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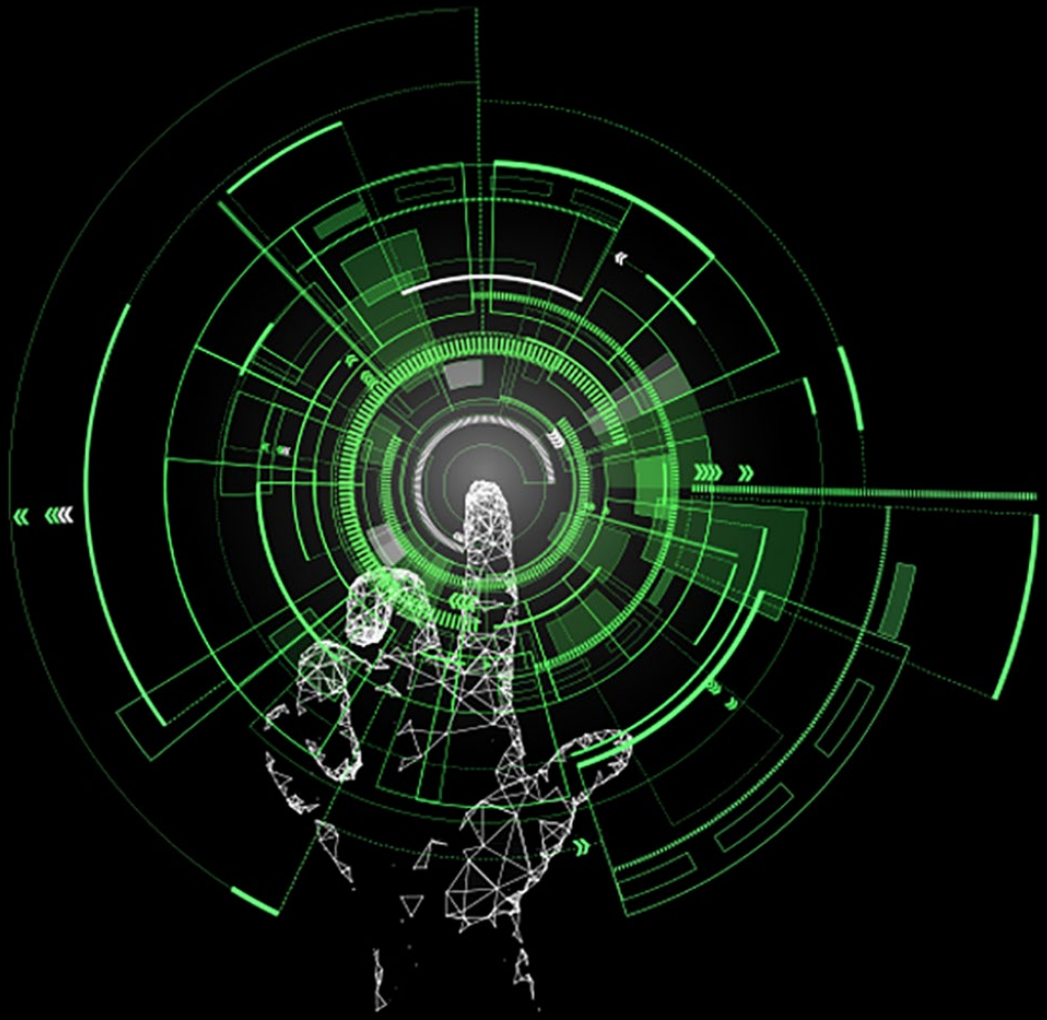

Resilience by Design

Financial services operating models and operational resilience

CENTRE *for*
REGULATORY STRATEGY
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Contents

Executive summary

- **Financial services operating models** are facing a growing need to modernise in order to support the ability of firms to compete in a more digital, decentralised and data-driven environment. As parts of the world emerge from the COVID-19 pandemic, these operating models must also cope with rapidly changing customer and employee preferences for services delivery and work.
- **Operational resilience** is a top regulatory priority in financial services that has enormous implications for firms' design of their future operating models. In a growing number of jurisdictions, firms will have no choice but to move quickly to implement new regulatory frameworks around operational resilience and address vulnerabilities that are identified in how they operate.
- **This regulatory push creates both an opportunity and a necessity** for firms to re-think how they design and implement their target operating models. Going forward, Boards and senior leadership should be able to articulate clearly how any change programme – from digitisation, outsourcing, regulatory change or new business – will strengthen the operational resilience of the firm and its services.
- **Firms need to integrate an operational resilience mindset into operating model design** in order to deliver on this ambition. Most operational resilience regulatory frameworks prioritise a set of critical or important services, so in the eyes of the regulators not all operations will be equal. Firms should be able to pinpoint where regulatory pressure is most likely to increase and focus on building 'resilience by design' in those areas.
- **We put forward three principles** for integrating operating model design with an operational resilience mindset. This activity needs to be led from the top and carried out consistently across a financial services group. This thinking should be guided by impact tolerances, where they apply, and over time firms should aim to deploy operational resilience tools in order to evaluate operating model changes dynamically for their impact on resilience as modifications are proposed.
- **There is a growing competitive advantage** from having operationally resilient operating models in financial services. As operational resilience becomes a measure of firm health that is seen as equal or comparable to financial resilience, firms with operating models that can withstand severe disruptions will not only be more likely to win the confidence of regulators, but also of their customers, shareholders and other stakeholders.

