

# The Resilient Organisation

Weathering disruption, adapting to new environments, and keeping ahead of risk

David Tattam Chief Research and Content Officer

9 August 2022







# The complete Risk Solution

PROTECHT.ERM PROTECHT.ADVISORY

### PROTECHT. CONSULTING

**Corporate Office Risk Framework Dashboar** 

**Operational Resilience**  $(\checkmark)$ **Risk Assessment**  $\langle \checkmark \rangle$ **Compliance Management**  $\langle \checkmark \rangle$ Internal Audit  $\bigcirc$ Key Risk Indicators  $\bigcirc$ **Actions Management**  $(\checkmark)$ **Custom Registers**  $(\checkmark)$ 

Risk Health Sc	ore	Healu	5	nearu	score	nealu	Q	A	2
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		Risk As	sessment	Contro	Testing	Com	oliance	к	RI
Business Unit	Risk Health Score	Inherent Rating	Residual Rating	Tests Performed	Tests Failed	Total Questions	Non Compliance	KRI Count	R
Call Centre	• 2.8	Extreme	<ul> <li>Moderate</li> </ul>			3		8	
Corporate Office & Strategy	• 2	• Extreme	<ul> <li>Moderate</li> </ul>					44	
Finance	• 3.3	<ul> <li>High</li> </ul>	<ul> <li>Moderate</li> </ul>	2		1		8	
Health and Safety	• 2.9	• Extreme	<ul> <li>High</li> </ul>			3		12	
Information Technology	• 2.9	<ul> <li>Extreme</li> </ul>	. Low	1		41		52	
Marketing	• 2.5	<ul> <li>High</li> </ul>	<ul> <li>Moderate</li> </ul>			8	3	15	
Operations	• 2.1	<ul> <li>Extreme</li> </ul>	<ul> <li>Moderate</li> </ul>					44	
People & Culture	• 2.8	<ul> <li>Extreme</li> </ul>	<ul> <li>Moderate</li> </ul>			2		36	R.
Product	• 2.1	<ul> <li>Extreme</li> </ul>	<ul> <li>Moderate</li> </ul>			2			k ()
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### Agenda

What is operational resilience and what are the drivers? A practical resilience methodology and process to make it happen Bringing operational resilience to life: the key components Realising the value of a strong resilience capability



# **Operational Resilience - Definitions**

A process and a characteristic of an organisation which allows it to:

- adapt rapidly to changing environments and needs
- carry out its mission or business despite the presence of operational stress and disruption.
   Technopedia (rephrased)

Operational resilience is the outcome of prudent operational risk management: the ability to effectively manage and control operational risks and maintain critical operations through disruptions.





# **Operational Resilience – In reality**

- Prevent / reduce the likelihood of shocks on the business.
   "Don't get hit"
- 2. Be robust to shocks so as to minimize the impact on the business. "Don't falter when you do get hit"
- 3. Where shocks lead to impact, to be able to recover quickly and effectively. "Get up quickly after you have been hit"
- Where the shock creates permanent change (the new normal),
   to be able to quickly and effectively adapt. "Change process or
   strategy to be smarter and tougher"
- 5. To be able to learn from shock experiences to become more resilient. "Learn to dodge!"





# Why bother? The value of Resilience

### **Drivers**

- Increased frequency, magnitude and subsequent concern over major disruptive events
- Increased need to protect:
  - Customer
  - Stability of financial and social system(s)
  - Organisation
- Expectation as a player / supplier "licence to operate"
- Regulation

### **Outcomes / Value creation**

- Sustainability
- Survive and thrive from major impact events
- Become more reliable and attractive / enhance reputation and brand
- Become stronger from lessons learned
- Satisfy regulatory requirements





# **Regulatory Drivers - Examples**

- Basel: Principles of Operational Resilience 1. March 2021
- 2. Prudential Regulation Authority (PRA) March 2021
- 3. Financial Conduct Authority (FCA) December 2019
- 4. APRA CPS 230: Operational Risk Management -July 2022
- Other: Government and Critical Infrastructure ..... 5.



