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DRIVING TANGIBLE RESILIENCE IMPROVEMENTS

Rico Brandenburg
Matthew Gruber
Greg Rattray

Strengthening operational resilience is a major priority for boards, executives, and regulators. Boards and executives want to avoid major operational disruptions that can severely impact customer and market confidence in their firms, result in significant financial losses, or lead to severe reputational harm. Regulators want to maintain the safety and soundness of financial institutions and of the overall financial system. Boards, executives, and regulators all recognize that the risk of operational disruption is increasing, as geopolitical tensions raise the specter of cyber and physical conflict, complexity and interconnectedness increase, and the pace of change quickens.

In response, many financial institutions globally have appointed a Chief Resilience Officer and designed a framework for operational resilience. They are focused on developing a framework, identifying their important business[1] services (IBS), building out resilience capabilities, establishing impact tolerances,[2] and conducting exercises in line with the principles established by the Basel Committee on Banking Supervision (BCBS)[3] and guidance from regulators, for example, Bank of England,[4] Central Bank of Ireland,[5] the US Federal Reserve System.[6] The European Commission's new Digital Operational Resilience Act (DORA) and the growing number of jurisdictions with proposals out for enhanced regulatory requirements around operational resilience (for example, Canada, Australia) are only increasing the pressure on firms to implement operational resilience effectively.

However, building a successful and sustainable operational resilience program is challenging. Chief Resilience Officers need to contend with competing priorities, organizational siloes, and decades of processes and technology built with resilience as an afterthought.

In light of these challenges, we recommend five practical initiatives that typically have an outsized impact on the successful and sustainable implementation of the operational resilience program:

- Drive front-line engagement
- Learn from crises
- Build an exercise capability
- Develop resilience risk insights
- Create a sustainable foundation

The following pages explain how these initiatives help firms increase resilience to disruptive events with tangible examples.

DRIVE FRONT-LINE ENGAGEMENT

1 Important business service definition	2 Scenario design	3 Impact tolerance definition andcalibration	4 Exercise execution	5 Mitigations approaches
Business objective				
Understanding what is required to deliver on our customer promise: Identify ways to streamline service delivery (for example, reduce cost, increase e ciency, reduce complexity) by mapping an important business service at the appropriate level of detail	**Holistic view of weaknesses in our ability to meet customer expectations:** Determine the biggest operational threats that could undermine delivery to customers by understanding the key risks to critical assets that could result in disruption	**Value proposition for customers and the market:** Understand the types of transactions and customers that are most important by analyzing and prioritizing transactions and customer for setting risk and impact tolerance	**Assistance for our customers when they need it most:** Identify potential strategies to highlight the firm's ability to support customers in a disruption by realistically simulating the response to a disruptive event	**Seamless customer experience regardless of the situation:** Improve the customer experience in business-as-usual by investing in multiple means of interacting with and delivering services to customers

Source: Oliver Wyman analysis

LEARN FROM CRISES

A key element of operational resilience is continuously improving. The f rst step is to learn

scenarios (for example, data corruption). They may not have the technical capabilities to

Objective

Establish a sustainable exercise program through a pilot that allows the organization to assess its level of resilience against defined impact tolerances for its important services

Exercise pilot

Realistic disruption simulation with a broad set of functional elements to exercise the organization's ability to deliver an important business service

Half-day exercise commitment

Allowing for the ability to simulate a multi-day, severe but plausible disruption with both discussion-based and functional elements

Broad business participation

Representation from multiple business units and functions (for example, deposit operations, commercial banking, AML, technology, crisis management)

Functional elements

Simulating functional responses to disruption to generate additional learnings beyond those from a tabletop

Wire intake Enabling front-line sta to practice receiving instructions over phone/email	**Wire prioritization** Prioritizing a set of real transactions from a previous day	**Analysis of wires in process** Determining the status of wires at the time of disruption
Manual wire processing Processing wires manually in a backup environment to assess throughout	**Crisis escalation/ communications** Convening crisis team, analyzing impact, sharing updates, and making decisions	**Customer communications** Drafting mass communications and guidance for relationship managers

DEVELOP RESILIENCE RISK INSIGHTS

Assessing and monitoring the level of resilience and the impact of investments on resilience risk reduction help firms optimize strategic investment decisions and give stakeholders (for example, board, executives, regulators) more confidence in the resilience program.

We have helped clients measure the effect of resilience investments using a structured scenario analysis approach. The approach leverages available internal data (for example, service mapping, aggregated customer information, threats/vulnerabilities) to estimate the impact to customers, the broader market, and the firm under a set of severe but plausible risk scenarios, considering both current capabilities and future capabilities once resilience investments are made. Ultimately, the goal is to show how resilience investments are reducing the expected impact of a severe but plausible scenario. Using this analysis can also help prioritize investments before they are made by allowing firms to compare the expected risk reduction of di fit א ee ö fit א r re

CREATE A SUSTAINABLE FOUNDATION

CONCLUSION

The safety and soundness of financial institutions rely on strengthening operational resilience. As firms advance on their operational resilience journey, they must be thoughtful about developing and implementing an effective, sustainable, and continuously improving program while delivering tangible resilience risk reduction in the short-, medium- and long-term. By keeping in mind the practical initiatives outlined above, firms can increase their likelihood of success and inspire confidence among boards, executives, regulators, and customers.

ENDNOTES

1 Important business service is defined as a service a firm provides which, if disrupted, could pose a risk to a firm's safety or soundness or in certain cases financial stability. Bank of England, March 2022

2 Impact tolerance is defined as the maximum tolerable level of disruption to an important business service as measured by a M MM 6

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