Growing pressure to modernise operating models

Financial services firms are facing a pressing need to modernise their operating models to remain competitive and deliver on their strategy in a post-COVID environment. They are simultaneously coming under pressure from regulators to enhance their operational resilience.

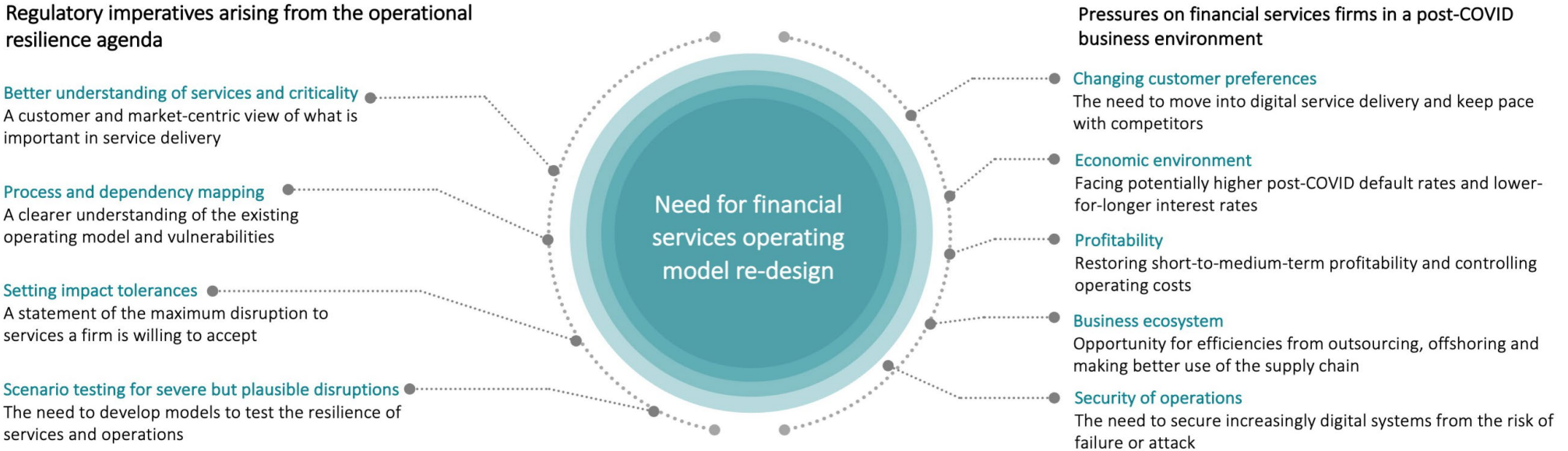
The recent regulatory push into financial services operational resilience is the closest regulators have yet come to scrutinising how a firm designs its internal operations. It is also a regulatory initiative that has rapidly gained momentum around the world as regulators become more alert to the risk that operational disruptions could pose just as significant a threat to the stability and soundness of the sector as financial ones.

Given all of this, **firms are going to have to learn to live with continuous and rising regulatory scrutiny of the resilience of their operations.** Financial services operating models will have to adapt to this reality.

Firms' operating models will also need to respond to new trends in the business environment as countries emerge from the COVID-19 pandemic. They cannot simply go back to the *status quo ante* operating models of early 2020.

An updated operating model design will have to reflect changing customer and employee preferences, location strategies, new technologies and economic imperatives that have emerged in the last year.

Figure 1: Contributors to the current need for operating model re-design



We believe that financial services firms must consider the business pressures of a post-COVID operating environment and the regulatory push for operational resilience hand-in-hand. The most prominent features of each (set out in Figure 1) will all have significant implications for how a firm should design its target operating model.

At the heart of the regulatory agenda is for firms to have a better understanding of how their operations would be affected by a 'severe but plausible' disruption and to take action to enhance the resilience of their most important or critical services in the face of such a threat.

Not all of a firm's operations will receive the same scrutiny from regulators. The UK approach to operational resilience is built on the principle that regulators will focus on those operations that are necessary to deliver business services that are important to external stakeholders such as clients, counterparties or the financial market as a whole.[i] The emerging global approach, as best represented by the Basel Committee on Banking Supervision's (BCBS) March 2021 Principles, is equally clear that the resilience of critical operations should be prioritised.[ii]

Even though the resilience of all operations is important, this regulatory prioritisation exercise will allow firms to understand better where putting resilience considerations first in their operating model design will have the maximum benefit and, conversely, where such efforts can be de-prioritised.[1]

Building resilience by design

The operating models of financial services firms were in a state of almost constant flux in the years leading up to COVID-19 due to a plethora of technological and regulatory developments. Since the pandemic, firms have had to modify their operations in order to cope with on-and-off restrictions on social and economic life and have put many change programmes on hold. As these restrictions recede, the demand to upgrade and refine operating models will return quickly. But with that will come the risk that these upgrades will not be suited to a world with significantly more regulatory involvement in financial services operational resilience.

