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DRIVING TANGIBLE RESILIENCE IMPROVEMENTS

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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.
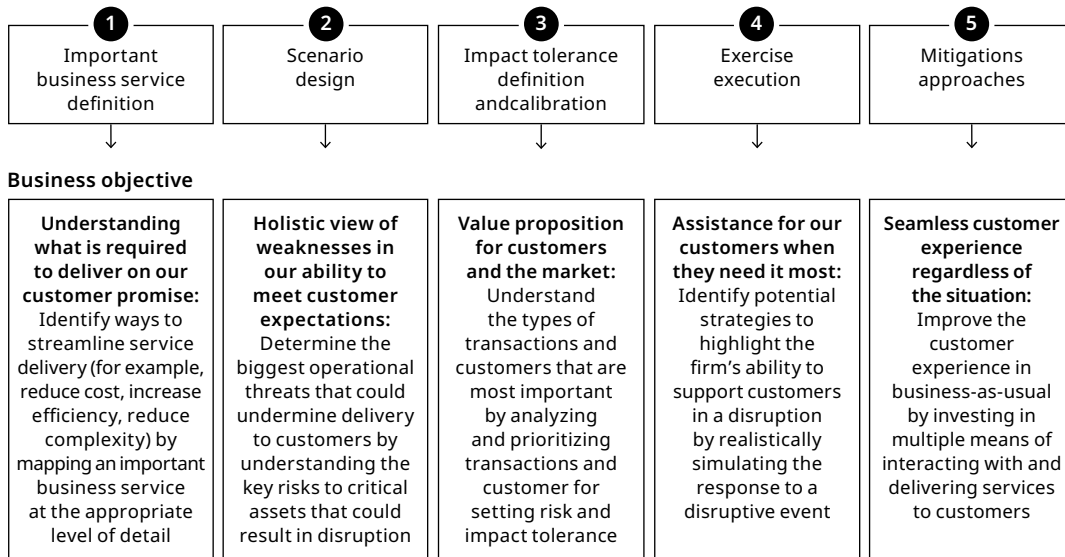
DRIVE FRONT-LINE ENGAGEMENT

The success of the resilience program hinges on getting front-line (business and support functions) buy-in, as the front line owns the delivery of the service. One of the biggest challenges with traditional business continuity is that business continuity activities (for example, business impact analysis, business continuity planning) have not received the time and attention they deserve. There is a risk that the front line does not dedicate sufficient time and attention to operational resilience, especially considering the many competing initiatives in most organizations.

There are a few key actions that firms can take to increase front-line buy in. First, define resilience leads within front-line areas (for example, Consumer Banking) who are accountable for driving front-line engagement on resilience and crafting the resilience strategy for their front-line area. Their responsibilities should include, but not be limited to, liaising with the firm's overall Chief Resilience Officer, assembling expert resources in their front-line area to execute on resilience responsibilities, defining impact tolerances, developing service-level resilience plans, and supporting design and execution of exercises. The resilience leads should be relatively senior (for example, report to the Chief Operating Officer of the front-line area) with the stature to ensure their front-line areas are executing on their responsibilities.

Second, emphasize resilience as an outcome-oriented program that aligns implementation with tangible business benefits, like improving customer experience, simplifying service delivery, and decreasing costs. A core foundation of resilience is gaining a deep understanding of end-to-end service delivery. This requires mapping the processes, technology, data, people, third parties, and facilities needed to deliver a service. Such mapping uncovers both resiliency issues and opportunities for enhancement in service delivery. We have seen that taking one important business service through the resilience lifecycle as a pilot (that is, define and map the end-to-end service, design scenarios, calibrate impact tolerance, execute an exercise, and mitigate gaps) is an excellent way to demonstrate the value of the operational resilience program to front-line stakeholders. Exhibit 1, on the following page, outlines how to utilize the components of an operational resilience pilot to unlock business value by understanding what is needed to deliver on customer promise, identifying weaknesses in the firm's ability to meet customer expectations, and improving the customer experience. Firms can make use of each component of their operational resilience program to build a better business.

Third, "only open the patient once" by integrating resilience into existing modernization, transformation, and remediation activities. This allows the firm to embed incremental adjustments into existing programs to achieve resilience objectives rather than treating resilience as separate, standalone set of requirements that front lines need to adhere to.

