1

2

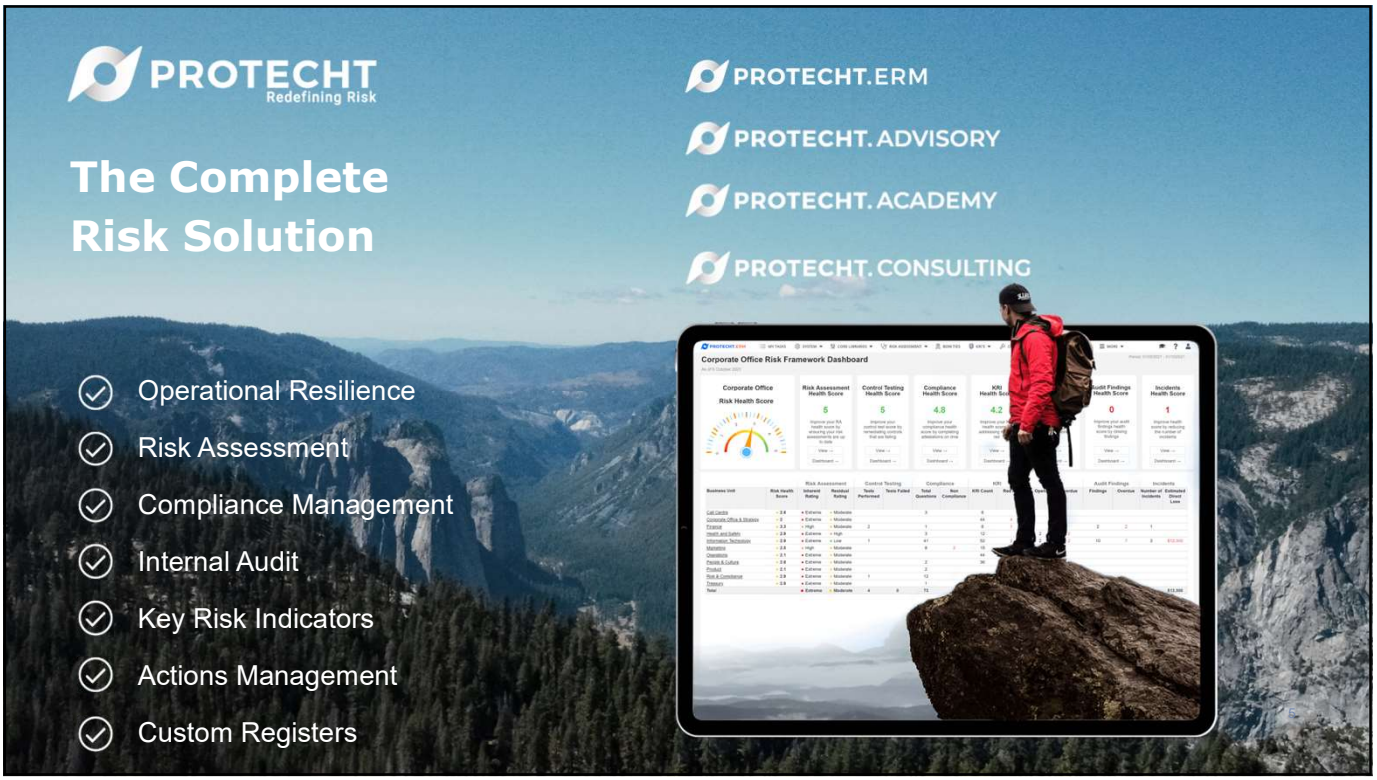
Operational Resilience - When it's not a matter "If ?" but "when ?"

David Tattam
Chief Research & Content Officer

PROTECHT
Redefining Risk

3

4



5

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging your existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

6

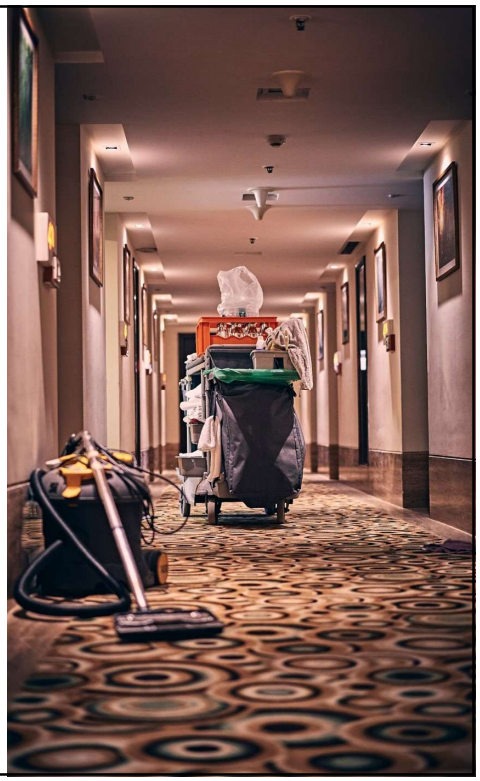
6

Housekeeping

1. Questions: ask questions as we go in the question panel
2. There will be a Q&A session at the end
3. Any questions we don't get to during the webinar we will seek to answer afterwards
4. Please complete the post webinar feedback questions at the end of the webinar
5. You will be sent a pdf copy of the slides and a recording of the webinar will be made available to registered participants on our website:

   www.protechtgroup.com

PROTECHT



7

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging your existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

8

8

Polling Question

Which sector are you working in?

1. Financial Services
2. Government / Local Government
3. Non-financial services
4. Other

PROTECHT

9

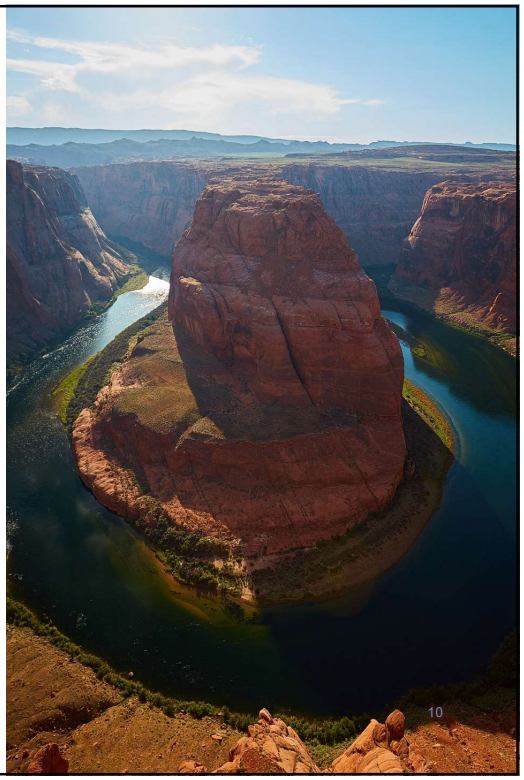
Operational Resilience

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.