We believe now is the right time for firms to take a longer view and consider what the operational resilience agenda means for the target operating model in four to five years' time. If these are not considered together, there is a real risk that future regulatory intervention might de-rail operating model change initiatives in the coming years and that a reactive approach to fixing any operational vulnerabilities regulators identify will add to the costs and complexity that firms are seeking to avoid.

A better approach is for firms to understand how the regulatory agenda will affect operating model design over the course of its implementation, and to identify ways to build 'resilience by design' into their operations as they evolve.[2] Ideally, firms should use their work on operational resilience as a catalyst for revamping their operating model.

This report sets out our approach to the operating model and the challenges and opportunities that we see operational resilience posing for it. We then propose an approach for how senior leadership can instil an operational resilience mindset into firm-wide operating model design.

Finally, we explain why we believe that resilient operating models will be a key competitive advantage for financial services firms in a post-COVID environment where efficiency, speed, and the digital delivery of services will be critical for firms' success.

1. For the remainder of this report, we refer to 'important services' as used in the UK framework, but this should be read to include what have been called 'critical operations' in other frameworks and jurisdictions.

2 'Resilience by design' is when an organisation has built diversity, redundancy and resourcefulness into its operating model in such a way that allows it to respond, adapt and ultimately thrive in conditions of adversity.

The financial services operating model

An effective operating model should enable a firm to deliver its strategic objectives and its purpose.

For financial services firms, there is a growing need for operating models that can enable the delivery of more sustainable, competitive services that can control costs as well as take advantage of technological opportunities such as big data, analytics, decentralisation and digital delivery methods.

We view the operating model for financial services firms as having four discrete components that support the firm's strategy (as visualised in Figure 2):

- **The customer proposition:** focuses on understanding the products or services that are delivered to the firm's end users (whether they are customers, clients, counterparties or other stakeholders) and the channels that are used. The customer proposition is supported by the three other components of the operating model.
- **Process and governance:** provides clarity on the end-to-end steps required to deliver products and services to end users/consumers. Within this component, the firm evaluates opportunities for simplification, automation or elimination of non-value-add activities.
- **Digital and data assets:** are the systems, tools and data used by the firm to deliver its services. Digital and data assets facilitate the way the firm operates and performs tasks.
- **Work structure:** considers the roles, capabilities, responsibilities, methods of working, location of employees and outsourcing models that are required to deliver services to the end user/consumer.

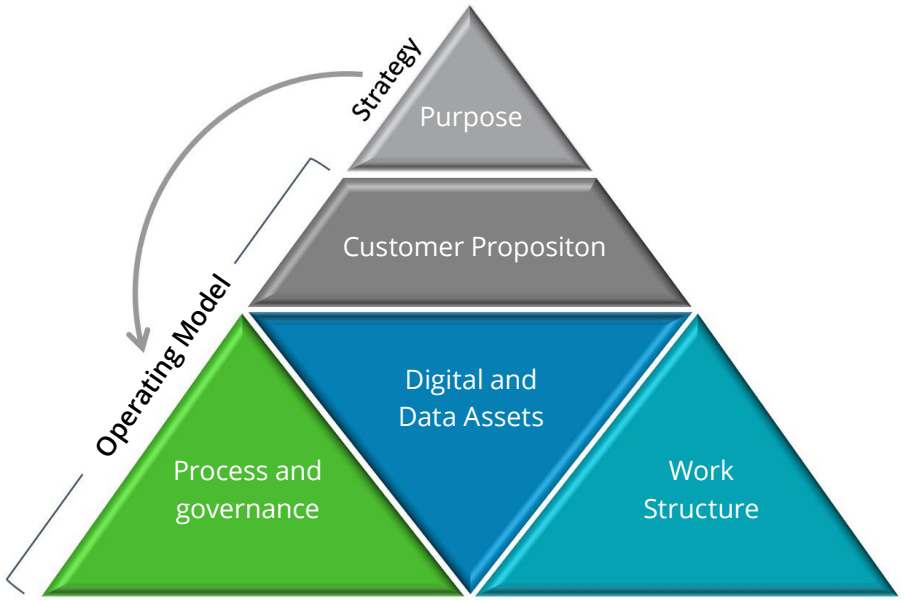
The intersection with operational resilience

There are clear parallels between operating model design and enhancing the operational resilience of a firm's most important business services.

The customer proposition component of an operating model is focused on the identification of value that is delivered to external end users/consumers much in the same way that operational resilience pushes firms to identify how the failure of important services could harm external stakeholders.

The three supporting components of the operating model are all key factors in enhancing operational resilience. However, the regulatory objective is ultimately to protect the customer and the market from disruption. As such, the primary focus on the customer proposition challenges firms to understand how any changes made to the underlying components of the operating model could affect their ability to deliver services during a disruption to normal operations.

