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Business Unusual: Driving the Conversation on Operational Resilience

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What is Operational Resilience?

Operational Resilience is all about the client, and local market stability and integrity; legal entities and clients to be at the heart of banks' approaches.

Regulatory Drivers

- Developed by regulators given increasing interdependence within and between firms, rate of adoption of tech, and complex new business models

Role of Client Coverage, Products, Countries and Legal Entities

- Citi is to identify and map business service (new concept) and identify their impact tolerance (new concept) based on client harm, and local market integrity and stability needs
- **Legal Entities, Client Coverage and Product P&L teams**
 - are required to identify their important business services (not to default to products / revenue-generating) and have them mapped
 - If disruption, understand client's expectations, direct and indirect client harm (incl. our client's clients) and impact to market stability and integrity
 - have to define impact tolerances for the business services, and have line of sight from the Client right across Citi such that all teams understand and work towards ensuring the impact tolerance is not reached
 - attest to the resilience of the business service clients receive; attestation includes analysis of ability to influence other legal entities to ensure the systems/people/apps that sit under them are all working towards the same level of resilience
- **All teams expected to engage in active debate** on what "severe but plausible scenarios", to push "assumption of failure", and challenge legal entities on how/if they weigh up the costs of client harm and local market impact from disruption vs. the financial cost of investing to prevent it (and minimise the harm through contingency / substitutability options)

Operational Resilience: A step-change in client-centricity



Operational resilience is **not about protecting the reputation of your firms or the industry**... It is about preventing operational incidents from impacting consumers, financial markets and UK financial system.

...when the unexpected happens, **firms are not prepared and cannot achieve good consumer outcomes**...

This is **not a box ticking exercise**. This is not about what you are willing to do, or think you can 'get away with', because you think the worst is unlikely to happen...

... We know that firms **currently focus on the recovery of systems** that support business services. There has been less focus on limiting the wider impact of disruption on end-users, and even less focus on **achieving continuity of supply of the affected business service during disruption**.

... if risk appetite is only set in line with corporate strategic objectives, which are inevitably anchored to **profitability and cost reduction, this can work against** achieving the continuity of supply of an important business service.

... It's the resilience outcome that's most important... not simply a firm's ability to demonstrate compliance."



What do the regulators want?

- Focus on our ability to continue delivery of important business services to Clients and markets during disruption, within the business services' respective impact tolerances
- Links to all regulatory objectives: Client centricity, reputation, conduct, market stability & integrity, financial resilience, corporate governance, legal entity... and risks such as strategic, conduct, operational, reputational, credit, concentration, market

Product / Client Coverage P&L Teams are Accountable and Must Drive Resilience

- This is not an Ops or Tech team exercise – all teams need to deliver operationally resilient client-important business services
- Client coverage and Product P&L teams must understand their cross-bank dependencies, and how and if their priorities align with those other teams

Assume failure. Response must minimise Client harm

- Business services, recovery and communication plans must specifically be designed to minimize harm to clients - even though disruption to their component parts will be ongoing

Business services is resilient and can be resumed in a reasonable timeframe (before impact tolerance is reached)

- Systems and processes fail but the business services they sustain don't have to, if we collectively make the right, client-centric choices
- Impact tolerance is not risk appetite; it is not what Citi is willing to do/accept but our clients' perspective on what amounts to unacceptable harm/disruption to them when a risk has crystalized
- Need to develop collective market actions and substitutability between firms

Starting with the Client, take an end-to-end business service view

- Firm-wide approach required to achieve, maintain and demonstrate real-time, full front-to-back, end-to-end resilience across our important business services
- Mapping includes people, skillsets, data, apps, tech, 3rd parties (incl. FMIs/FMUs), controls, governance, processes – need to understand E2E (front-middle-back office) inherent and residual risk

How is this a Different Mind-Set Compared to Today?