To ensure that entities:

- **prevent,** to the extent practicable, disruption to critical operations
- **adapt** processes and systems to continue operations in the event of a disruption; and
- **return** to normal operations promptly after a disruption is over.

PROTECHT



10

Focus of different industries

1. **Financial Services**
   - Regulatory focus
   - Meet the objectives of the regulators – resilient service provides to customers / financial system
   - Comprehensive global guidelines for what is required
2. **Non Financial Services**
   - Compliance focus – how can business disruption affect compliance?
   - Service focus – especially Government and industries focussed on care, health, stakeholder wellbeing
   - Organisational focus – how do we survive and thrive in the face of adversity

Principles are similar. We just need to tailor solution to each situation.
Operational Resilience is important for every organisation.

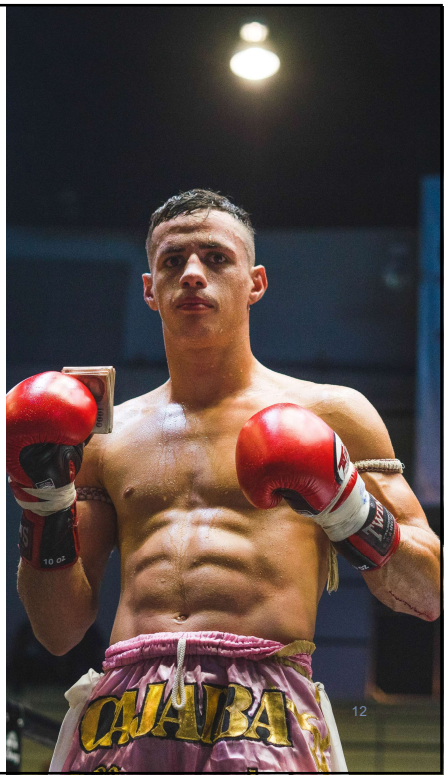
PROTECHT

11

11

Operational Resilience – In reality

1. 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"
4. 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!"



PROTECHT

12

Drivers

1. **Regulation**
   - Financial Services
   - Critical Infrastructure
2. **COVID 19**
3. **Increased incidence of stress events**
4. **Good Business Practice**
   - Third Party Vendor Risk Management
   - Sustainability

PROTECHT

13

13

Regulatory Drivers

1. Basel: Principles of Operational Resilience 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 *(Draft)* MH0

DRAFT July 2022

AUSTRALIA

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:

- identify, assess and manage its operational risks, with effective internal controls, monitoring and remediation;
- 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 robust monitoring.

14

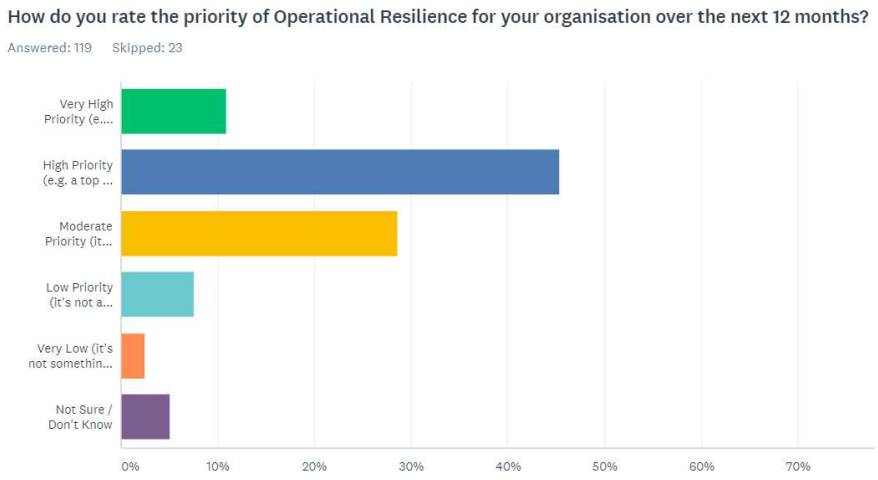
PROTECHT

14

Slide 14

MH0 Added that this is a draft for clarity.
Michael Howell, 2022-08-17T02:09:34.363

Operational Resilience Survey

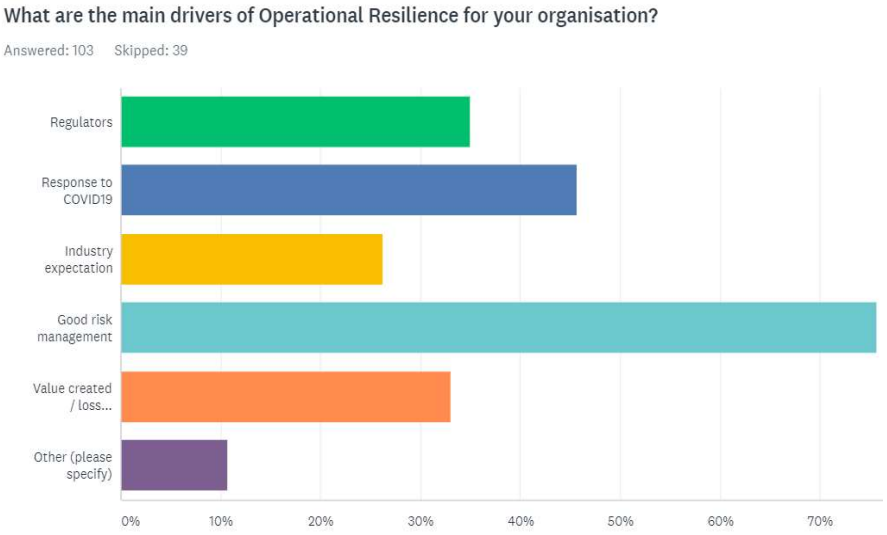


PROTECHT

15

15

Operational Resilience Survey



PROTECHT

16

16

Polling Question

How developed is your operational resilience program?