Figure 2: How the operating model supports a firm's strategy and purpose



Challenges and opportunities from operational resilience

The integration of an operational resilience mindset into operating model design will present firms with two types of insights as they examine what this means for their specific circumstances:

- **Challenges arising from the regulatory agenda:** where the preferred design of the target operating model for business or economic reasons may be less feasible because of regulatory expectations or concerns. For instance, where a firm is seeking to outsource a business process to a third party provider (TPP), that process could support the delivery of a service that has been identified as important from an operational resilience point of view. In such a scenario the firm may then need to consider what substitute capabilities can be put in place to maintain the service if the TPP were to be disrupted. This example is explored further in the 'In Focus' section of this report on pages 13 and 14.

- **Opportunities to leverage operational resilience:** where the activity of implementing regulatory requirements for operational resilience or the end-state of more operationally resilient systems unlocks operating model design opportunities not previously available to the firm. One example of this has to do with the benefits that can flow from mapping the underlying processes and dependencies of an important service. This exercise can be used to give transformation teams a better understanding of a firm's operational vulnerabilities and help them identify risks or potential difficulties they might encounter during a change programme.

We provide some further examples of challenges and opportunities arising from operational resilience for operating model design in Figure 3.

Firms should consider carefully how the challenges and opportunities they could face might crystallise across the three supporting components on their operating model – Process and Governance, Digital and Data Assets and Work Structure – as an understanding of each will enable them to assess better how their operating model can evolve in a regulatory environment where operational resilience comes under much greater scrutiny.

A challenging world of grey swans

The post-COVID operating environment will bring challenges for financial services firms that cut across both operating model design and operational resilience.

COVID-19 showed that non-financial events can have a system-wide impact on the functioning of the financial services sector. Regulators have already said that they are now even more alert to operational threats that might undermine the financial system.

The potential sources of these threats are vast. The growing ecosystem of the Internet of Things (IoT) will rapidly increase the cyber attack surface of financial services firms, their customers and suppliers, and will make it more conceivable that a future cyber attack on a firm could have systemic effects with implications for broader financial stability.

More generally, **firms should take the experience of COVID-19 as a signal that they need to design operating models that are resilient to 'grey swans' –** risks that may seem improbable, but that are nevertheless conceivable, have some precedent (including in other sectors), and would cause widespread disruption to normal activities if they crystallised.[iv]

This means that when regulators ask firms to test their resilience against a 'severe but plausible' scenario, they want those firms to take their thinking beyond BaU-type disruptions that occur and are resolved in the sector routinely. Change and transformation teams should adopt the same mindset to think about how firms' operating models can and should change to be resilient to risks of this severity.

Opportunities in the post-COVID working world

Across the three supporting components of the operating model, Work Structure is perhaps the most likely to see substantial operating model implications arise following COVID-19 given that many firms look likely to adopt hybrid approaches to the day-to-day location of their teams.

A hybrid working model comes with a number of attractive opportunities for firms. These could include the ability to staff teams more flexibly, based on a global or multi-regional talent pool. Allowing employees to choose the location and timing of their work also looks set to become a key differentiator for financial services firms in employee attraction and retention.[v]

In order to take advantage of this, however, firms will need to ensure that this way of working does not make their operations more vulnerable. While the experience of financial services firms during COVID-19 has shown that they were mostly resilient to a rapid shift to remote working, the resilience implications of a permanent hybrid model, assuming this becomes the norm, will still need thorough consideration. This could include the potential that firms will be less successful in instilling the right risk culture among employees that have spent little-to-no time on site, and that certain controls may become gradually more susceptible to workarounds devised by unmonitored remote workers.

Firms operating in the capital markets space should consider the implications of Work Structure changes for the treatment and control of price-sensitive information, especially where traders might no longer solely work in segregated office space.

Regulators have already made clear that the relatively resilient functioning of firms in the last year has not satisfied them that the resilience of the sector is already up to the level that they are seeking.[vi] Reaching that level will require concerted firm-wide and sector-wide efforts that help the financial services sector find a more resilient, but also more efficient, way of operating.

