TINtech London Market session summary:

Operational Resilience

Introduction

On February 8th 2022 more than 200 insurance industry executives attended TINtech London Market, the sector's leading technology strategy event. This report summarises the operational resilience session that was sponsored by WNS and featured 'on the day' contributions from Stefan Nadarajan, the Chief Operating Officer at Globe Underwriting and James Livett, Associate Director of LIIBA, and Adrian Guttridge, VP of Insurance at WNS. Sadly the pandemic cast its shadow over this session, and Chris Coyne, Chief Operating Officer at Enstar Group was unable to join us on the day, but he was instrumental in putting the session together and some of his views and perspectives are included in this report. Thanks to all of the contributors for their candour.

The session sought to establish key steps in achieving operational resilience, explore some of the challenges, but also the opportunities in finding value in 'compliance'.

Adrian Guttridge at WNS set the context with some opening thoughts on operational resilience (OR), and a quick overview of the current regulatory regime, explaining that three entities: the PRA, the FCA and the Bank of England have come together as 'Supervising Authorities', and what that was previously issued as guidance is now compulsory, and London market organisations have until the 31st of March this year to comply. Adrian reminded us that this not "new news" and that there was a discussion paper launched in July 2018 that set out much of what is now expected of organizations around OR, and that therefore by this March, organisations should really have identified their IBSs: Important Business Services.

IBSs were defined by a joint covering document published by the FCA and the Bank of England in March 2021 entitled 'Operational resilience: Impact tolerances for important business services' as:

The services that, if disrupted, would impact the supervisory authorities' objectives and thereby the public interest as represented by those objectives. These were termed important business services. This represented a shift away from thinking about the resilience of individual systems and operational resources to considering the continuity of the services that firms and FMIs provide to their external end users, customers, or participants.
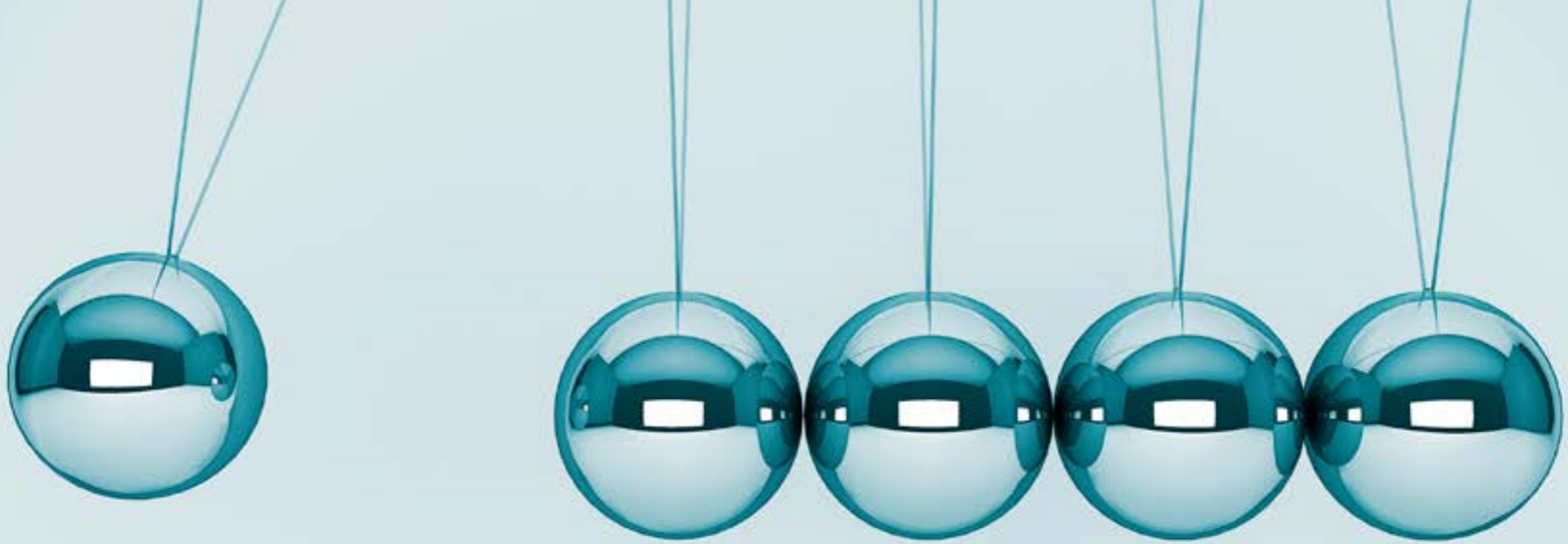
Impact Tolerance