1. Just starting out
2. Early stages
3. Well on the way
4. Almost there
5. Mature

PROTECHT

17

17

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging your existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

18

18

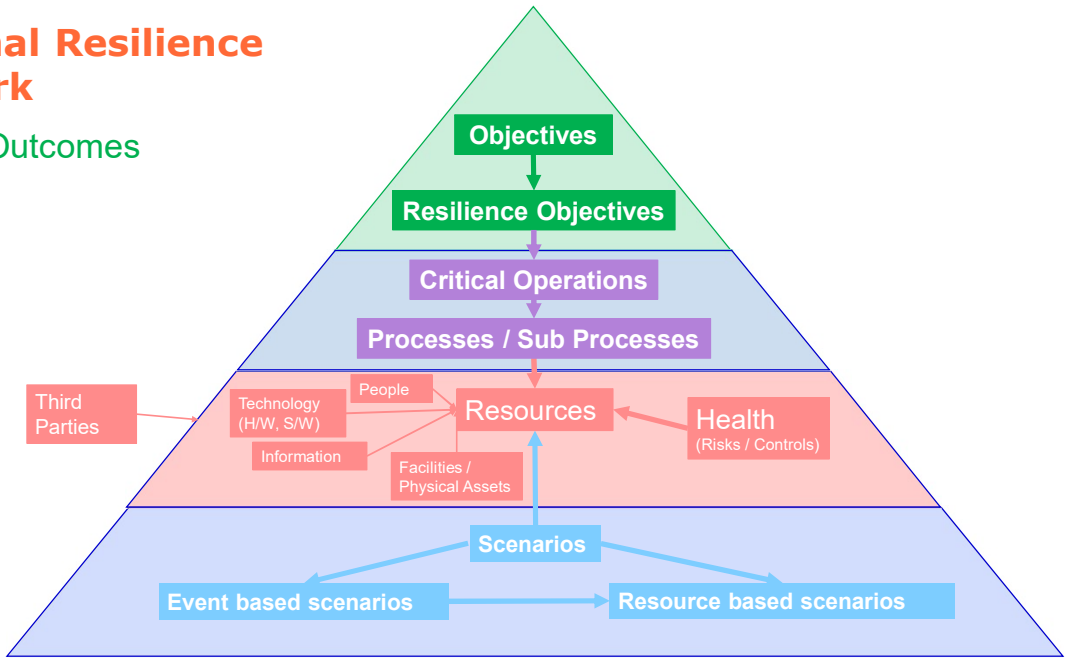
Operational Resilience Framework

Objectives / Outcomes

Services / Processes

Resources

Scenarios



PROTECHT

19

19

Operational Resilience - Process

1. Define key stakeholders and key objectives for each
2. Identify critical operations – those that deliver the objectives
3. Set tolerance levels around objectives
4. Map critical processes that support the critical operations
5. Identify and map resources to the processes
6. Identify and map risks and controls
7. Identify and carry out scenario analysis to test the critical operation
8. Analyse results, identify and remediate any issues

PROTECHT

20

1a. Stakeholder Identification

1. Who / what are the key stakeholders of your business? (A stakeholder is someone or something that your bring reward and / or substantial risk to)

A typical list to consider is:

- Customers
- Shareholders
- Employees / subcontractors
- Suppliers / Vendors
- Partners and other third parties
- Regulators
- Government
- Society
- Environment – Flora and Fauna

PROTECHT
21

21

1b. Stakeholder Objectives Identification

2. For each stakeholder selected, what are the objectives you are trying to achieve for them?

Some typical examples could be:

- Customer: Happiness, Satisfaction
  - Provide reliable, continuous, quality drinking water
  - Provide reliable, timely, quality health care
- Regulator: Compliance with Regulatory Obligations, Good regulator relationships
- Employees: Happiness, Satisfaction, Wellbeing (physical and Mental)

PROTECHT
22

22

Identifying Objectives

Stakeholder 1	• Objective 1 • Objective 2
Stakeholder 2	• Objective 1 • Objective 2
Stakeholder 3	• Objective 1 • Objective 2

Customer	• Reliable and continuous delivery of clean and high quality drinking water, and the safe disposal of wastewater
Customer	• Reliable, continuous and timely ability to pay and receive payments and receipts and access to money
Employees	• Safe and secure employment • Safe and secure work environment

PROTECHT
23

23

2. Critical Operations

A process undertaken by the entity or its service provider which, if disrupted beyond tolerance levels, would have a material adverse impact on its depositors, policyholders, beneficiaries or other customers or its role in the financial system

For FIs, critical operations include, but are not limited to:

- payments
- deposit-taking and management
- custody
- settlements
- clearing
- claims processing
- investment management
- fund administration
- customer enquiries
- supporting systems and infrastructure

PROTECHT
24

24

Critical Operations- Identification

Stakeholder	Service Objective	Important Business Services	Processes
Customer	Provide safe, secure, available drinking water 24/7/365	Drinking water supply	
Customer	Provide motor vehicle insurance	Vehicle Insurance Renewal	
Employees	Pay remuneration on salary payment date	Salary payments	

PROTECHT
25

25

3. Tolerance levels

1. For each critical operation, must establish Board-approved tolerance levels for:
   - (a) Maximum timeframe for disruption
   - (b) Maximum extent of data loss
   - (c) Minimum service levels to maintain while operating under alternative arrangements
2. Must monitor compliance with its tolerance levels and report any failure to meet tolerance levels, together with a remediation plan, to the Board.

PROTECHT

26

4,5&6. End to end process and resource mapping

1. Gain a clear understanding of end-to-end processes underpinning critical operations to identify:
   - Resources
   - Obligations
   - Risks
   - Controls
   - Key Data
   - Monitoring mechanisms
2. Resources to be mapped include:
   - People
   - Technology: Hardware / Software
   - Information
   - Facilities / Physical assets
   - Financial
   - Service providers

