Brexit Impact: Operational Resilience

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Introduction
Operational resilience is defined as the ability of an organization to anticipate, prepare for, respond, and adapt to change and disruption in order to survive and prosper.

We believe operational resilience strategy is best implemented by taking an integrated response to any disruption. It should recognize that resilience is a dynamic concept which should consider not only infrastructure, but also people, policies and processes.

In light of a range of pressures, regulators across Europe are increasingly focusing on firms' operational resilience, considering it as important as financial resilience. Firms should ensure their response is driven from the top, with a change of thought processes and understanding at a leadership level that ultimately considers governance across legal entities and as firm-wide structures.

The UK’s departure from the European Union (EU) is one driver of such external change, potentially leaving firms more vulnerable to cyber threats and operational turbulence. For some, it may be the next test of their preparations.

Key challenges if the UK exits the EU without a transition period
► Identifying group-wide impacts, as well as those on individual entities
► Ensuring that appropriate roles, responsibility and governance are in place
► Reviewing internal and external Service Level Agreements (SLAs) and suppliers to understand the legal and practical consequences of any disruption
► Standing up extra IT infrastructure, physical, virtual or cloud, to provide additional resilience
► Assuring regulators that appropriate internal governance and frameworks are in place to manage customer impacts
► Understanding how domestic legal and regulatory frameworks in individual EU27 countries will impact operations, for example, contract continuity

Priority activities
Given the challenges mentioned above firms should consider the following priority activities:
► Review roles and responsibilities of group entities to ensure internal transparency
► Undertake a gap assessment on entity level and intra-group governance
► Review SLAs
► Undertake operational stress tests of the business as part of your wider operational resilience readiness programme
Five key considerations in the operational resilience journey

Testing crisis and continuity plans are only one part of the resilience agenda. There are several ways firms can start to think about enduring operational resilience in a business-as-usual environment, particularly in light of Brexit. EY teams recommend firms begin their operational resilience journeys by considering five key steps:

1. **Establish and document a global strategy and framework around operational resilience**
   Firms often have separate business continuity plans, crisis management, disaster recovery and cyber incident response programmes. In light of Brexit, firms are now encouraged to create a broader programme, with a firm wide governance structure and integrated programmes that link to key management processes. Firms should focus on preparing Senior Executives and/or Board members to consider their thought processes around how they manage through disruption of services. This includes how cross border businesses are connected and how the strategy is consistently applied, with clear and common triggers for escalation and decision-making.

2. **Identify and map global business services**
   Firms should map technology applications, people and processes that provide services to their clients. Mapping should understand exactly what is needed to deliver the services globally, as well as from an entity point of view given potential cross border impact. Global regulators remain focused on the most critical services, but this is wider than that required as part of Recovery and Resolution Planning.
   A common taxonomy across the three lines of defence allows for firms to deliver consistency across the business and embed ownership. This needs to be supported by a well-integrated set of technology enablers.

3. **Understand and manage dependencies through the eco-system**
   Understanding and detailing internal and external dependencies allows firms to understand their full eco-system and areas of concentration. These may be processes, IT systems, subject matter experts, or key third parties. Identifying these dependencies and ensuring clear and detailed service line agreements are in place will allow firms to appropriately design contingency plans and address the risk of disruption they pose.
   Firms need to ensure their dependencies and strategies to address them are monitored on an ongoing basis and understood on an entity level to address the risks that Brexit pose.

4. **Simulating various severe but plausible scenarios to determine impact tolerances**
   Firms need to set impact tolerances for their most important business services, covering services that, if disrupted, could (a) cause customer or market-participant harm, (b) threaten the ongoing viability of the firm, or (c) undermine financial stability. There is increasing focus on the testing around resilience and creating alternative strategies in the event of disruption. Many firms are performing table top exercises to manage simulations and there is increasing focus on communications to stakeholders outside the firm as part of the process during the simulation. Using the third line of defence as an independent challenge also provides part of a robust framework.

5. **Implementing resiliency by design**
   Firms are encouraged to consider resiliency in their technology transformations, so as to ensure principles are embedded in the design of new systems or processes. This would ensure that change is managed effectively from the onset and create preventative measures for disruption. Training staff about resiliency form a large part of the design of resiliency, as they often perform key controls.
How EY can help

EY teams have been engaged by a number of large financial services firms to support them in their Operational Resilience Brexit strategy and execution. EY Subject Matter Resources have significant experience in supporting global Operational Resilience programmes for major financial institutions providing support, including:

► Assessing Operational Resilience maturity and defining roadmaps/programme scope
► Developing policies and frameworks for resilience
► Scoping critical business services and defining risk appetite and tolerances
► Designing and implementing service mapping and business service resilience assessments
► Identifying and risk assessing critical third and fourth parties
► Defining risk and resilience metrics and reporting
► Providing subject matter resource support and challenge

Key contacts

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