### Prudential Standard CPS 230 **Operational Risk Management**

### Objectives and key requirements of this Prudential Standard

The aim of this Prudential Standard is to ensure that an APRA-regulated entity is resilient to operational risks and disruptions. An APRA-regulated entity must effectively manage its operational risks, maintain its critical operations through disruptions, and manage the risks arising from service providers.

An APRA-regulated entity's approach to operational risk must be appropriate to its size, business mix and complexity. The key requirements of this Prudential Standard are that an APRA-regulated entity must:

- controls, monitoring and remediation;
- robust monitoring.



### DRAFT

July 2022

identify, assess and manage its operational risks, with effective internal

be able to continue to deliver its critical operations within tolerance levels through severe disruptions, with a credible business continuity plan (BCP); and

effectively manage the risks associated with service providers, with a comprehensive service provider management policy, formal agreements and

# APRA CPS 230

### **Resilience objectives:**

- to the extent practicable, preventing disruption to • critical operations;
- adapting processes and systems to continue to • operate in the event of a disruption; and
- returning to normal operations promptly after a • disruption is over.

### **Resilience processes**

- Part of Operational Risk Management •
- **Extension of Business Continuity Management** •
- Strongly integrated with Third Party Risk Management





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# The main driver/s for operational resilience





# The drivers of disruption

- Pandemic / Infectious diseases
- Acts of nature (weather, communication natural disaster
- Human made accidents
   Geo Political
- Cyber Data and systems
- Asset shortage (Food, Water)
- Climate Change Black Swans •
- Environmental Bio **Diversity Loss**

- Conflicts and weapons
- Information / breakdown

  - Social Action
  - Space threats Solar Flares, Asteroids
  - Gray Rhinos

# THE GRAY RHINO

DANGERS

### MICHELE<sup>®</sup>WUCKER







### Agenda

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# **The Language and Acronyms**

Lingo is the invented language of ordinary people to imply expertise - Bob Geldof

Law Number IX: Acronyms and abbreviations should be used to the maximum extent possible to make trivial ideas profound. - Norman Ralph Augustine

UK	Australia	US	Indus
Important Business Service (IBS)	Critical Operations, Critical Functions, Critical Services	Critical Service, Critical Operations, Core Business Lines	Value end p Proce
Resources			Asset
Mapping			Flowc
Impact Tolerances	Tolerance Levels		RTO, MTD,



### stry

- Chain, End to rocess, Critical SSes
- s, Capabilities
- charting
- RPO, MAD, MTPD

# **Example:**

**Objective: Important Business Service: Impact Tolerance:** 

To be at work by 8.45 a.m. each workday (Job retention / remuneration) Travelling to work each day 30 minutes



Asleep



### Arrive at work





### **Resources**





### **Health of Resources**





### **Scenario**





### **Scenario** Unlock car Start car and drive to work Wake Up Find car Park 11111184948111111 Resources ////keteX////// |||| Pereco Required Car Car Car Key Car Health Person - M Car - L Key - H Petrol - M Car I (Risk: L,M,H) Scenario Person has an impromptu celebration catch up the night before: Resource affected – Person 1. Oversleeps 2. Cannot remember where car is 3. Unable to drive Arrive at work 9.30 am X Lose Job / Remuneration



car	Walk to work	
<i>\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\</i>		
Car		
Park		
Park - L		
		_

### **Scenario** Unlock car Start car and drive to work Wake Up Find car Park car ||||| Ref:901||||| Resources IIII Reveau ll koekeA Required Car Car Car Key Health Person - M Petrol - M Key - H Car - L (Risk: L,M,H)

### Health of the Resource

- What risks exist that could affect the "health" of the resource?
- What controls are there in place over the risks that could affect the health?
  - Preventive Controls (e.g. No partying on work night)
  - Detective Controls (e.g. Alarm to detect time and prompt person to get home)
  - Reactive Controls (e.g. Car pooling agreement phone a friend!)





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# **Operational Resilience Framework - Integrated**







# **Key Components**

- Define critical stakeholder and critical deliverables (objectives). e.g. Customer critical service 1. delivery.
- Define critical operating model required to deliver "critical deliverables": 2.
  - **Important Business Services**
  - End-to-end process Maps
  - Value Chains
  - Critical Resources
  - Third parties

"identify and document resources required to deliver each of their important business services and to identify the resources that are critical to delivering a service" Source PRA

- Define impact tolerances for each deliverable what level of impact is OK? 3.
- Assess "Health" of critical resources with respect to the impact tolerances 4.
- Identify, assess and map risks and controls to the resources to assess "health" 5.
- Define and map range of impact scenarios 6.