PROTECHT

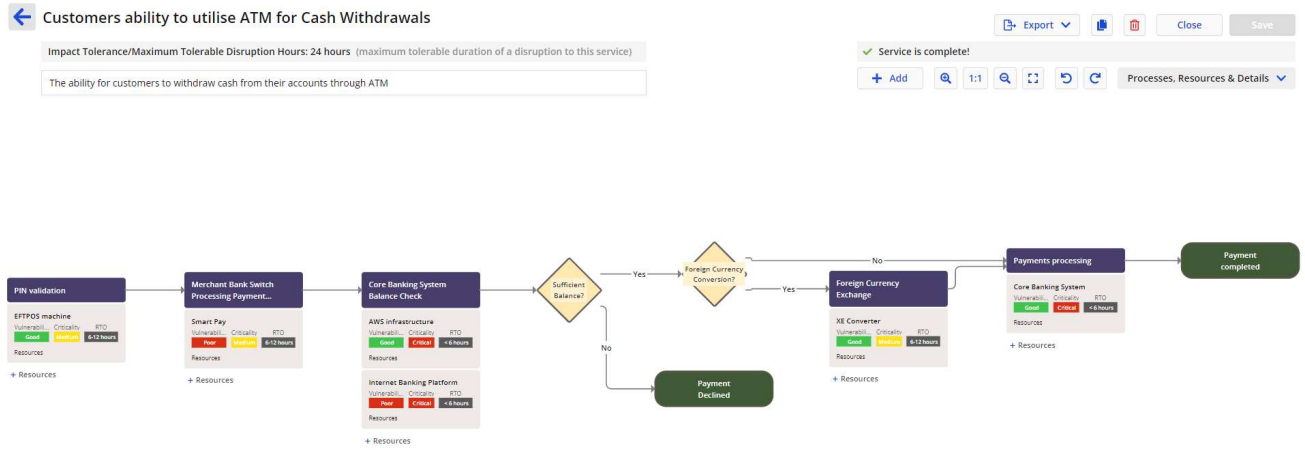
27

27

PROTECHT.ERM

MH0

Process map



PROTECHT

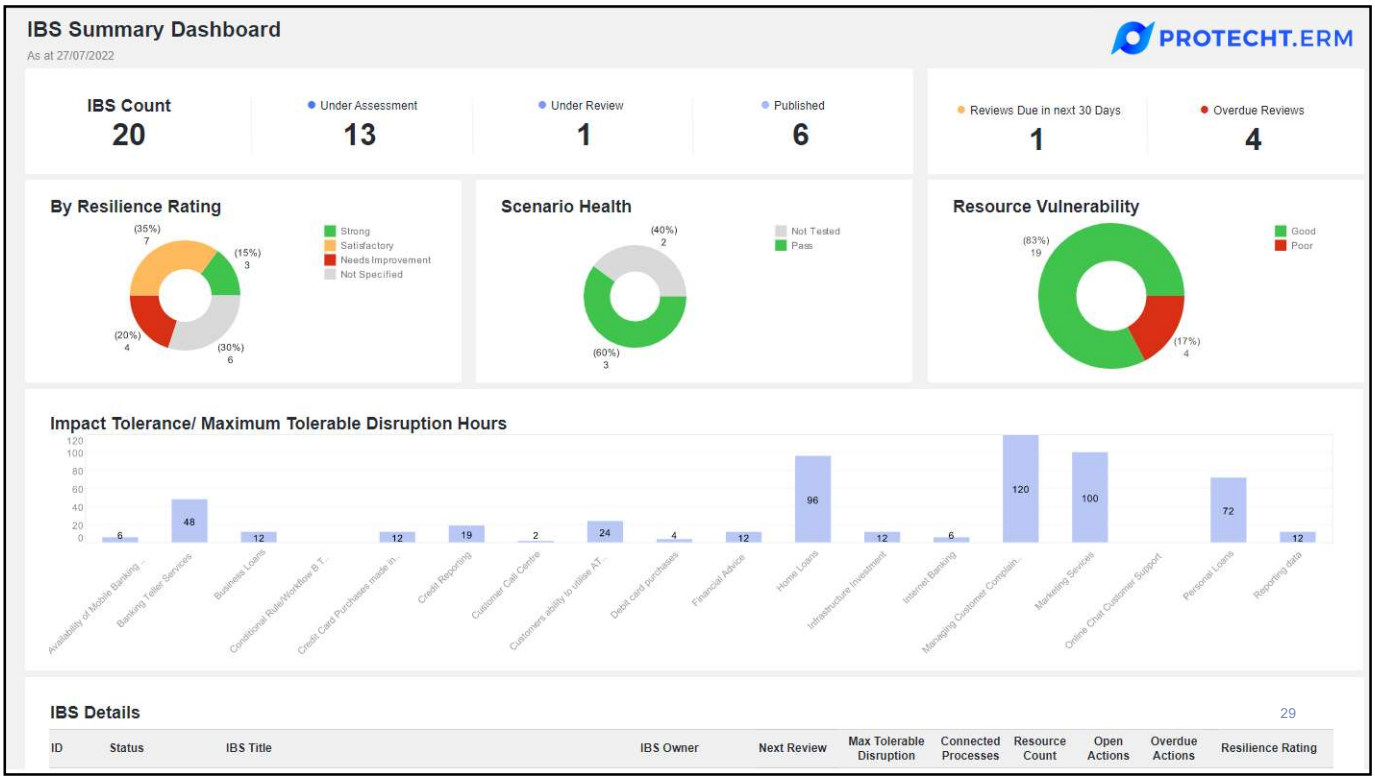
28

28

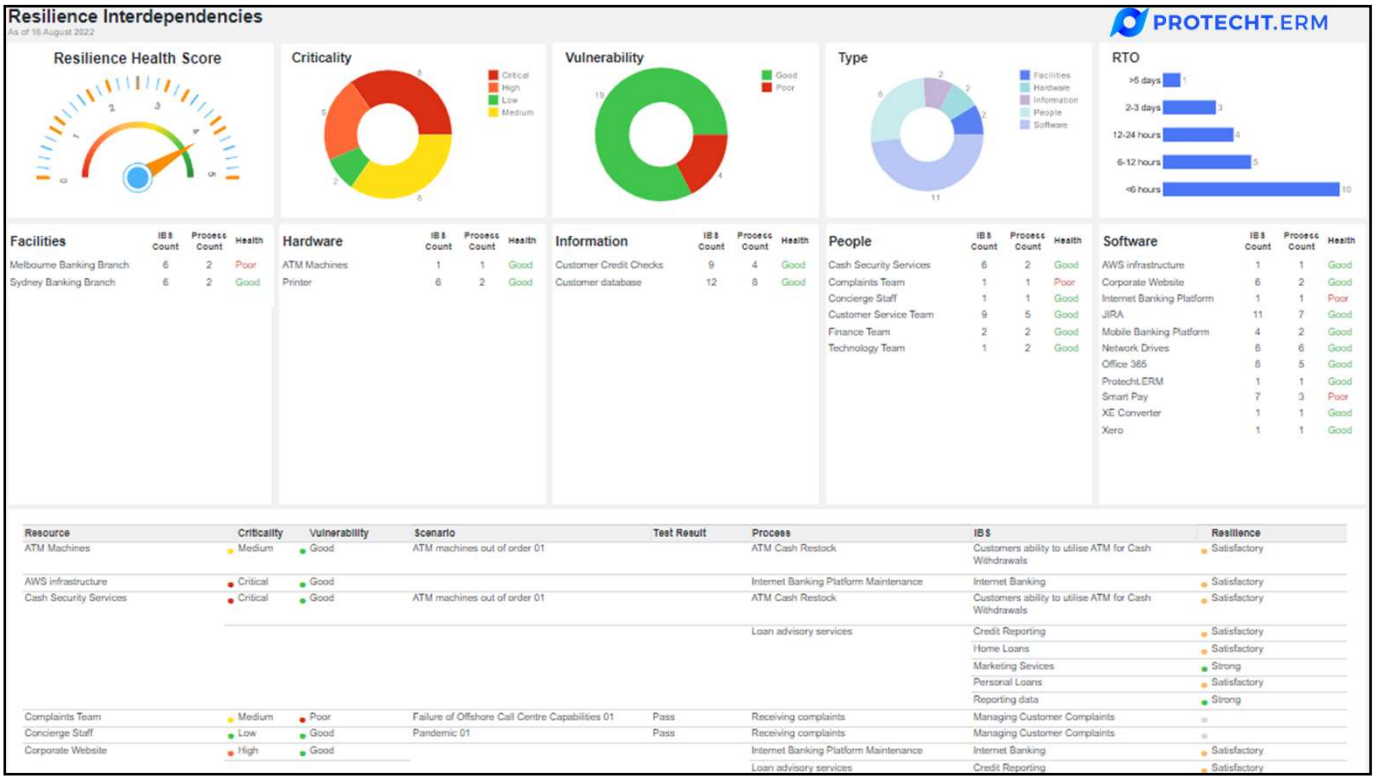
Slide 28

MH0 Add Protecht ERM logo.

