

Building Operational Resilience

In December 2019, the FCA consulted on proposed changes to how firms approach operational resilience.

As a result, the FCA developed proposals in conjunction with the Bank of England and the Prudential Regulation Authority (PRA) to improve the operational resilience of the UK financial sector. The rules and guidance will come into force for the following sectors on 31 March 2022:

- Banks and building societies;
- PRA-designated investment firms;
- Insurers;
- Recognised Investment Exchanges;
- Enhanced scope SM&CR firms; and
- Entities authorised and registered under the Payment Services Regulations 2017 or the Electronic Money Regulations 2011.

From the consultation, the FCA concluded that operational disruptions could have many causes, including system failures and changes to systems, people or processes. In addition, some disruptions may be caused by matters outside of a firm's control, which leads to the unavailability of infrastructure or key people. For example, the FCA recognises that the coronavirus pandemic has had a significant impact on the firms they regulate. This has shown why it is critically important for firms to understand the services they provide and make investments in improving their resilience to protect themselves, their customers, and the industry from disruption.

Is Human Resources an essential business service?

The short answer is, yes.

The FCA's feedback on the pandemic's impact has reinforced the importance of operational resilience policy proposals. Firms are required to map their essential business services by identifying and documenting the people,



processes, facilities, technology and information that supports them. Mapping provides firms with a clear picture of the resources that enable an important business service to function and the impact if they are disrupted.

Key themes included:

People risks. Mass remote working brought a range of challenges to resilience, conduct, data protection and professional indemnity. As a result, firms have had to adapt their systems, processes and controls to address these emerging people risks.

Some respondents to the consultation asked when an internal service may be recognised as an important business service. This included payroll, which, if disrupted, could affect the resilience of the business. However, the FCA realises that firms may find it helpful to identify all their business services before identifying which are 'important'.

Mapping and Tolerances

The FCA requires that firms use time/duration as a metric to measure their impact tolerances. This will ensure that firms plan for threats with limited time to react before intolerable harm or risk to market integrity is caused. Additionally, using time as a common metric provides a clear

standard and enables comparison between firms.



To address smaller firms' approach to impact tolerances, the PRA is narrowing the scope of its rules so that smaller firms will not need to consider financial stability when setting impact tolerances. In addition, thresholds will be set to clarify those firms that fall within the scope.

Human Resources is complicated, and there is added complexity in compensation, employee relations, talent acquisition, learning and development, and employee wellbeing. Each discipline has its own best practice. Firms need to understand which staff are responsible for processes, technology, implementation, and monitoring controls and understand overall senior management accountability. This could include individuals responsible for specific capabilities, the size and strength of their teams, training/education and broader organisational people challenges, such as

Human Resources controls, employee attrition, hiring practices and succession planning.

The clock is ticking

Mapping is integral to identifying and addressing vulnerabilities that impact a firm's ability to remain within impact tolerances. Accordingly, firms should endeavour to complete full mapping to meet this policy outcome as soon as reasonably practicable. This is essential to ensure firms consistently remain within impact tolerances by 31 March 2025 at the latest. The FCA recommends that firms consult their finalised guidance on the fair treatment of vulnerable customers for further information. Diligence is key here. Failure to identify a firm's essential business service will have a detrimental effect on the soundness of the firm, tarnishing its reputation. The FCA expects operational disruptions to other unquantifiable benefits such as avoided psychological stress and broader benefits to the financial system's stability and the wider economy. Its assessment was that intervention would become net beneficial within the short to medium term, so that it is also net beneficial in the longer term.

For assistance with tolerance mapping and identifying your firm's essential business services, please contact the IHRHS team:

Email: HRhelp@ihrsolutions.co.uk,

Call: 01604 709509

or visit: [insurancehrsolutions.co.uk](https://www.insurancehrsolutions.co.uk)

About the Author

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Laura is an Associate of the Chartered Institute of Personnel and Development (CIPD). She holds a Diploma Professional Development Scheme.



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