# **Key Components**

- 7. Link existing "reactive" controls to the process and scenarios (DRP, Recovery Plans, Contingency Plans, Major incident response)
- Link existing risk management processes (RCSA, Stress Testing, ICAAP, KRIs etc) 6.
- 7. Run scenarios at Resource / Asset (loss of) level and Scenario level. Assess results against impact tolerances
- Report 8.
- Governance 9.
- 10. Build as a repeatable process part of your ERM / GRC system.





### Impact Tolerance/ Maximum Tolerable Disruption Hours



### **IBS** Details

ID	Status	IBS Title	IBS Owner	Next Review	Max Tolerable Disruption	Connected Processes	Reso Col
					Distuption	PIOCESSES	00





Open

### **Process map**

### ← (

### Customers ability to utilise ATM for Cash Withdrawals

Impact Tolerance/Maximum Tolerable Disruption Hours: 24 hours (maximum tolerable duration of a disruption to this service)

The ability for customers to withdraw cash from their accounts through ATM





+ Resources



Payments processing	essing Payment complete
Core Banking System Vulnerabili Criticality RTO	<b>tem</b> lity RTO
Good Critical < 6 hours	at < 6 hours

+ Resources

### **Reslience Interdependencies** As of 19 July 2022



Resource	Criticality	Vulnerability	Scenario	Test Result	Process	IBS	Resilience
ATM Machines	Medium	<ul> <li>Good</li> </ul>	ATM machines out of order 01		ATM Cash Restock	Customers ability to utilise ATM for Cash Withdrawals	Satisfactory
AWS infrastructure	Critical	🖕 Good			Internet Banking Platform Maintenance	Internet Banking	<ul> <li>Satisfactory</li> </ul>
Cash Security Services	e Critical	e Good	ATM machines out of order 01		ATM Cash Restock	Customers ability to utilise ATM for Cash Withdrawals	<ul> <li>Satisfactory</li> </ul>
					Loan advisory services	Credit Reporting	Satisfactory
						Home Loans	Satisfactory
						Marketing Sevices	<ul> <li>Strong</li> </ul>
						Personal Loans	Satisfactory
						Reporting data	<ul> <li>Strong</li> </ul>
Complaints Team	👝 Medium	Poor	Failure of Offshore Call Centre Capabilities 01	Pass	Receiving complaints	Managing Customer Complaints	
Concierge Staff	e Low	Good	Pandemic 01	Pass	Receiving complaints	Managing Customer Complaints	
Corporate Website	e High	<ul> <li>Good</li> </ul>			Internet Banking Platform Maintenance	Internet Banking	<ul> <li>Satisfactory</li> </ul>
					Loan advisory services	Credit Reporting	Satisfactory
						Home Loans	Satisfactory
						Marketing Sevices	<ul> <li>Strong</li> </ul>
						Personal Loans	Satisfactory

ftware	IBS Count	Process Count	Health
S infrastructure	1	1	Good
porate Website	6	2	Good
rnet Banking Platform	1	1	Poor
A	11	7	Good
ile Banking Platform	4	2	Good
work Drives	8	6	Good
xe 365	8	5	Good
echt.ERM	1	1	Good
art Pay	7	3	Poor
Converter	1	1	Good
5	1	1	Good

### Filters

### Resource



### **Resource Type**

Facilities
Hardware
Information
People
Software

### Scenario



### Process



### **Scenarios and Tests Dashboard**

As at: 27/07/2022



### **Scenario Details**

ID	Status	Scenario Title	Resources	Risk Events	Risk Rating	Preventive Controls Exist	Test Result	Test Res
<u>1002003</u>	Under Review	ATM machines out of order 01	Cash Security Services Network Drives EFTPOS machine ATM Machines	Technology systems availability Supplier failure / non performance	• 4	• Yes	<ul> <li>Not recorded</li> </ul>	
1002046	Under Review	ATM machines out of order 02		Technology systems availability Supplier failure / non performance	• 4	• Yes	<ul> <li>Not recorded</li> </ul>	
<u>1002076</u>	Under Review	ATM machines out of order 03		Technology systems availability Supplier failure / non performance	• 4	• Yes	<ul> <li>Not recorded</li> </ul>	
1002106	Under Review	ATM machines out of order 04		Technology systems availability Supplier failure / non performance	• 4	<ul> <li>Yes</li> </ul>	Not recorded	

### sult Comments

# **Systems for Operational Resilience**





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# Life doesn't get easier or more forgiving, we get stronger and more resilient.