Exhibit 1: Building a business case for an operational resilience pilot

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 efficiency, 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 first step is to learn from incidents impacting the firm and the broader industry and the second step is to conduct scenario-based exercises. Firms that excel at operational resilience heavily leverage lessons learned from disruptive events (for example, the COVID-19 pandemic, war in Ukraine, technology failures, third-party issues) to be more prepared for the next crisis. They utilize their experience in these events and crises to identify failure points and root causes and pinpoint opportunities to improve their capabilities. To do this effectively, firms need to have structured post-mortem processes and a culture that emphasizes the importance of learning and continuous improvement.
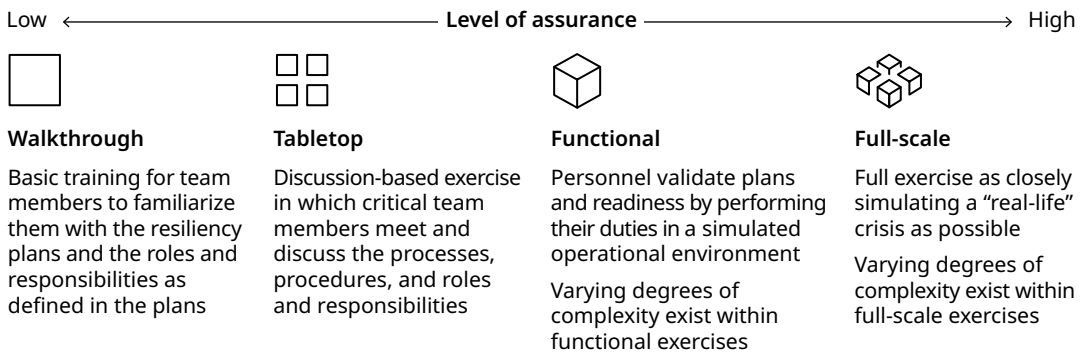
It is important to build the muscle of making sure your program is learning from what you do today and anticipating what disruptions will occur tomorrow. When I was at BNY Mellon, we learned the most when we had disruptions and invested in the root-cause analysis to understand what went wrong and how to improve going forward.

James Wiener, former Chief Risk Officer of
BNY Mellon and now a Partner at Oliver Wyman

BUILD AN EXERCISE CAPABILITY

One of the hardest questions organizations get from regulators, boards, and executives alike is, "How are you demonstrating the ability of the organization to meet its impact tolerances for its important business services?" In some jurisdictions, the answer to this question even has a specific regulatory deadline (for example, 2025 for the UK, 2023 for Ireland). Answering this question provides comfort to regulators, boards, and executives that the level of resilience of an organization's important business services is sufficient and continuously improving with the evolution of internal and external threats. We consider exercises that simulate real-world disruption scenarios as one of the best ways to answer this question and improve resilience over time. To reap the full benefits, firms need to conduct sufficiently realistic exercises and develop a sustainable capability that avoids treating resilience exercises as a "one-off" event.

Exhibit 2: Operational resilience exercise types

Low ← ——————————— **Level of assurance** ——————————— → High

Walkthrough	**Tabletop**	**Functional**	**Full-scale**
Basic training for team members to familiarize them with the resiliency plans and the roles and responsibilities as defined in the plans	Discussion-based exercise in which critical team members meet and discuss the processes, procedures, and roles and responsibilities	Personnel validate plans and readiness by performing their duties in a simulated operational environment Varying degrees of complexity exist within functional exercises	Full exercise as closely simulating a "real-life" crisis as possible Varying degrees of complexity exist within full-scale exercises

Source: Oliver Wyman analysis and ready.gov

Traditionally, organizations have used tabletop exercises, which are not very realistic, as a primary means of identifying resilience capability gaps. Tabletops involve convening a team to discuss how to address potential disruption scenarios without actually practicing what team members would do. Because they rely heavily on "what-if" discussions, tabletop exercises provide limited assurance that the plans and capabilities that organizations have developed will actually work during a disruption. For example, a tabletop might surface issues related to roles and responsibilities, but will likely not identify that workarounds cannot handle sufficient volumes or that the business is unable to identify which transactions were in process at the time of disruption.