Michael Howell, 2022-08-16T01:00:55.890

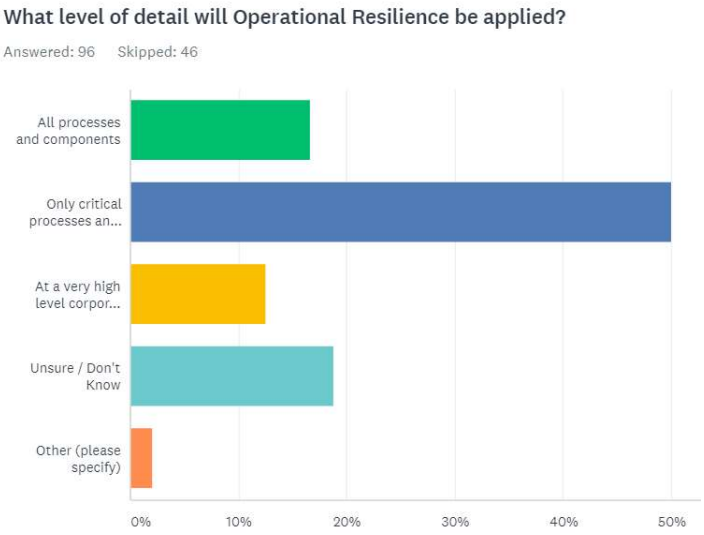


29



30

Operational Resilience Survey



PROTECHT

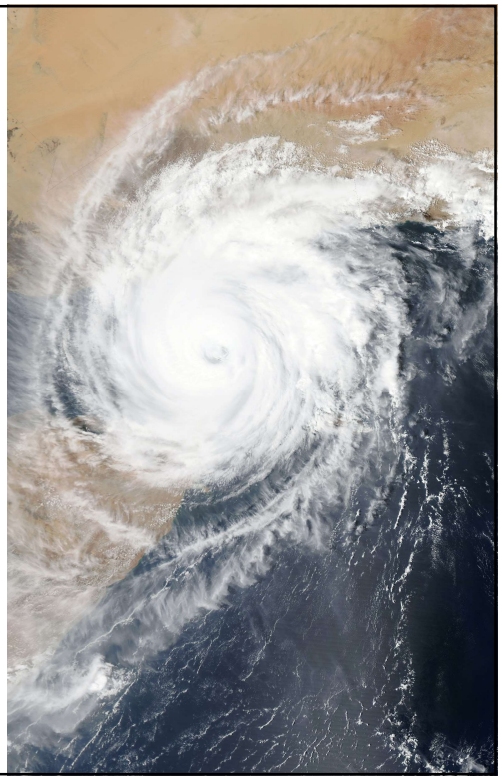
31

31

7. Scenario Analysis

Must :

1. Undertake scenario analysis to identify and assess the potential impact of severe operational risk events
2. Use range of severe but plausible scenarios, including disruptions to services provided by material service providers.
3. Test operational resilience and identify the need for new or amended controls and other mitigation strategies



PROTECHT

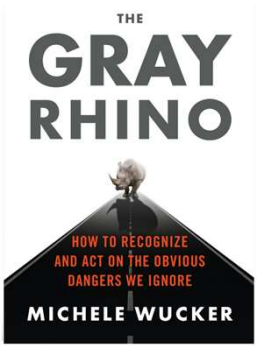
32

MH0

The drivers of disruption

Gray Rhinos

- Pandemic / Infectious diseases
- Acts of nature (weather, natural disaster
- Human made accidents
- Cyber – Data and systems
- Asset shortage (Food, Water)
- Climate Change
- Environmental – Bio Diversity Loss
- Conflicts and weapons
- Information / communication breakdown
- Geo Political
- Social Action
- Space threats - Solar Flares, Asteroids



PROTECHT

33

33

8. Learning / responding to stress tests

Identify vulnerabilities and/or weaknesses in the delivery of important business services within an impact tolerance and remedy these as appropriate.

Vulnerabilities and/or weaknesses may include:

Inherent Risk Issues – process re-engineer

- 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 – control enhancement

- Control Gaps
- Control Weaknesses

PROTECHT

34

34

Slide 33

MH0 Snazzy this up.
Michael Howell, 2022-08-16T00:57:02.323

MH0 0 I've animated this so it is the final point.

I think a graphic would be better but can't find anything I like at short notice.
Michael Howell, 2022-08-17T02:16:42.357

Language and Acronyms

Definitions ….

- Critical Operations - Important Business Service (IBS), Critical Service, Critical Process, Value Chain, end to End Process ……
- Resources - Assets, Capabilities ……
- Mapping – Flowcharting ….
- Impact Types – Consumer Protection, Market Integrity, Effective Competition / Impact – Consequence types
- Tolerance Levels – Impact Tolerance

BCP

MAD: Maximum Allowable Downtime
MTD: Maximum Tolerable Downtime
MAO: Minimum Acceptable Outage
MTPD: Maximum Tolerable Period of Disruption
RTO: Recovery Time Objective
RPO: Recovery Point Objective

PROTECHT 35

35

Example:

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

Asleep → Arrive at work

Critical processes	Wake Up	Find car	Unlock car	Start car and drive to work	Park car	Walk to work
Resources Required	Person	Person Car	Person Car Key	Person Car	Petrol	Person Car Car Park	Person
Health (Risk: L,M,H)	Person - M	Car - L	Key - H		Petrol - M	Car Park - L	

Person has an impromptu celebration catch up the night before. Resource affected – Person: Oversleeps, Cannot remember where car is, Unable to drive

