



# **Operational Resilience Self-Assessment**

**Could this be the most important tool in navigating  
the Operational Resilience road ahead?**

**WAVESTONE**





# Introduction

## The journey to 2025 will be a long and winding road

The Operational Resilience requirements require firms to produce a self-assessment document which shows how they will meet the expected outcomes, and to be made available to the supervisory authorities on request.

Self-assessments are an integral part of effective risk governance. The well-established Risk and Control Self-Assessment (RCSA) has now become a core foundation within operational risk management frameworks. This dynamic and iterative method identifies important operational risks and key controls as well as assessing and reporting on their effectiveness for each RCSA entity.

The 'Operational Resilience Self-Assessment' will require a shift in the way that established self-assessment processes (such as the RCSA) can be utilised in order to report and document the full scope of a firm's approach to meeting the Operational Resilience requirements, as well as understand current limitations.

Firm's Senior Managers will need to look at the chain of each important business service (IBS) through the prism of risk management and governance activities. The ability to deliver on the regulator's requirements will ultimately depend on appropriate governance, reporting, and management accountability.

The Operational Resilience Self-Assessment will be a key tool on the road to 2025.



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## Evolution of the self-assessment

Nowadays the RCSA is the most established and mature self-assessment process for firms. The RCSA can trace its origins from internal audit activities into a process that has evolved in tandem with the wider advancement of operational risk over the last 20-years.

Operational risk was first formalised as a defined risk management capability in 2001 when the Basel Committee on Banking Supervision (BCBS) published its *'Working paper on the regulatory treatment of operational risk'* and established a definition of operational risk as the *"risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events"*. Further reviews and refinements followed the 2008 Financial Crisis with the publication of the Basel Committee's *'Principles on Operational Risk'* (2011) and more recently the *'Principles for the Sound Management of Operational Risk'* (31st March 2021).



## The new self-assessment 'kid on the block'

It might be very tempting for firms to look at the operational resilience self assessment as an adjunct to the RCSA without real consideration. The supervisory authorities have stated that firms should *"take a tailored approach in creating [their] self-assessment document"* and *"self-assessment documents should be bespoke, and firms should decide what they would specifically include in their self-assessment"*. Therein, lies the challenge – how do firms address the Operational Resilience self assessment within their existing processes?



# Future of Operational Resilience

Just as operational risk has evolved steadily over the years, so has the concept of 'Operational Resilience' driven by the need to address high-profile IT outages and banking disruptions in order to maintain resiliency into each firm's IBS, and ultimately protect customers from unnecessary impact and harm. But there are subtle differences between the two which presents challenges to incumbent operational risk processes.



## An evolution process for firms

Operational Resilience is borne out of the desire to protect and maintain customer and market resiliency which represented a significant move for firms' approaches to managing its risk by shifting to an 'outcomes-based' approach. Firms need to be able to "*prevent, adapt, respond to, recover and learn from operational disruptions*". The ability for firms to deliver on the operational resilience requirements will ultimately depend on appropriate governance, reporting, and management accountability.

This is where the Operational Resilience Self-Assessment will be a key tool in the toolkit.

## The start of the journey to 2025

A lot of progress has been made by firms so far. The concept of Operational Resilience first kick-started firms' focus in 2018 with the joint publication by the Bank of England, PRA & FCA: Discussion Paper on '*Building the UK Financial Sector's Operational Resilience*' (PRA DP01/18 and FCA DP 18/4).

### Not to lose focus

There is no denying that the 31st March 2022 has been an important milestone date within the timeline for Operational Resilience, and firms should all take stock on what has been achieved.

The Bank of England, PRA, and the FCA expect the **self-assessment document** to record how a firm will meet the operational resilience requirements and be made available from 31st March 2022. Therefore, we can draw breath, take stock, but not lose focus. Firms' are still very much at the start of their Operational Resilience process evolution.

Accordingly, firms need to ensure that their underlying self-assessment process is appropriately **geared and calibrated** to satisfy the requirements during the transition period.



Firms have come a long way since the 2018 joint Discussion Paper but there is still a lot of work to be completed from now until 2025 to meet the level of "*sophistication*" the supervisory authorities will be expecting in 2025.

The **first-year self-assessment** will be a key litmus test to identifying how well or how far firms' need to go but more importantly highlight what are the current limitations. More importantly the process will need to be iterative during the transition period.