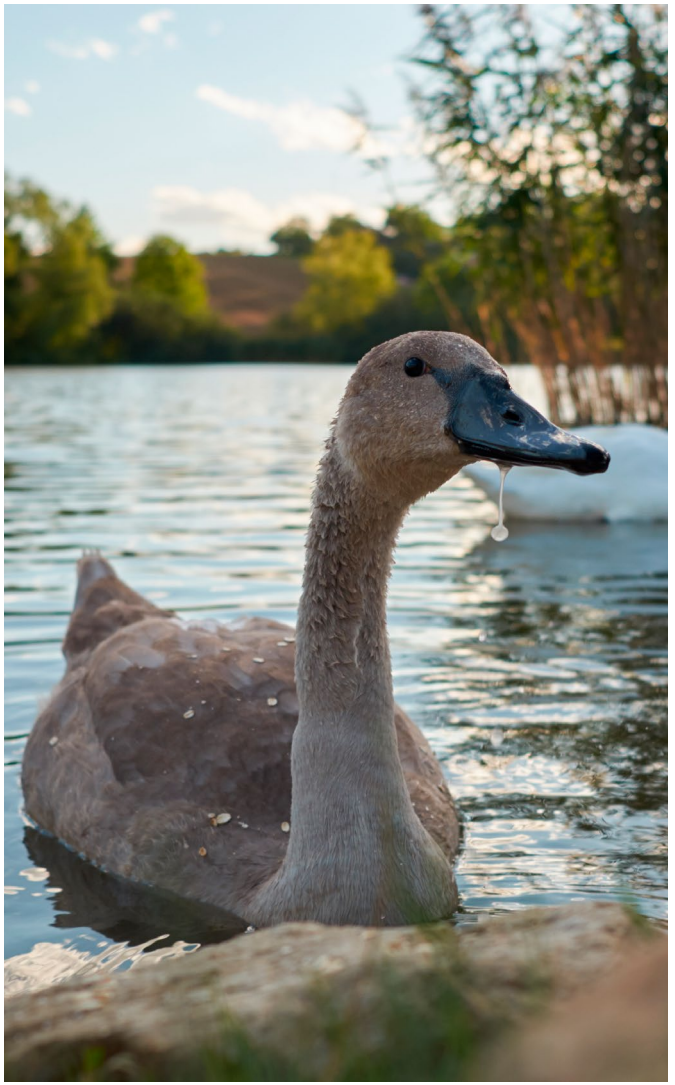


Figure 3: Operational resilience challenges and opportunities for operating model design and change

Operational resilience **challenges** for operating model design		Operational resilience **opportunities** for operating model design	
Process and governance	• Additional security controls and processes will add more complexity to service delivery • Outsourced processes will give a firm less direct control over how it can meet regulatory expectations • Executives responsible for resilience (SMF24 in the UK) will be accountable for operating model change resilience failures	**Process and governance**	• Better understanding of business architecture through process mapping • Clearer understanding of 'hand-offs' between processes to deliver a service • Opportunity to identify ways to streamline existing processes and responsibilities as well as reduce operating costs
Digital and data assets	• Potential regulatory resistance to outsourcing if security or concentration risks are identified • Frequent IT operating model change will necessitate more mapping / testing for regulatory purposes • Increasing reliance on digital increases the need for potentially costly manual substitute systems	**Digital and data assets**	• Better understanding of digital and data assets will enable change teams to improve IT change management • Chance to understand the various technology applications used across the firm and streamline them • Opportunity to implement more consistent approaches to technology security across legal entities and geographies
Work structure	• Heightened cyber risks arising from a hybrid work structure • De-centralised or offshore work structure more vulnerable to border restrictions and political intervention • Offshored centres that are less technologically advanced may be less resilient in workforce disruptions	**Work structure**	• Resilient remote work structure can enable a global or multi-regional staffing model • Hybrid working model that enables flexible work location could improve staff attraction and retention • Opportunity for increased automation as roles and inputs into the operating model are better understood

Integrating an operational resilience mindset into operating model design

The objective of enhancing operational resilience must also drive operating model design decisions and investment. **We see this as a strategic priority for financial services firms that needs to be championed by the Board and senior leadership.**

Executives responsible for the overall operational resilience of the firm (SMF24s in the UK and equivalents in other jurisdictions) should take a 'top down' approach and set a consistent and resonating tone throughout the group, across geographies and legal entities, on how change and transformation teams should integrate an operational resilience mindset into their decisions.

We expect this to save costs by avoiding a proliferation of bespoke methods to satisfy individual owners.

We have made the case in our report Resilience without borders: How financial services firms should approach the worldwide development of operational resilience regulation for why taking a group-wide approach to operational resilience makes sense for cross-border firms.

Key to the success of the approach will be in how it prioritises this integration for the operations that are most likely to be subject to regulatory scrutiny. As noted in the second principle of Figure 4, this scrutiny is likely to be most acute where impact tolerances set a high bar for expected resilience. Early signals from existing regulatory initiatives show us that these will likely include areas where a firm plays a role in the functioning of a broader system, such as in payments.

This approach needs to focus on helping the firm remain within its impact tolerance thresholds and to use the tools the firm develops as part of its operational resilience work (particularly testing methods) to improve how it makes operating model design choices.

To do this, Boards and senior leadership can use the three principles we set out in Figure 4.

Figure 4: Three principles for integrating an operational resilience mindset into operating model design

1. Taking a consistent group-wide approach to integration

Senior leadership needs to instil a common approach to operational resilience and operating model design throughout the group by creating a common set of objectives, a clear accountability structure for designing operating models that deliver important business services and a unified set of outcomes that operating model design choices should support. Done well, implementing this principle amounts to a group-wide cultural shift in thinking about operational resilience as a primary business objective.

2. Prioritising action using impact tolerances

Operational resilience considerations should take precedence in operating model design when particular operations support important business services. In such cases, teams need to understand how the applicable impact tolerance will affect the expected resilience of the service over time and be able to articulate how operating model changes made in that timeframe will support reaching that impact tolerance.