- Operational resilience brings a paradigm shift in banking's focus on risk, culture and conduct – the risk is no longer “*how much money will I lose*”, but “*how much money may my client lose*”
- For example: imagine we have a critical server offline which may prevent us from sending the day's final transactions:
 - **Traditional**
 - Impact to “Bank A”: how do we minimize reputational damage to Bank A or avoid any regulatory fines?
 - Business Continuity and RRP/OCIR focus traditionally on impact to single app/system (limited downstream/upstream considerations), and impact to Bank A's financial stability with focus on US economy (and UK with OCIR)
 - **Operational Resilience**
 - Priority is harm to Clients and Local Markets
 - Decision-making lens is “in the Client's Shoes”
 - BAU builds-in assumption of failure and takes Citi to new levels of collaboration across legal entities, products, functions, countries

What does this mean for banks?

- Operational resilience is a highly principles and outcomes focused regulation – it is unlike any regulation banks have seen before; regulators expect firms to develop their own approach to achieving it
- **Definition:** operational resilience is defined as our ability to continue the supply of important business services to clients and local markets during disruption. More broadly, it is the ability of firms, FMI and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions

Banks' Current State

- Global product and function view of the bank
- Decision-Making Lens: Bank
- **Traditional 'delegated to' tech / O&T approach:** An app, process or system breaks and is fixed (in isolation)
- **Siloed** legal entity, country, product, functions, tech, ops approach, with different approaches to each
- Budget-setting focus on product sales and efficiency savings
- **Risk appetite:** what risk Citi is willing to assume and accept, usually worded in qualitative, high-level language
- **More inward-looking, reactive, defensive;** focus on prevention, and look at disruption through lens of probability / likelihood and impact to own operations
- Safety & Soundness: documented process



Banks' Target State

- Legal entity view of the bank
- Decision-Making Lens: Clients and Local Markets
- **Product / Client Coverage P&L owners accountable** for impact tolerances and holistic front-middle-back view
- **Holistic, harmonised** legal entity, country, 'business service' approach
- Budget-setting better balances resilience with product sales and efficiency savings
- **Impact tolerance** (alongside Risk Appetite): *quantitative* maximum harm acceptable to Client and Market
- **Client-first, proactive, forward-looking;** assumes disruption, and focuses on what the bank can do to ensure continuity of business service for Clients
- Safety & Soundness: demonstrable resilience incl. 3rd Parties

What are we doing?

1

What do we need to do practically from a 'business service' perspective – in BAU and disruption?

- Define new terms: "business service", "client harm", "impact tolerance"
- Take 'theoretical' definitions and experiment practically applying them – via pilots
- **Pilot business services:** 3 'business services' spanning different regions, client bases and legal entities
- **Pilot client's view and client harm** with 3 clients: analyze what we provide them and prioritization. Validate with clients in workshops
- Review learnings; reflect on scalability and sustainability of approach

2

Governance and Legal Entity – what does "build" vs future "BAU" look like?

- Educate parent and subsidiary boards to ensure support through deep-dives, and develop regular cadence of board updates
- **'Build' phase:** model to roll-out operational resilience approach globally post-pilots; target each LE that contracts with client to project manage their own compliance with final framework / approach
- **'BAU' phase:** governance committees at country, legal entity, regional and global levels

3

How does this compare to what we do already? How do existing programs / processes need to evolve?

- Identify existing centralized functions, programs and processes that directly link to enabling resilience, e.g., 3rd Party, Business Continuity, New Product Approval, Data Privacy, Scenario Analysis, Comms
- **Capture cross-franchise learnings from Covid-19**
- **Conduct a gap analysis** against how they are set-up and 'run' today vs. regulators' draft operational resilience regulations
- **Present recommendations** (i.e., no change, small change, significant change) and holistically, transparently **track changes**

4

How do we embed operational resilience thinking and mind-set into Citi's organizational culture?

- Even the best tech and processes are dependent on their users; to make resilience "lived", not just a documented process, we need employees to understand our expectations and to be supported in developing new "muscle-memory" and mind-set
- **Identify the cultural conditions** to enable operational resilience, and the barriers to these today
- **Identify existing culture and conduct risk initiatives** to leverage, and use focused pilots to test what is practical and get employees' feedback