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Operational resilience as an outcome

Technology to enable digitalisation and innovation has been a priority for financial firms as well as for financial services policy makers for some years now. However, as the financial sector becomes more digital, attention is beginning to turn in earnest to the risks posed by a greater use of technology. A renewed conversation is needed about how firms, and the financial system in general, can become more operationally resilient in the face of rapid technological change to the sector and the economy more generally.

Good risk management provides a strong foundation upon which to build resilience. While regulations for ICT risk and cyber security have existed for years, there has been an uptick in the amount of new regulation in these areas with more on the way. While necessary in the short term, eventually we will reach a point where more risk management offers diminishing returns for improving resilience. We must instead remain focused on achieving resilience as an outcome and not be distracted by a compliance driven exercise more concerned about ticking a box.

A focus on outcomes allows firms the flexibility they need to keep up with a shifting operational environment. The threat landscape for digitally-enabled businesses continues to change and the system is growing more complex, in part to deal with the expectations of consumers enabled by legislation like PSD2. This continuous change will make prescriptive regulation increasingly ineffective; for instance, a mandated risk control measure that was vital one year may be obsolete the next as the technology and threats evolve. In contrast, a focus on outcomes, monitored and enforced through supervision, allows firms to continuously innovate in risk management and resilience while ensuring that regulatory policy objectives are still achieved.

So what does the future of operational resilience look like for both firms and policy makers? All market participants including regulators, firms and policy makers have a shared motivation to ensure the financial system and its participants can continue to withstand, and operate through, disruption. As stakeholders in the financial system we must all recognise this common goal and develop more collaborative ways of working together toward that outcome if sustainable progress is to be made.

For firms, with the threats, system complexity and use of technology increasing, operational resilience must become more holistic. Firms are already shifting their focus to ensuring that they can continue to provide what is important for their customers, the market and their own operations in the event of disruption. That means ensuring the resilience of the systems, people and processes that support these services from top to bottom.

For policy makers, there is a need to step back and consider the macro context. Fragmentation has been an issue in financial regulation for over a decade. International bodies such as the FSB and BCBS have worked to address this and they will need to do the same in the area of operational regulation. Europe has a part to play in that effort. Finally, time is needed – time for current regulation to embed and begin to make a difference, and time for a new approach suited to the future financial services system to evolve. ●