## Why will the self-assessment be the most important tool in the Operational Resilience toolkit?

Where limitations are identified, firm's leadership (including the Board) will likely need to invest more into their risk culture and operational change to address those limitations. **The self-assessment will be the single most effective tool** to identifying the pros and cons of the effectiveness of current operational resilience arrangements but also setting stakeholder's focus. Nothing focuses the mind better than when faced with understanding the true state of how things lie.

As we highlighted above firms have undertaken RCSA's of their compliance with rules and regulations for many years now with **repeatable, robust, and mature** processes in place.

However, simply trying to fold operational resilience self-assessments into the current RCSA process, without addressing the very specific requirements are unlikely to meet the expected outcomes or provide that true picture of the current effectiveness and limitations.

*“Firms need to ensure that their underlying self-assessment process is appropriately geared and calibrated to satisfy the requirements during the transition period”.*

## What do firm's need to do?

Firms will need to ensure that they have completed their first-year self-assessment for Operational Resilience by 31st March 2022. But there is a conundrum – that finely-tuned and repeatable RCSA process we mentioned at the beginning, may not necessarily be 'honed' for all of the Operational Resilience requirements, scenarios, and specific IBS components, because **firms have yet to fully embed and mature** their BAU approaches for managing Operational Resilience risk.

Therefore, firms need to approach the self-assessment in a *“tailored”* way.

As a result of the Final Policy on Operational Resilience published on 29th March 2021, the BoE, FCA and PRA, the FCA duly updated its FCA Handbook, SYSC Senior Management Arrangements, Systems and Controls to cover Operational Resilience self-assessments.



# Self-Assessment requirements

A firm must make, and keep up to date, a written record of its assessment of its compliance with the operational resilience self-assessment requirements in SYSC 15A.6, including, but not limited to, a written record of:

1

Important **business services** identified by the firm and the **justification** for the determination made

2

The firm's **impact tolerances** and the **justification** for the level at which they have been set by the firm

3

The firm's **approach to mapping** under SYSC 15A.4.1R by identifying:

- People, process, technology and information for business delivery
- Vulnerabilities
- Support scenario testing

Details of the **scenario testing** carried as part of its obligations under SYSC 15A.5, including a description of the **assumptions** made in relation to scenario design

The firm's **testing plan** and a **justification** for the plan adopted

4

Its **communication strategy** under SYSC 15A.8.1R and an explanation of how it will enable it to reduce the anticipated harm caused by operational disruptions

5

Identify **risks** to the firm's ability to meet its impact tolerances and any **lessons learned** exercise conducted under SYSC 15A.5.8R

6

7

An **identification** of the **vulnerabilities** that threaten the firm's ability to deliver its important business services within the impact tolerances set, including the actions taken or planned and justifications for their completion time

8

*"A firm must retain each version of the self-assessment records referred to in SYSC 15A.6.1R for at least 6 years and, on request, provide these to the FCA. Effectively, from 1 April 2022, the regulator may request copies of firms' operational resilience self-assessment document supporting the need for robust processes in place"*



# CONCLUSION

Firms must build on their self-assessment process steps and activities. The first self-assessment document should be made available to the supervisory authorities, if requested, from 31 March 2022. The PRA has stated that by the 31<sup>st</sup> March 2022 *“boards would have approved important business services and set impact tolerances which should be reflected in the self-assessment”*.

The primary goal for firms following the first self-assessment stage is to show and demonstrate how they have developed their approaches and methodology for compliance with Operational Resilience.

At this point in time the supervisory authorities have

stated that firms are not expected to have all the answers, nor are they expected to have a fully mature, embedded model in place by 31st March 2022.

However, the transition period will enable firms to learn from their self-assessments, improve, and perfect their operational resilience to achieve the level of *“sophistication”* the supervisory authorities are expecting in 2025...

...but as we know 3-years is not a long-time in an evolutionary process and there will be many challenges and pitfalls for firms to face on the road to 2025. But getting the self-assessment process right will be a key navigation tool.

## Expert View



**MATHEW WELLS**  
Senior Manager

*“It is recommended firm’s really take stock of their first Operational Resilience Self-Assessment to truly understand where they are today and identify the key limitations in their Operational Resilience capabilities. This will be key to identifying what are the next steps that firms need to look for which could be extra funding, material change(s) in their approaches or operating model changes to build a level of sophistication to meet the 2025 expectations. In addition, firm’s need to ensure that the underlying self-assessment processes are fully integrated and can assess all the relevant components along each identified Important Business Service to fully assess the current effectiveness which will be an iterative process”*.

Wavestone can support firms in reviewing self-assessment processes as well as support in implementing changes to their Operational Resilience risk management approaches and governance arrangements.





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