Adrian went on to explain that you then have to do 'impact tolerances' against those IBSs and do scenario testing for each one. The same document states

> *firms and FMIs would be expected to set an impact tolerance for each of their important business services. The impact tolerance would measure the maximum tolerable level of disruption to an important business service.*

That 'shadow of the pandemic' was felt again when Adrian explained that because of delays and headwinds due to COVID, the regulators have actually softened the requirements around mapping and testing, and that over the next three years will be a transition period where organisations will need to be constantly checking their tolerances against those rules for IBSs. Helpfully Adrian also clarified that the FCA is looking after insurers and PRA is looking after Lloyd's and the managing agents.

Chris Coyne, Chief Operating Officer at Enstar Group, and Stefan Nadarajan, the Chief Operating Officer at Globe Underwriting shared overviews of their approaches to identifying IBSs and quantifying impact tolerances.

Chris explained that Enstar have been very structured about the way they have followed the whole process from identifying IBSs and looking

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at the processes that fit around them, to the impact tolerances and ongoing scenario testing: and thus far it has been very structured with a quite formal framework around it.

Stefan Natarajan of Globe explained that as an MGA rather than an insurer, Globe are a 'core company' and not 'an enhanced company', which means the demands of OR can be less burdensome. However, like brokers, coverholders are part of the value chain, which means that their markets will be looking to them to attest to their approach to OR: the insurer's resilience is to a degree dependent on their partners' resilience. What's more, Globe are a relatively a small organization, so the approach they are taking is one Stefan described as "still structured, but it's less formal" (than Enstar's). Like many in the market, Globe haven't got extra resource or extra funding to do OR – they have had to "fold this into normal governance risk and compliance process", with an approach that Stefan described as "lean" - using everything that the organisation already has in order to work out and identify IBSs and then do the impact assessments:

We started by looking at all of the obvious things: process maps, procedure documentation, system architecture diagrams, service architecture diagrams...and then we looked at our risk registers, both top down and bottom up - because controls in the risk registers may not necessarily be IBSs themselves, but they definitely could be significant supporting activities which support those IBSs.

Leveraging existing assets

The other resource Globe used extensively in OR assessments were their audit findings - both internal audit, and also coverholder audits - because in many ways the two have similar purposes: to highlight vulnerabilities. Stefan expanded on this "lean" approach later in the session, describing a "very cut down and simplified process" where the focus was to put as much breadth of coverage in place as possible for vulnerabilities and tolerances, and starting by assessing existing reporting.

For example, reporting SLAs for contract certainty and document production SLAs are a very useful starting point for tolerances. What's more, if an MGA is being audited or if something's highlighted in an audit by their lead carrier:

then it may not be important to us, but it's definitely important to them. And we have to keep them happy and we have to apply what they think is important.

In other words, it's as much about meeting your partners' needs for OR as it is about the regulators'.

Identifiying IBSs

In terms of the methodology for actually identifying IBSs and scoring them, both Chris and Stefan explained that the LMA have got a huge amount of good collateral and they both used one of their scoring spreadsheets.

Stefan explained that Globe used 10 of the 13 FCA items (because three of them don't apply) and they scored each high, medium and low: anything above 20 is an IBS, anything below 18 isn't, and anything in between needs case by case evaluation). Stefan explained that they didn't have problems defining what a service was as opposed to a supporting activity (for example, rate, quote, bind and placement for a broker is clearly an IBS) but they found more ambiguity as they got more granular - for example, are new business endorsements and renewals separate services or not? (the decision was that if the supporting activities are largely the same, then they're all the same service).

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Questions of coverage

Adrian asked Stefan and James to share some insights into the questions around coverage, the issues around 'preventing significant harm' to customers and maintaining market integrity. Both were at pains to stress that one size does not fit all, and that what constitutes "significant harm" arising from a similar claim can be radically different for 2 different clients in the same sector (or the same client in different sectors). Stefan cited aviation where a delay paying a $50,000 claim to a small "island hopping" tourist operation could be business threatening, for BA it would hardly register.