3. Using testing to refine operating model design choices

As more sophisticated, model-based, operational resilience scenario testing methods are developed firms should have the ambition not only to test service resilience periodically, but to deploy this testing to evaluate how proposed changes to the operating model could affect the firm's ability to remain within its impact tolerance. This could pinpoint where additional investment, such as building substitutability, back-ups and redundancies, will be needed in order to proceed with operating model change.

Stages of integration in the coming years

Implementing a group-wide approach to integrating operating model design with operational resilience considerations will be a multi-stage project for most firms.

Depending on the jurisdiction(s) the firm operates in, it is likely that efforts in the coming year will need to focus first on implementing new operational resilience frameworks to a deadline. In the UK, firms will need to do this by 31 March 2022 and in the US and elsewhere regulatory pressure may push them along a similarly ambitious timeline.

While teams responsible for operating model design have an important role to play at every stage of the process, we see a particular opportunity for them in what we have called the 'Integrative' phase (see Figure 5).

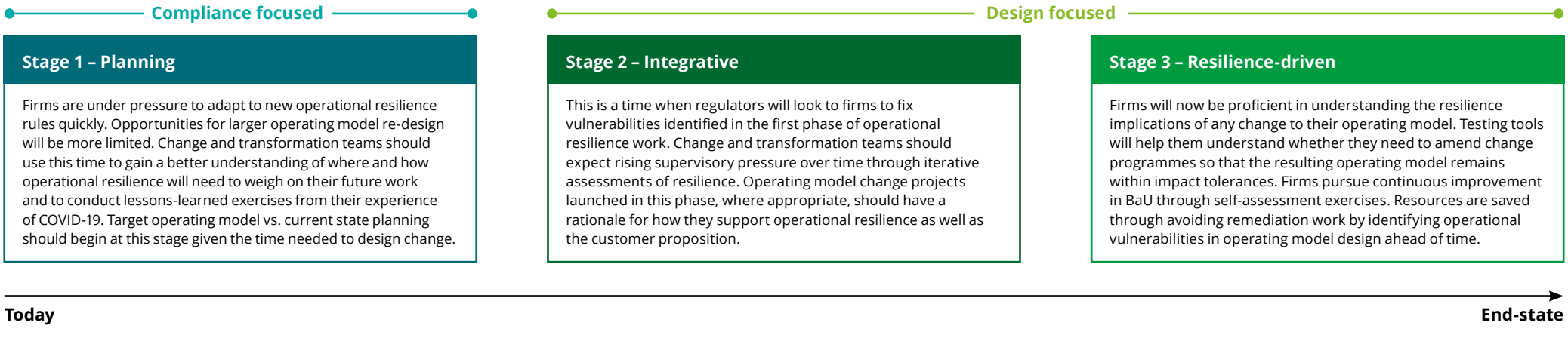
This is where initial compliance and implementation work will have been done and regulators will expect firms to remediate vulnerabilities and bring important services up to their set level of impact tolerance.

In the UK, this Integrative phase can be roughly mapped onto the three-year phase-in of regulatory expectations for operational resilience (31 March 2022 to 31 March 2025), although UK supervisors might expect some firms to exhibit Resilience-driven characteristics before the end of this period. But in any jurisdiction it will be the time when firms are expected to revamp their operations in order to strengthen their resilience in the way identified or requested by regulators.

This will be a critical time where smart operating model design decisions can serve both this purpose and the firm's broader business strategy. It is equally a time where **operating model change decisions that are not driven by an operational resilience mindset are likely to run into regulatory objections** and could be vulnerable to stagnant planning, cancellation, or remediation demands after they have been implemented.

Boards and senior leadership also need to **consider what the operational resilience agenda means for M&A activity during and after the implementation of the regulatory framework.** Change and transformation teams will need to lay out clearly how, post merger, they will integrate and streamline the different operating models while remaining within impact tolerances. This will satisfy an important regulatory concern and could make the transaction less failure-prone from an IT and operations perspective. Conducting model-based testing on operational failure scenarios arising from the combination would strengthen its case further.

Figure 5: Three stages for integrating operation model design and an operational resilience mindset



In focus: Putting the principles of integration into practice

The role that operational resilience considerations should play in operating model design will vary based on the timing and circumstances of the change. **This example considers how a firm can factor in operational resilience when outsourcing to a TPP** during the 'Integrative phase' from Figure 5 (where operational resilience rules are in place and regulatory expectations of firms' resilience are gradually increasing).

During this time, new change programmes initiated by firms will come under significant scrutiny. Supervisors will want to ensure that such programmes do not detract from the firm's ongoing efforts to build its resilience, and – where possible – enhance them. Growing regulatory interest in the potential systemic risks of concentration among TPPs in their provision of services to financial services firms will only heighten this scrutiny.

Figure 6 shows a number of questions that change and transformation teams can ask to determine the relevance of operational resilience to their target operating model design.

