HARPENDEN BUILDING SOCIETY

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**INDUSTRY INSIGHTS**

# Why Operational Resilience could transform the market

In July 2018, The Bank of England, The PRA and The FCA issued a joint discussion paper called 'Building the UK financial sector's operational resilience'. The paper also goes by the name of DP 01/18. You may have seen some commentary in the trade press but for many this important paper is largely unknown. However, there is good reason to take an interest in the discussion about operational stability. The paper is likely to lead to profound changes on the way financial institutions work and this will lead to changes in the mortgage industry.

## WHAT IS DP 01/18?

In summary, the purpose is to start a dialogue with the industry, with the ultimate objective of achieving a 'step-change' in the operational resilience of every organisation. The UK authorities' involvement shows their concern about how the interconnectedness of the financial system makes it vulnerable, and that they recognise the danger of operational outages including those arising from cyber incidents. Dealing with these is important, and the paper sets out the Regulator's concerns and approach. Their work will assess how the resilience and continuity of an organisation's services might be maintained no matter what has disrupted them.

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# FOCUS ON THE FINANCIAL SYSTEM

The regulators believe that a resilient financial system will absorb shocks rather than contribute to them. Think of the 2008 crisis, when the failure of a number of firms ground the system to a halt. As a result, the thinking has moved on and the sector's approach to operational risk management has to include preventative measures. In addition, all firms will have to demonstrate that their people, processes and organisational culture are able to adapt and recover when things go wrong.

The paper discussed the possible gap between an organisation's view of risk and that of the regulators, and this is something that must be addressed. The regulators and supervisory authorities see the harm in disruption to a business service, and it is important how companies manage that risk.

As a result, the likely conclusion is that the level of scrutiny will increase as the authorities expect organisations to consider the wider implications of their role in the financial eco-system and wider economy.

# WHAT AREAS WILL BE EXPLORED?

Financial services organisations will need to review the processes, practices and culture needed to work effectively and achieve the increased level of operational resilience required. This discussion paper suggests an approach for potential expectations and assessment and breaks it down into four areas:

- **Preparation:** identify and focus on the continuity of their most important business services. This should enable organisations to prioritise their own analysis, work and investment in operational resilience. The aim is to produce impact tolerances for important business services and to be able to adapt processes during an adverse event.
- **Recovery:** organisations should assume that disruptions will occur, and develop ways of adapting their business processes in the event of shocks. The aim will be to preserve continuity of service to their customers.
- **Communications:** each firm must have a strategy for communicating with all of their stakeholders, including the regulator and consumers. This should include how to handle the situation so as to minimise the consequences of disruption.
- **Governance**: boards and senior management will be seen as crucial in setting the business and operational strategies. They will be responsible for overseeing the execution of plans to ensure operational resilience.

# IMPLICATIONS FOR THE MORTGAGE INDUSTRY

While it will take time for any new legislation to come into force, there will undoubtedly be major changes in the way that every organisation in the FS industry operates. The precise nature of the changes will not be known for some time. What is clear is that there will be more responsibility placed on every business to assess its ability to function in the event of an unforeseen operational incident. The potential impact on an organisation will very much depend on the scale of the business.

The effect across the industry will be positive. No-one can argue against the nation having more confidence that the financial eco-system and economy as a whole can respond to company, sector or wider shocks. However, the extra regulation will add another level of governance and that means more operational costs. This could lead to higher prices, as well as more checks and controls across the industry.

If you want to know more, the full page document can be found on the Bank of England website.

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