James Livett helpfully pointed out that much of what's actually the operational resilience legislation was already included within SMCR (Senior Managers and Certification Regime, of which the extension to insurers came into effect on 10th December 2018. Keep up at the back please!). James pointed out that in common with OR, the SMCR also applies to key suppliers and other players in the value chain:

Many people have forgotten the fact that we've got to have a chat with DXC... we've got to go and have a chat with PPL to get information out of those organizations because they have become key to your delivery of your business

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Key challenges

When Adrian asked James and Stefan to share some key challenges, Stefan explained that as a relatively small organisation they didn't have too many challenges identifying IBSs because "you intuitively know what they are, even if you haven't empirically defined them, and you pretty much know what your vulnerabilities are.

One challenge Stefan did describe was evaluating vulnerabilities, which he described as "a complete rabbit hole" to palpable empathy from the audience. He gave the example of a system failure:

If somebody is unable to use a system because users are unable to log onto a system, is that different to the system being down? Is the system being down different to the system being up, but the database behind it being down? How many vulnerabilities do you look at?

The answer, Stefan explained, was when a colleague suggested "looking at the symptoms, not the vulnerabilities". In this case, the symptom is "we can't use the system". We obviously do care why, but actually for OR the priority is not the vulnerability itself, it's the impact: "how quickly do we need to get it back up and running before our client base are adversely affected?"

Defining SLAs

For Globe, one challenge (that also resonated with Chris at Enstar) was that being part of a larger group, all of their central services (and some of what Stefan described as "not so central services") are provided through a inter group outsourcing agreement, which is a separate, regulated entity, and needs to be 'arm's length' as much as possible, and to have its own SLAs in place: defining an SLA with an internal partner can be a real challenge. For Globe, this was made easier because those internal partners are all enhanced companies, so everyone knows what the other parties are going through, and can be confident that each will comply, but there is still a challenge in documenting and evidencing that.

Adrian asked the panel to assess the extent to which OR is an "unnecessary incumbence" or despite of, regardless of, the legislation, can it also be a business opportunity?

Recognising OR

Stefan started by saying he sees regulation as a hurdle, and that "you have to decide how much you want to clear the hurdle by: sometimes you're okay to clip it with your trailing foot, and other times you really want to clear it".

Stefan explained that OR has forced Globe to properly look at their value at risk and their operational functions, and what that allows them to do is have a consistent way of measuring premium revenue and opportunity against operational cost in terms of (for example) headcount and systems which could eventually inform resourcing and asset allocation decisions

This led to a question from the audience asking the panel the extent to which carriers are giving MGAs any recognition for Operation Resilience - and therefore whether they think that it might be a future source of competitive advantage. The response was "yes but not yet": carriers need to be at a point where they are embedding OR within their coverholder audits: according to James they've got three years to bring all of their key suppliers up to speed and prove their OR credentials, and most aren't there yet, but the view was that its very likely that in the near future if organisations can't demonstrate OR they will risk being selected against.

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Finally in the context of 'opportunity from adversity', both James and Stefan were passionate about how the pandemic has highlighted the value of what they see as an essential part of any organisations' resilience: its people. Here's Stefan:

Two years ago, Operation Resilience wasn't a thing. We didn't have checkboxes, we didn't have this list. What we had was our people and they were the people who were there when we couldn't get into the office or when we couldn't get into our systems. They were there at midnight building laptops. They were cash matching at the weekends, and they were putting together slips in the evening after dinner.

They didn't do that because they were trying to maintain the resilience and integrity of the UK financial services, and they didn't do because they wanted to maintain the integrity of their employer's financial position.

They did it for themselves because they take pride in their work. They don't want to let down their colleagues. It's something we should learn from is actually organisations need to build and maintain, maintain a reserve of people's goodwill in order to be able to deliver operational resilience because we shouldn't forget that what actually delivers operational resilience is the people in the market.

Conclusion

Delivering OR objectives can foster a better understanding of how an organisation works, the ecosystem it operates in, its operating model and the interactions and interplays between the different functions and the different entities in the value chain involved in delivering their service. It can become "a single source of operational truth" and it can become a source of competitive advantage. We hope that the session at TINtech London Market, and this report, summarises some of the key steps to achieving that.

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