One of the first is to determine whether the operating model supports an important service that has been identified for regulatory purposes. If so, this means that they can expect a higher level of regulatory interest in their operational resilience and a greater onus placed on executives responsible for its oversight (such as the SMF24 'Chief Operations' in the UK's SM&CR) in addition to their compliance with the applicable guidelines on outsourcing and third party risk management such as those from the UK Prudential Regulation Authority and the European Supervisory Authorities.

Beyond this point, teams also need to consider whether the failure of the TPP or the outsourced function would jeopardise the firm's ability to deliver the important service within the impact tolerances that have been set for it. If it would, then it is likely that this third party relationship will be considered a point of vulnerability in the resilience of the service. In such cases, the operational resilience of the operating model changes being considered must be made a priority.

For new initiatives that involve outsourcing to TPPs, such as migrating legacy on-premises infrastructure to the cloud, firms must take the opportunity to build 'resilience by design' into their operating models. Regulators looking at operational resilience in jurisdictions such as the UK have indicated that, in a severe but plausible scenario for a critical relationship where a firm can no longer rely on its TPP, an exit strategy based on substitutability will be paramount. Where a firm has alternative systems or processes that can be used quickly to deliver the same service, investing in those systems and showing their functionality in resilience scenario testing will go a long way to meeting regulatory expectations.

Firms should also seek a higher level of assurance from the TPP on its own operational resilience in areas such as data security, cyber security and the management of material sub-contracting. For their most critical relationships, firms should develop real-time risk intelligence tools that can continuously monitor the TPP and allow for proactive risk management. They can also involve the TPP in business continuity and disaster recovery testing to gain an even deeper understanding of potential resilience challenges.

While negotiating contractual terms that allow for such a higher level of assurance may be difficult for individual firms with a large cloud service provider, we see an opportunity for sector-wide collaboration between firms in addressing this challenge over the next two to three years. 'Pooled audits' where a group of financial services firms collaborate to assess the resilience and security of a shared TPP is already a measure that some regulators have signalled will be a recognised part of meeting operational resilience expectations.

Figure 6: Decision tree for determining the role that operational resilience needs to play in operating model design (outsourcing scenario):

Starting question
Does the operating model support an identified important or critical business service?

YES
Would the failure of this TPP threaten the ability of the firm to stay within impact tolerance thresholds?

NO
Regulatory scrutiny of operational resilience will be more limited.

YES
Are in-house back-up systems already in place that could substitute in the event of a TPP services failure?

NO
Operational resilience concerns may be more limited, but testing should still demonstrate how a failure does not threaten impact tolerance thresholds.

YES
Regulatory pressure around operational resilience of the operating model will be high, but can be satisfied if regular scenario testing shows that back-up systems are an effective substitute that can be used to help the firm stay within its impact tolerance thresholds in a severe but plausible disruption.

NO
Regulatory pressure around the operational resilience of the operating model will be at its highest. Firms should prioritise resilience considerations in their operating model design. In this case, investing in substitute systems should be considered as well as seeking higher levels of assurance from the TPP, or participating in industry-wide assurance initiatives such as pooled-audits.

Operationally-resilient operating models as a competitive advantage

Given the pace at which the complexity and potential impact of operational disruptions in financial services are growing, it is clear why regulators around the world have embarked on such ambitious agendas to strengthen the sector's resilience.

Operational resilience is therefore a regulatory imperative. But **instead of regarding operational resilience solely as a compliance exercise, we believe firms can use it to develop more resilient operating models** to help them become fitter to face future threats.

Figure 7 sets out five ways that we see operationally-resilient operating models offering a source of competitive advantage for firms. These advantages are built around how a firm can use its resilience to win confidence – of customers, of regulators and of wider stakeholders (be they shareholders, rating agencies or others).

Customer confidence will be particularly important as new-entrants to the financial services market create a more competitive environment that traditional firms will need to face.

This confidence can be won directly by developing a reputation for resilient operations – a differentiator that may become more top-of-mind for customers as cyber threats in the financial services sector become more sophisticated, and broader IT failures become more frequent and public.

The confidence of customers can equally be an indirect benefit of more resilient operating models, especially where they allow a firm to act more flexibly and to offer new services and delivery methods more quickly when societal preferences change.

The risk of doing too little

In the current environment of strict cost control, it is understandable that many firms will question why they might do more than the regulatory minimum. That approach, however, would risk taking a firm down a path where it becomes an operational resilience laggard while its competitors forge ahead. This is not a position that a firm wants to be in.

Recent events in the financial sector have demonstrated a clear connection between a firm's technology resilience and its ability to transform itself into a leaner, more cost-efficient and competitive organisation. In our paper On the frontier: Operational resilience and the evolution of the European banking sector, we noted that complex, cross-border firms in particular have often found poor operational resilience to be a key barrier to digitisation efforts (either through change programmes or the integration of digital native businesses into their own).

