SICSIC ADVISORY
FINANCIAL SERVICES
RISK & REGULATION

Operational resilience in insurance and asset-management

October 2021

INTRODUCTION

Financial organisations, including insurers, intermediaries and asset managers are expected to be able to demonstrate operational resilience in the same way they plan, manage and report on financial resilience.

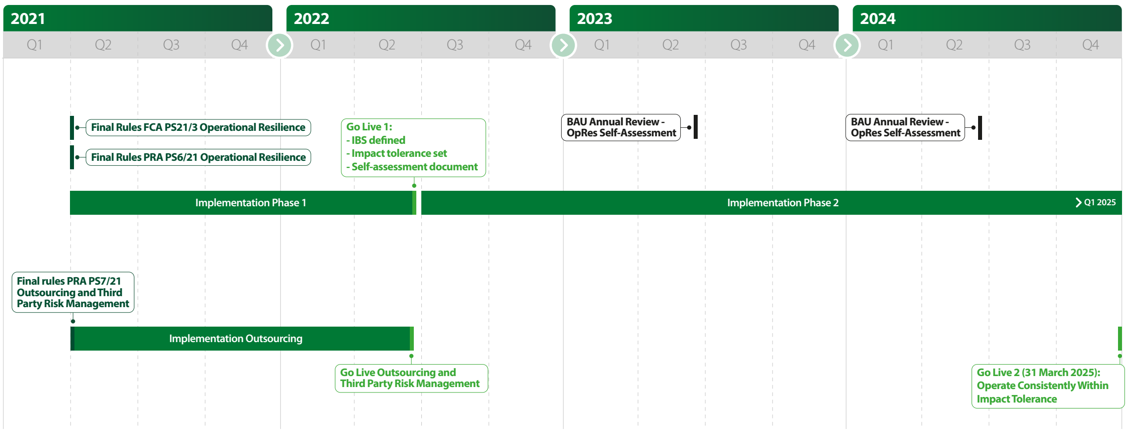
Regulatory interest has grown from a series of high-profile service disruptions that have rocked both individual consumers and financial markets.

The FCA in particular has taken pains to stress it will no longer accept operational failures that, for a lack of contingency planning, leave customers unable to access services, on the phone for hours, without cover or without funds.

Neither will the regulators accept a tick-box exercise identifying risk in theory on a red/amber/green traffic light system.

Operational resilience must be an in-depth process of mapping key business areas, understanding vulnerabilities, identifying interdependencies, assuming worst case scenarios, defining impact tolerances – the maximum disruption that can be withstood - running scenarios and testing systems, planning remediation, laying contingency plans and drafting crisis communications.

OPERATIONAL RESILIENCE TIMELINE



WHAT DO FIRMS NEED TO DO?

For many organisations Covid-19 was its own test bed for operational disruption, and many firms either did not weather it as well as they should have, or built a false sense of comfort by focusing on practical tasks such as enabling widescale working from home. The good news is that it has served as a warning, provided useful data and learnings - and delayed the implementation of operational resilience rules, giving firms lagging behind the chance to catch up.

Operational resilience will be supervised jointly by the FCA, PRA and Bank of England, and requires businesses to consider disruption to services end to end, front to back. There are different overlays that need to be applied, reflecting the different regulatory perspectives: consumer protection, safety and soundness, and financial stability.

Key requirements

Under the proposed regulation organisations are expected to:

- Identify important business services (IBS)
- Map the people, processes and technology that deliver them
- Explore interdependencies and weaknesses
- Set impact tolerances important business services can remain within
- Test how they respond to and recover from disruptions
- Produce an operational resilience self-assessment
- Plan any remediation, and build contingency systems and processes
- Create internal and external communication strategies to communicate disruption.

WHAT SHOULD BE THE OUTCOME OF YOUR OPERATIONAL RESILIENCE PROGRAM?

Board and senior management must understand the operational resilience of their firm. In particular they must:

1. Ensure they can articulate their firm's resilience in terms of critical services and its impact on regulatory objectives (customer harm, financial soundness, etc)
2. Approve an impact tolerance for each critical service
3. Approve an investment plan to ensure firms operate within impact tolerance on a continuous basis
4. Be confident they can respond and communicate appropriately following a disruption
5. Review the operational resilience status of their firm on a regular cycle.

FIVE STEPS TO RESILIENCE

1 *Identify*

Evaluating current work and any work planned against those standards is the most basic requirement under the new regulations, and one of the hardest to achieve. What ARE important services? And how will you measure them?

In order to set criteria, agree metrics and start to collate data, it's absolutely key to get the right sponsorship early in the process, including the CRO and COO, and the support of business analysts and MI experts. This is a cultural shift, and getting the team, the tone and the communications right can make the difference between successful and unsuccessful implementation.