Recognizing the limitations of tabletops, firms are moving towards much more realistic full-scale exercises, where they deliver the service using alternative means and rapidly restore the service to normal (for example, moving workloads to other data centers), proving that their plans work in a severe but plausible disruption. However, most firms are not yet there. They are either unwilling — or unable — to conduct full-scale exercises for severe but plausible

scenarios (for example, data corruption). They may not have the technical capabilities to confidently transition service delivery to alternative means or backups and worry that they could put their normal operations at risk. They want to avoid causing a real-life operational disruption themselves!

Given the importance of conducting realistic simulations, we recommend a two-pronged approach for these firms. First, conduct full-scale exercises for less severe scenarios, like exercising a natural disaster by running operations for a period out of a backup processing center. Second, start increasing sophistication of exercises for severe but plausible scenarios by integrating functional elements (activities in which participants perform their duties in a simulated operational environment) into tabletops. This forces people to practice aspects of what they would do in a severe but plausible scenario and allows the firm to start moving towards more complex exercises that better assess the ability to withstand a severe disruption, like delivering a service using manual workarounds, data from a data vault, or contingent applications or service providers.

While firms work towards increasing the sophistication of their exercises, it's important that they build a sustainable exercise capability to be able to repeatedly demonstrate their resilience and drive improvement over time. A sustainable exercise capability calls for a well-defined manual for how to run an exercise, a set of ready-made tools and templates (for example, "inject" tracker, communication/education materials, scorecards), and trained individuals with the skillsets to design and facilitate exercises effectively. The exercise manual offers a standard set of objectives and steps that people can choose from when designing an exercise, providing different options depending on the desired level of sophistication. Developing an exercise manual allows the organization to approach building resilience from the bottom up; to "train the trainer" and empower resilience leads in the front line to design and facilitate service-specific exercises. Lastly, the manual should outline a process for collecting and addressing lessons learned, as an exercise capability requires a well-defined and practiced continuous improvement process.

Sustainability is also about encouraging the right participation in exercises. One approach, we have found, is that consciously using the term "exercise" as opposed to "test" reduces apprehension around being graded and makes people more likely to participate actively. Having clearly defined roles for business, technology, risk, and audit (even as observers) is another way to encourage participation. Finally, integrating a small number of business and technology subject-matter experts into the exercise planning will help make the exercise realistic and interesting for the participants and drive better turnout and outcomes.

Case study:

Resilience exercise pilot focused on wires

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	Broad business participation
Allowing for the ability to simulate a multi-day, severe but plausible disruption with both discussion-based and functional elements	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	Wire prioritization	Analysis of wires in process
Enabling front-line staff to practice receiving instructions over phone/email	Prioritizing a set of real transactions from a previous day	Determining the status of wires at the time of disruption
Manual wire processing	**Crisis escalation/ communications**	**Customer communications**
Processing wires manually in a backup environment to assess throughout	Convening crisis team, analyzing impact, sharing updates, and making decisions	Drafting mass communications and guidance for relationship managers

Key learnings

Key areas for improvement were identified to be able to meet the minimum obligations to clients:

- Robust manual workarounds for wire intake and processing

- Criteria and approach for transaction prioritization

- System and process for identifying clients' critical wires

- Clear accountability for key busines decisions (for example, suspend fraud checks)

- Ability to assess business impact

The end-to-end resilience exercises have been instrumental in getting multiple stakeholders on the same page on the key areas for resilience improvements. Findings include discussions on alternative delivery systems, ability to prioritize transactions/delivery to customers, clarity around responsibilities, and ability to understand dependencies and interdependencies to leverage existing alternative processes.

Nandita Jena, Head of Operational Resilience at CIBC US

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 different potential investments.

Taken together, resilience risk analysis, results of exercises, and firm performance during incidents provide the board and executives with a clear picture of the firm's resilience profile. With that picture in mind, they can confidently make strategic investment decisions on operational resilience.