Arrive at work: 9.30 am X
Lose Job / Remuneration

36

36

Issues and Actions

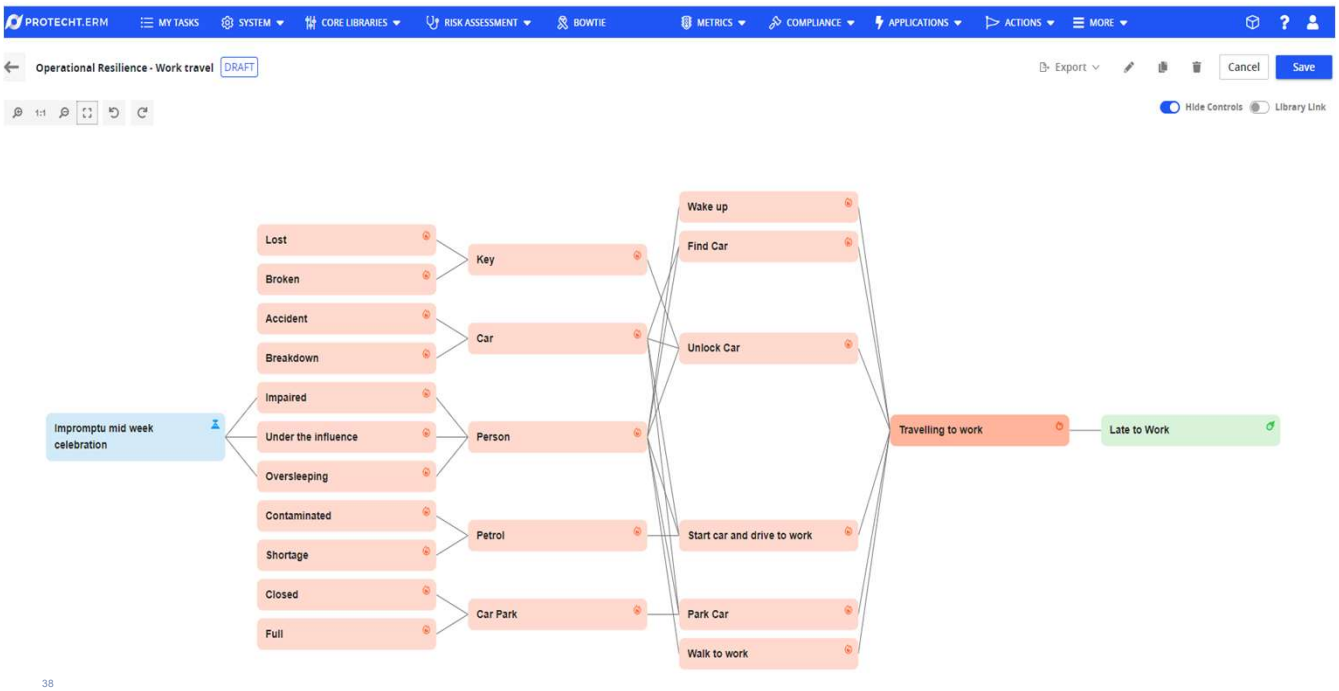
- **Control Weaknesses**
  - Detective Controls (e.g. Alarm to detect time and prompt person to get home)
- **Control Gaps**
  - Preventive Controls (e.g. No partying on work night)
  - Reactive Controls (e.g. Car pooling agreement – phone a friend!)
- Process re-engineering
  - Go by train