At least one rating agency has also pointed out a potential link between a financial services firm's individual cyber resilience and its credit rating due to the potential for reputational damage. Reflecting on this, it has called for digitisation to go hand-in-hand with greater efforts to plan for disruptions and incident recovery.[vii]

Figure 7: Operationally-resilient operating models as a source of competitive advantage

Regulators are also unlikely to respond well to a firm that only seeks to deliver the 'minimum viable product' in its operational resilience efforts. Operational resilience is not a detailed list of regulatory requirements that need to be complied with to the letter, but rather a set of expectations that demands innovative thinking and independent action on the part of firms, as well as collaborative action in the financial services industry.

Regulatory expectations for operational resilience will also evolve over time given the growing complexity of the technological and operating environment for firms and the corresponding growth in potential threats they will face. Indeed, when discussing the evolving nature of cyber threats in the sector, one senior regulator recently acknowledged that there is no end point in the operational resilience journey for financial services firms.[viii] If there was an end point, then the value of the resilience initially achieved would diminish over time.

In such an evolving regulatory environment, it makes sense for firms to think about what operational resilience will mean for their own evolution on an ongoing basis. This will necessarily reveal some trade-offs between their desired operating model (based on a purely commercial rationale) and one that will stand up to regulatory scrutiny. Identifying these tensions early will contribute to a more stable and sustainable operating model over time. Firms that can demonstrate to regulators that they have incorporated 'resilience by design' into any changes to the operations that support their important services will reduce the likelihood of regulatory intervention (such as formal reviews leading to ex-post remediation) and the potential reputational damage that could come with it.

Achieving and maintaining the confidence of regulators, shareholders, customers and other stakeholders through proven resilience in the face of financial stress is already a well-recognised competitive advantage for firms since the Great Financial Crisis. It is entirely reasonable to expect that, with the growth of new operational threats to the stability and functioning of the financial sector, similar advantages will arise more and more for firms that can demonstrate effective operational resilience.

> "If the last decade of bank supervision was about designing rules that lead to more resilient bank balance sheets ... the goal in the decade ahead must be for banks to improve their risk culture and operational resilience by at least the same margin as they have improved their financial resilience in the decade past."
>
> **Carolyn Rodgers, Secretary General of the Basel Committee on Banking Supervision[ix]**

A narrow window of opportunity

Never before have regulators so directly looked at, and set expectations for, the internal operations of financial services firms that support the services they deliver to customers and the wider market.

While many regulatory requirements are relevant to changes in a firm's operating model, the operational resilience initiative will merit special consideration for those parts of the operating model that support important services.

Financial services firms now have an important opportunity to use the regulatory drive for operational resilience as a catalyst to build more resilient operating models. Both are much needed projects in the sector, but are ones that may often come into tension with each other if operating model design choices do not maintain or enhance operational resilience. To address these potential tensions, early action will be key, as the best prepared firms will use the near-term regulatory imperative to improve their understanding of the implications that operational resilience is likely to have for their operating model over the next four to five years.

The window for firms to seize this opportunity, however, is a narrow one. Given the likely timelines for the implementation of the regulatory approach to operational resilience in various jurisdictions (and known in the case of the UK approach) many firms will need to do the bulk of their work on remediating vulnerabilities in the next few years. Spending these years only focusing on the minimum that is required to meet regulatory expectations of operational resilience may allow competitors to pull ahead.

Linking up the operational resilience agenda with a proactive and resilience-driven approach to operating model design is something that change and transformation leads should begin planning for this year.

Firms will have a great deal of licence to determine just how wide-ranging an approach they pursue. Our view is that taking early, well thought out and comprehensive action on integrating an operational resilience mindset into a bold agenda of operating model re-design will serve firms well from both a regulatory and commercial perspective.

Endnotes

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Contacts

If you have any questions about the issues covered in this report, get in touch with one of the team from the EMEA Centre for Regulatory Strategy or with one of Deloitte's experts in operating model design, operational resilience, cyber risk or third party risk management.

Report authors

David Strachan
Partner
Head of EMEA Centre for Regulatory Strategy
+44 20 7303 4791
dastrachan@deloitte.co.uk

Scott Martin
Senior Manager
EMEA Centre for Regulatory Strategy
+44 20 7303 8132
scomartin@deloitte.co.uk

Amar Duggal
Senior Manager
FS Consulting
+44 20 7303 7751
arduggal@deloitte.co.uk

Ana Garcia
Senior Consultant
FS Consulting
+44 20 7007 1296
acgarcia@deloitte.co.uk

Deloitte contacts

Orlagh Tuite
Partner
Operating Model Lead, FS Consulting
+44 20 7303 8219
otuite@deloitte.co.uk

Rick Cudworth
Partner
Reputation, Crisis & Resilience
+44 7303 4760
rcudworth@deloitte.co.uk

Danny Griffiths
Partner
Third Party Risk Management
+44 20 7007 9296
dangriffiths@deloitte.co.uk

Sarah Black
Partner
FS Lead, Operational Resilience
+44 20 7007 9543
sarahblack@deloitte.co.uk

Nick Seaver
Partner
Global FS Lead, Cyber Risk Services
+44 20 7303 7097
nseaver@deloitte.co.uk

Simon Brennan
Director
EMEA Centre for Regulatory Strategy
+44 20 7303 5267
simbrennan@deloitte.co.uk

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