Exhibit 3: Operational resilience reporting dashboard simulation

Effective resilience reporting provides an outward- and inward-looking view for management, presenting selected metrics that are insightful and guide actionable decision-making. The board/management should be able to quickly understand resilience risk faced by the firm, especially in the most material areas, and the status of the firm's program.
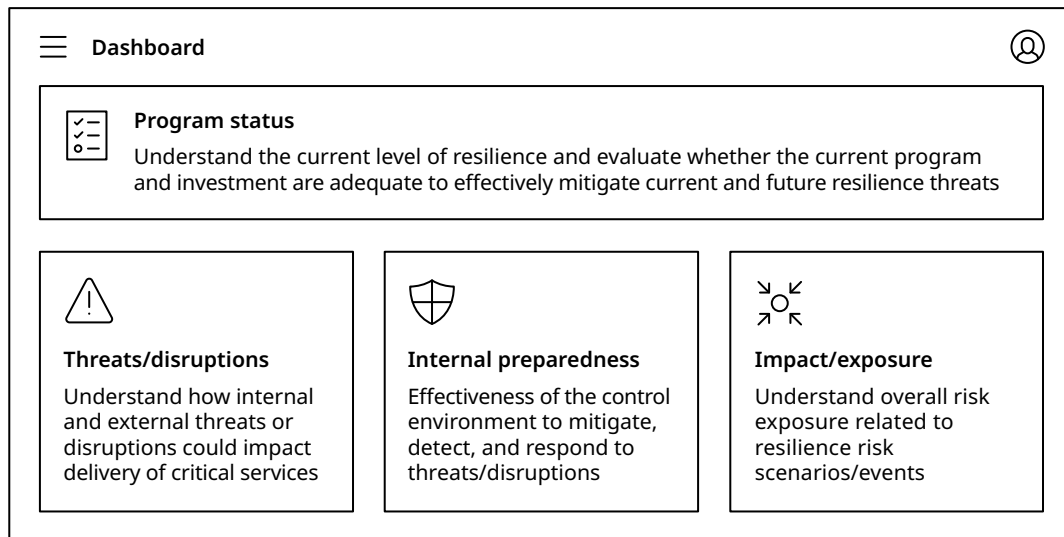
Source: Oliver Wyman analysis

CREATE A SUSTAINABLE FOUNDATION

Most firms are not starting from scratch with operational resilience. They have many foundational capabilities in place that can support an operational resilience program. Leveraging these foundational capabilities as much as possible, rather than "reinventing the wheel" for operational resilience, is critical to creating a sustainable operational resilience program.

Many firms have business continuity, disaster recovery, cybersecurity, and recovery and resolution planning (RRP), risk assessments (for example, RCSA), and cost reduction programs (and many others). All these foundational programs create information and data that the operational resilience program can leverage. For example, the business continuity and RRP programs create taxonomies of services and processes and map dependencies like vendors, people, and technology to these services and processes; RCSA programs drive the organization to identify and assess operational risks that may threaten business goals. Instead of creating a new service taxonomy for operational resilience or a separate resilience risk assessment, the operational resilience program should leverage the data that these programs create and work with program owners to ensure the outputs meet the needs of the resilience program, leading to a "build once, use many" philosophy that drives efficiencies and avoids overwhelming the business with new activities.

The "build once, use many" philosophy applies to global resilience programs, too. Rather than create separate resilience programs for each geography or region, we recommend creating a consistent global resilience program that considers global regulatory requirements, allows for local tailoring, and enables the firm to incorporate future requirements. The approach allows firms to invest only once in developing an operational resilience framework and ensures that firms can apply learnings from one region much more easily in the others.

Finally, firms cannot neglect the infrastructure that supports the operational resilience program. Modern technology to track and manage resilience-related information (plans, service and process taxonomy, exercise results); workflows and integration that support automated data gathering, maintenance, and updates (for example, of dependency mapping); and robust reporting capabilities are critical for a sustainable operational resilience program. Some firms rely on off-the-shelf software products, but increasingly, many institutions, especially the largest and most complex ones, are building custom software to manage their unique service and process taxonomies and link information in a way that is most useful to them.

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. *Operational resilience: Impact tolerances for important business services,* 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 length of time in addition to any other relevant metrics. *Operational resilience: Impact tolerances for important business services,* Bank of England, March 2022

3   *Principles for operational resilience,* BCBS, March 2021

4   *Operational resilience: Impact tolerances for important business services,* Bank of England, March 2022

5   *Cross industry guidance on operational resilience,* Central Bank of Ireland, December 2021

6   *SR 20-24: Interagency paper on sound practices to strengthen operational resilience,* The Board of Governors of the Federal Reserve System / Office of the Comptroller of the Currency / Federal Deposit Insurance Corporation, November 2020

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