PROTECHT

37

37

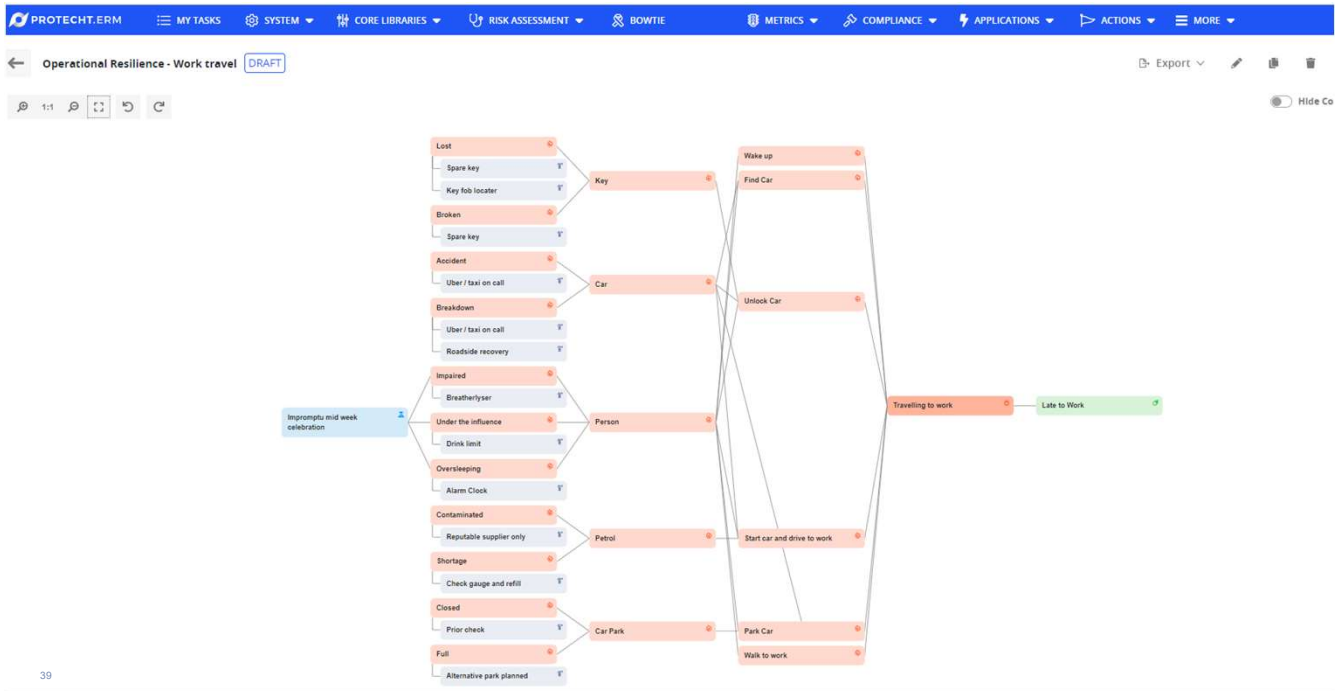
Travelling to Work – Without Controls



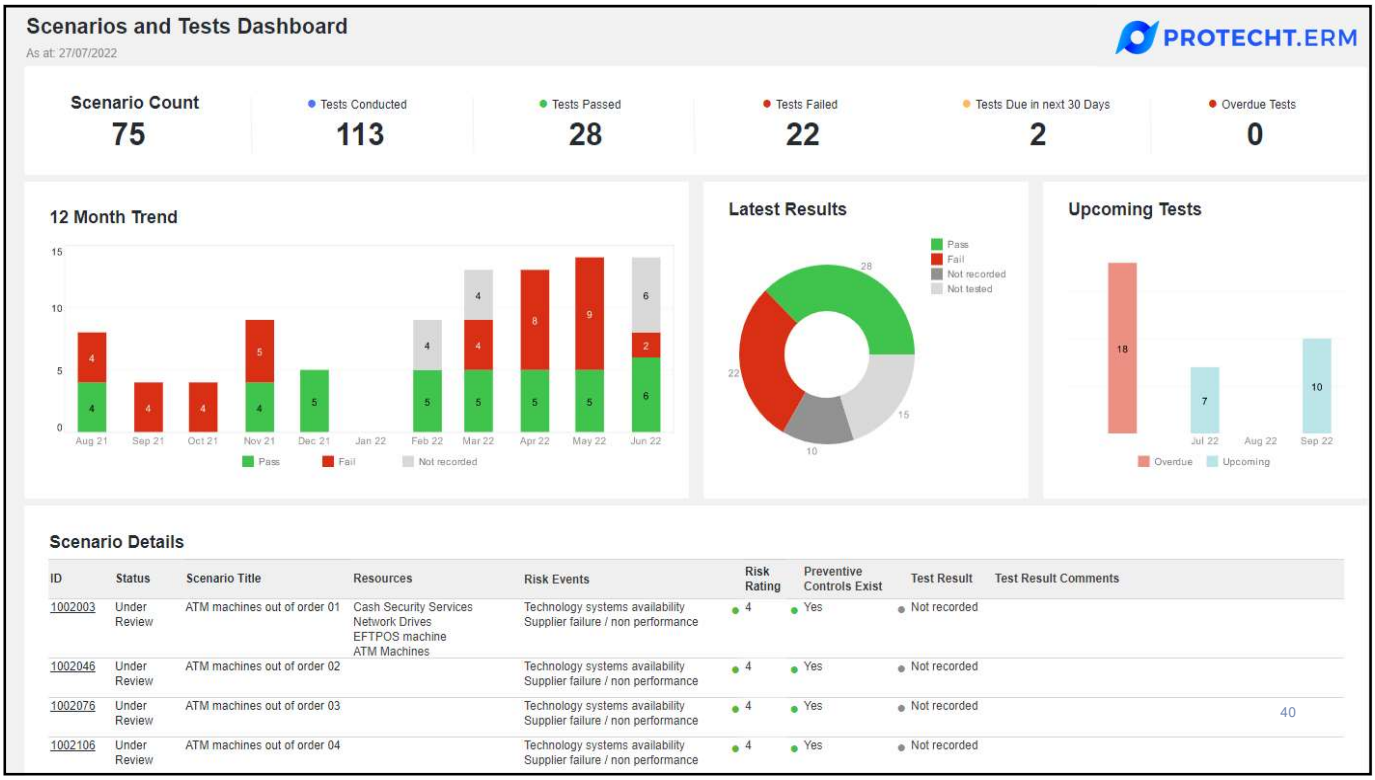
38

38

Travelling to Work – With Controls



39



40

Polling Question

What systems are you currently using for Operational Resilience?

1. Point solution for Operational Resilience
2. Part of ERM / GRC system
3. Part of existing BCP/DRP system
4. excel / Word / PowerPoint etc
5. Other (please note in chat)

PROTECHT

41

41

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging your existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

42

42

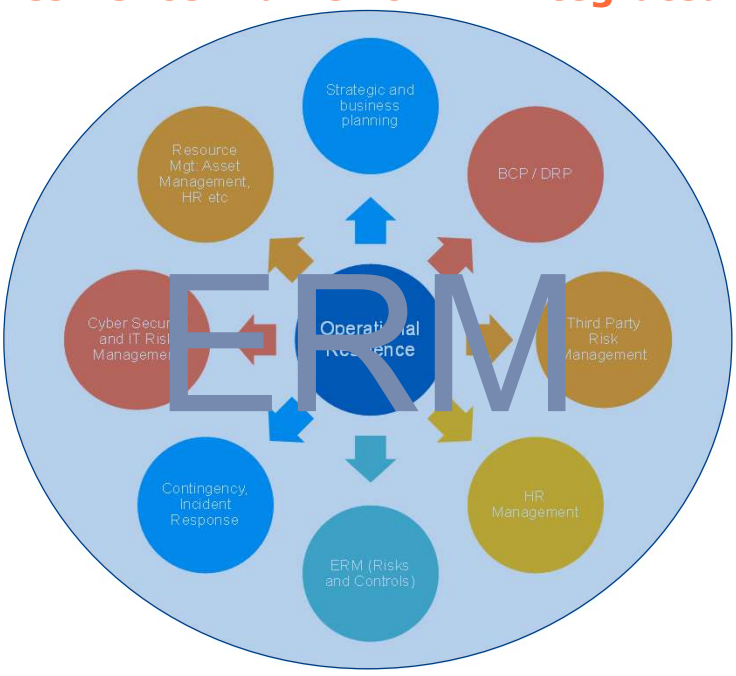
Operational Resilience Framework - Components

PROTECHT

43

43

Operational Resilience Framework – Integrated Functions



PROTECHT

44

44

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging our existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

45

45

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

Steve Maraboli, Life, the Truth, and Being Free

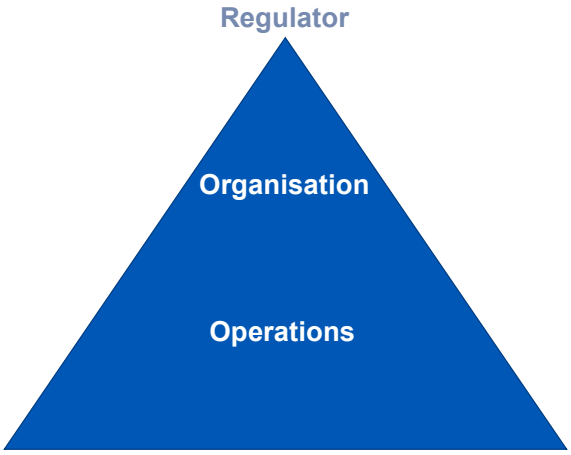
PROTECHT

46

46

Objectives levels of Operation Resilience

1. **Regulator Focus:** Be able to deliver service to customers under severe stress conditions and maintain market integrity
2. **Organisational Focus:** Be able to deliver outcomes to all stakeholders under severe stress conditions
3. **Operations Focus:** Be able to deliver key objectives under severe stress conditions



PROTECHT 47

47

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
6. Minimise value loss from disruptions
7. Maximise opportunity and value add from disruption
8. Reduce uncertainty to increase confidence in decisions
9. Minimise the cost of recovering from disruptions by avoiding them!

PROTECHT 48

48

The True Value

"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!

PROTECHT 49

49

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

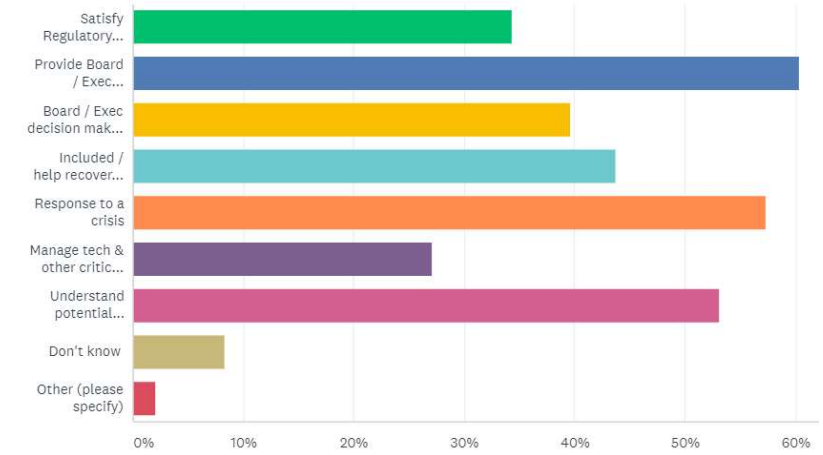
PROTECHT 50

50

Operational Resilience Survey – April / May 2021

How do you see your organisation use Operational Resilience outputs?

