primarily focused on providing further understanding of industry approaches to, and progess with, identifying "important business services". The survey was completed by 20 individual member organisations.

The study, along with a subsequent webinar discussions with participants, sought to both share practices and highlight key challenges that organisations face on the journey to embed operational resilience.

How would you describe your organisation with regards of operational resilience?

70% of members:

'in planning/ development'

30% of members:

'established and up and running'

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Key challenges identified

Defining the relationship between operational risk management and operational resilience

Understanding where and how operational resilience fits into organisational models, from roles and responsibilities through to governance and reporting, will be crucial to determining this relationship. Although it is widely agreed that operational resilience is an outcome of effective operational risk management, many are still treating operational resilience as a separate component of operational risk management. A key challenge will be ensuring that a silo structure is avoided and that, whatever approach is taken, synergy between the two is achieved.

Clarity of definitions and terminology will further support the industry, creating a platform on which to collaborate further

As more definitions are released, albeit similar, differences are starting to create confusion and disparity in how operational resilience is approached. For example, UK regulators are promoting a view of creating resilient end-to-end (important) business services. In contrast, the BCBS references "critical operations". Reaching industry and regulator-wide consensus on definitions will be difficult to achieve, but streamlining how operational resilience key terminology is defined would be valuable.

Ranking criticality of important business services – hindrance or help?

The research and discussions with members highlighted that the way in which important business services[1] are defined, identified and/or managed varies across the industry. Some organisations are calculating, weighting, ranking and prioritising certain activities, while others are taking the view that once defined as important/critical, work to achieve resilience is a must. The industry as a whole would benefit from further discussions and collaboration in this area.

Adopting operational risk management frameworks and methodology to fit an operational resilience lens will not be straightforward

Businesses agree that leveraging existing operational risk management practices is crucial to the effective embedding of operational resilience. However, discussions with members suggest that this is not straightforward in practice. Scenario development and testing, as well as adapting existing risk and control self-assessments to include an operational resilience perspective, are proving particularly challenging.

Getting the correct level of granularity when defining important business services will be a fine balancing act for all firms

For firms falling under UK regulation, being able to set and test impact tolerances will be the determining factor when defining the level of granularity at which important business services are defined. The majority of firms are considering 'the point of harm' as part of the process, however the methodology used varies greatly with no single view of important business services which could be adopted. It was instead agreed that a blend of approaches would be beneficial.

Balancing what is important to the firm and what is important to the customer and the wider market could lead to confusion and discord

UK regulation is highly geared towards ensuring the impact of disruption to the end customer is mitigated. Firms could find themselves conflicted around how to make strategic operational resilience decisions and setting priorities, while protecting their organisation and the wider market.

[1] In this instance, used interchangeably with critical operations, critical business services and other terminology

Managing risk together

ORX believes many heads are better than one. We're here to bring the best minds of the international operational risk community together.

By pooling our resources and by sharing ideas, information and experiences, we can learn how best to manage, understand and measure operational risk and become less vulnerable to losses. We work closely with over 100 member firms to develop a deeper understanding of the discipline and practical tools. We set the agenda, maintain industry standards, and garner fresh insights.

ORX is owned and controlled on an equal basis by its members.

For more information about ORX, visit our website at **www.orx.org**

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