2 *Map*

There needs to be an organisation-wide mapping exercise, getting to a consistent level of granularity and cross-referencing service interdependencies. From Sicsic Advisory's experience with banks – further along in the process than insurance – the best way to begin the process is to start with a pilot of one or a small number of important business services. From here firms can refine their approach, confirm their budget, and roll out further.

3 *Understand*

Identification and mapping are not enough – organisations need to get under the skin of services, considering the chain of activities involved from initiation to delivery, and defining tolerances around safety and soundness, financial stability, and customer harm.

Impact tolerance is defined as the maximum tolerable level of disruption and should reference the extent of the disruption (metrics for volumes and values) alongside the duration of such disruption. You may require more than one Impact Tolerance statement, to adequately cover the differing primary concerns of the regulators.

4 *Test*

Firms should assume failure of key resources and consider incidents that have happened elsewhere in the financial sector. The challenge is to define scenarios – for instance power, transport or telecommunication failures – where they could not deliver important services within impact tolerances.

5 *Invest*

While there is not necessarily an expectation that firms will be within their impact tolerance on Day 1, regulators are going to need to see plans to remediate any areas that sit outside it. Where weaknesses are identified, firms must be seen to be taking action - for instance by replacing infrastructure, increasing system capacity, reviewing 3rd party support or addressing key person dependencies.

Regulators will also need to see how organisations plan to continue their process of self-assessment to drive continuous improvement, checked and balanced by proper governance to ensure accountability and encourage independent challenge.

Operational Resilience in a nutshell

Operational Resilience Building Blocks:

Important Business Services	Impact Tolerances	Mapping	Scenario Testing

Strategies, Process and System

Communications

Operational Resilience Self-Assessment

Supervisory Review Process

Operational resilience roadmap

- Scope the project, time and effort
- Engage key stakeholders
- Create an operational resilience vision and start an 'operational resilience first' culture
- Set a methodology for the identification of important business services
- Establish mapping standards and how interdependencies will be defined
- Build an evidence library and use it to undertake a gap analysis
- Develop mapping tools
- Define Impact Tolerance requirements
- Test methodology and run scenarios
- Appoint business service owners
- Create reporting mechanisms – MI, Board oversight, and self-assessment documentation

What the regulators say:

"We define operational resilience as the ability of firms and FMIs and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions… It is about preventing operational incidents from impacting consumers, financial markets and UK financial systems."
Megan Butler, FCA Executive Director of Supervision – Investment, Wholesale & Specialists

"Neither the FCA nor the PRA expect firms to get this right on day one, but what both want to see is informed thinking, concerted action, and tangible progress by the end of the implementation period. Firms, boards and the market must get to grips with this now".
Lyndon Nelson, Deputy CEO, PRA

RESILIENCE AS A COMPETITIVE ADVANTAGE - THE BENEFITS OF AN OPERATIONAL RESILIENCE APPROACH

Getting operational resilience right isn't just about meeting new regulatory requirements, it can have other advantages, too. Firms should view this not as an additional regulatory requirement but rather as an opportunity to strengthen the business itself.

A focus on resilience means organisations will naturally improve business reporting, allowing them to plan and look forward with greater accuracy across multiple business functions and scenarios. Knowing your business better is always going to make it better.

There will also be greater visibility and clarity around important services and risks, and greater accountability for them, ultimately allowing more dexterous control. Decision making will become more streamlined, and operational costs may even be reduced.

Finally, being able to articulate a forward-thinking approach to operational resilience with regulators - and implementing a proportionate response - will earn valuable credibility and considerable trust. Firms adopting a proactive approach now will be better prepared to maintain customer services through future periods of disruption.

OpRes Index™
Operational Resilience Benchmarking for the Insurance Industry

ORIC INTERNATIONAL

Powering risk intelligence

To support firms on their operational resilience journey, we are working with ORIC International to develop a benchmarking service covering important business services, impact tolerances and a data exchange platform. As a first step, we conducted a flash survey with 44 firms across life, general insurance and asset-management in June 2021 to establish preliminary industry benchmarks on IBSs. If you would like to participate and help us build the picture, please get in touch: **operationalresilience@sicsicadvisory.com**

How can Sicsic Advisory help?

Based on our deep understanding of insurance business models and operations, and extensive experience in operational resilience, we're uniquely placed to support insurers, intermediaries and asset managers to embark on a journey to strengthen operational resilience.

We can tailor services to support:

- Communication and stakeholder engagement
- Operational resilience training
- Building and executing pilot approaches
- Mapping business services (approach and tooling requirements)
- Planning of project scope and budget
- Project delivery
- Preparation for supervisory review
- Self-assessment document
- Quality Assurance and stress testing.

Contact

Michael Sicsic
Managing Director
michael@sicsicadvisory.com

Hugh Savill
Senior Adviser
hughsavill@sicsicadvisory.com

Martin Jarman
Senior Consultant
martinjarman@sicsicadvisory.com

Ian Baxter
Senior Consultant
ianbaxter@sicsicadvisory.com