Steve Maraboli, Life, the Truth, and Being Free



# Value

- 1. Satisfy Regulation
- 2. Enhance Reputation and Brand
- 3. Use in marketing to customers, third parties, employees
- 4. Licence to operate in some industries
- 5. Sustainability of operations
- Minimise value loss from disruptions 6.
- Maximise opportunity and value add from disruption 7.
- 8. Reduce uncertainty to increase confidence in decisions
- 9. Minimise the cost of recovering from disruptions by avoiding them!





# "Fighting COVID-19 could cost 500 times as much as pandemic prevention measures". World Economic Forum

This means that an investment in prevention measures would yield a staggering 50,000 % return!

**Focus on Prevention rather than Cure!** 



# Learning / responding to stress test simulations

- 1. Identify vulnerabilities and/or weaknesses.
- 2. Vulnerabilities and/or weaknesses may include:

### Inherent Risk Issues – solve by process re-engineering

- lack of substitutability
- high complexity
- single points of failure
- concentration risk
- dependencies on third-parties
- matters outside of a firm's control e.g. power failures

### **Residual Risk Issues – solve by control enhancement**

- Control Gaps
- Control Weaknesses



# **Keys for Success**

- Operational Resilience is not a standalone process. It is part of / extension to ERM. 1.
- Utilise existing practices and information as much as possible: 2.
  - DRP, Controls Assurance, KRIs, Issues and Actions, BCP, TPVRM / Outsource management
  - Contingency plans
  - **Stress testing and Capital Planning**
  - **Risk Assessments**
- Agree terms and definitions to minimise confusion follow this space! 3.
- Critical Process / Service mapping will be required. This is the main "missing link" 4.
- Ensure level of granularity is appropriate Beware "death by process maps" 5.
- Main focus should be: 6.
  - Develop end to end process / service maps
  - Map existing / new information to process maps
  - Have capability for "what if". What if we lost asset "A"? What if Scenario "D" were to occur?
- Good systems is your existing ERM / GRC system up to the job? 7.
- Ensure business value is created, not just meeting a regulatory requirements. 8.



### **Pathway to Level of Sophistication – UK Example**





"Mapping should rapidly become more sophisticated, in line with firms' potential impact. It should enable firms to identify vulnerabilities and inform the development of scenario testing. And testing itself should be evolving so that firms can assure their boards they can deliver important business services within impact tolerances through severe but plausible scenarios by end-March

**Exec Director for Supervisory Risk** 

City & Financial 9th Annual Operational Resilience for Financial Institutions Summit

## **Operational Resilience Maturity**





		9%	2%
6%		12	%
	12%		5%
	10%		6%



- Housekeeping
  - What is operational resilience and what are the drivers
    - A practical resilience methodology and process to make it happen
    - Bringing operational resilience to life: the key components
    - Realising the value of a strong resilience capability
- Q&A **PROTECHT**

# **Upcoming Events**



### **EXPLAINING APRA PRUDENTIAL STANDARD**

### CPS 230 Operational Risk Management: What does it mean for you?



**Live Webinar** 

Thursday 18 August, 12.00pm - 1.00pm AEST

### Introducing Protecht.ERM Operational Resilience module





Adel Fakhreddine Head of Sales - APAC Justin Eley Head of Product



### Prepare, withstand, recover and adapt when disruption strikes

The new Operational Resilience module helps you identify and manage potential disruption so you can provide the critical services your customers and community rely on.

### Tuesday 30 August, 12:00pm AEST

**Register Now** 

# Questions

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### Redefining the way the world thinks about risk

Thank you!