Answered: 96 Skipped: 46



PROTECHT

51

51

Keys for Success

1. Operational Resilience is not a standalone process. It is part of ERM.
2. Utilise existing practices, capabilities and information as much as possible:
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"
7. Good systems – is your existing ERM / GRC system up to the job?
8. Ensure business value is created, not just meeting a regulatory requirements.

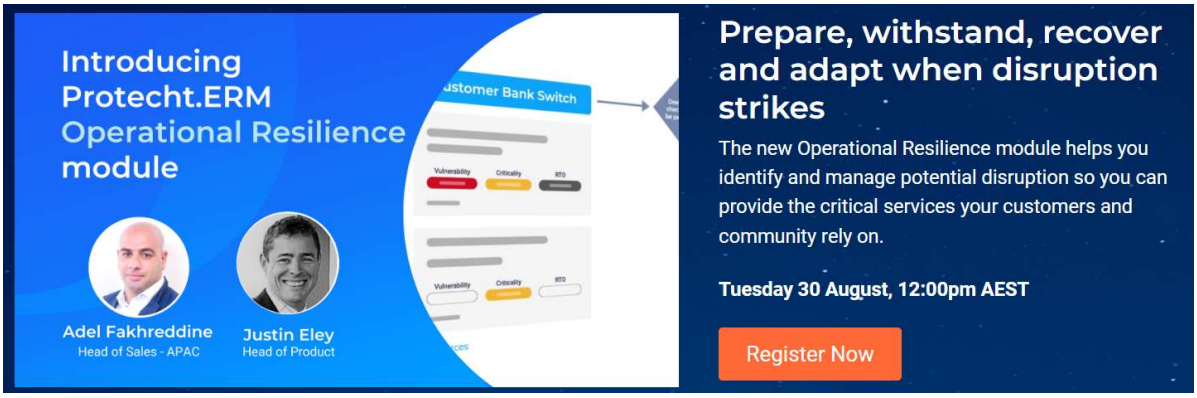
PROTECHT

52

52

MC0

Upcoming Events



Get in touch:

david.tattam@protecht.com.au
Australia - Asia Pacific & Americas: +61 433 149 949
info@protechtgroup.com
www.protechtgroup.com

53

Agenda

1 Introduction and Housekeeping

2 The need for, and concept of, Operational Resilience

3 The process of Operational Resilience

4 Leveraging our existing risk capabilities

5 Gaining value and learning from the process

6 Q&A

PROTECHT

54

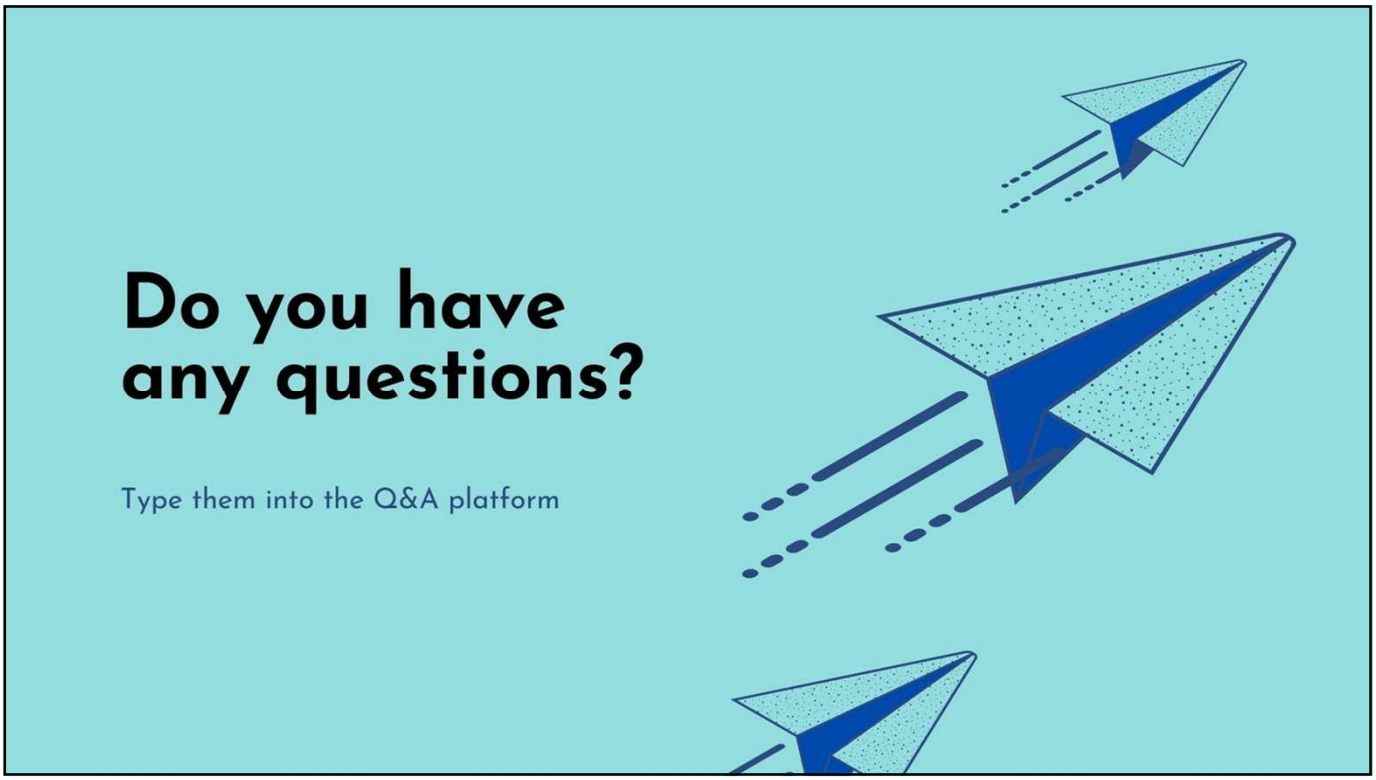
54

Slide 53

MC0 I have deleted the information about the breakfast - not appropriate to promote at the conference
Megan Connell, 2022-08-05T12:32:40.935

DT0 0 OK
David Tattam, 2022-08-06T23:25:20.551

MH0 1 Do we add this back in or mention it? It is Op Res, not CPS 230, but is related.
Michael Howell, 2022-08-17T02:24:42.107



55

56