



Operational resilience:
defining your
business services

Wholesale Banking

The regulatory context

The regulatory direction on operational resilience in the UK grew more certain with the publication of the consultation papers (CPs) in December 2019¹. We can have confidence that the core concepts within the proposals will remain the same through the experience of this coronavirus (COVID-19). There may be some tweaks to the application of the policy, but we would expect these to be minor². Furthermore we do not expect there to be much change in light of the recent paper by the Basel Committee on Banking Supervision (BCBS) which included some proposed principles of operational resilience. The UK supervisory authorities will likely view their approach as in line with the overarching standards proposed by BCBS and are looking to apply a consistent regime across the financial services sectors³.

Alongside the commercial decisions to improve operational resilience, there remains a lot for firms to do to meet the incoming policy regime. While the impact of COVID-19 has hit every industry across the globe, we should remember that a pandemic represents just one scenario that a firm may need to respond to. It would be unwise to extrapolate the ability to respond to pandemics to ransomware attacks and data corruption issues, for example.

Wholesale banking sector context

Wholesale banks have come under pressure in both the UK and US to address concerns that weaknesses in operational resilience could mean an operational incident has a significant impact on markets at both a local and global level, with the potential to amplify into market confidence issues. Certainly given the high value/high volume nature of many wholesale banking business services, the potential for financial harm to firms, consumers and wider markets poses a greater challenge for time-critical services such as managing trading books, meeting trade clearing obligations and acting in an agent capacity.



The UK supervisory authorities⁴ define a business service as 'a service that a firm provides to an external end user or participant.'

Determining which are your important⁵ business services is the critical first step in applying the draft policy requirements. It sets the scope for the rest of the work as it is these services which need to be mapped, need to have impact tolerances set for, and will be subject to scenario testing.

Develop self assessment document



Practical tips to define business services

As the definition above suggests, firms must define their business services primarily through the lens of their end users and not, for example, through the lens of how the business is structured. Determining the important business services then requires consideration of how disruption would impact customers, the financial markets and the firms themselves. The supervisory authorities are not proposing to create a single

taxonomy at this point, taking the view that defining business services, and identifying the important ones, will be a matter of judgement for firms. In our experience, however, firms are often blurring the lines between **business services, internal services and transversal processes**⁶. We illustrate the differences in the diagram below.

¹ <https://www.pwc.co.uk/industries/financial-services/regulation/understanding-regulatory-developments/uk-supervisory-authorities-reveal-more-on-how-firms-should-build-their-operational-resilience.html>

² <https://pwc.blogs.com/fsrr/2020/07/how-covid-19-could-change-operational-resilience-policy.html>

³ <https://pwc.blogs.com/fsrr/2020/08/hollywood-blockbuster-or-rotten-tomato-does-the-basel-committee-paper-on-operational-resilience-deliver.html>

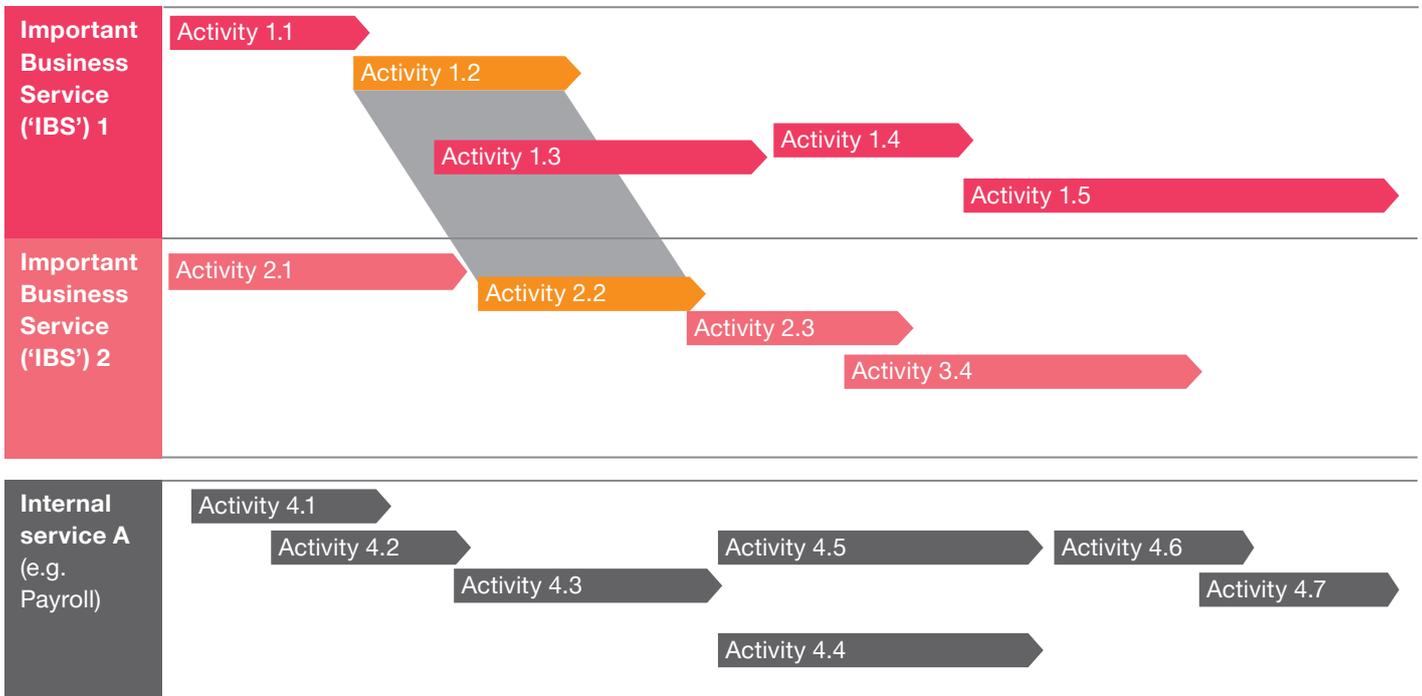
⁴ The Bank of England, Prudential Regulation Authority and Financial Conduct Authority

⁵ The draft policy statements include a set of minimum criteria to use when determining whether your business services should be considered 'important'

⁶ Note, firms will need to consider the relationship between important business services and 'critical operations', as per the BCBS paper, and 'critical services' as per with recovery and resolution planning. The BCBS consultation paper defines operational resilience as the 'ability of a bank to deliver critical operations through disruption'. This definition links closely to recovery and resolution planning which uses critical functions, and is expanded to include activities, processes, services and their relevant supporting assets, where disruption would be material to the continued operation of the bank or its role in the financial system'. This is interpreted to go beyond the UK focus on services provided to an end user or participant and to include what we refer to here are transversal processes and internal services.

Firms should make a distinction between:

- Those specific services they provide to **external end users or participants**.
- **The more granular set of activities, or processes, which are transversal in nature**, in that they run on a consistent basis across the firm to facilitate the delivery of more than one important business service (i.e. anti-money laundering screening and monitoring). These activities may occur at different points throughout each process.'
- **Internal services in place** that are not visible to the external customer but are critical in controlling and monitoring the organisation (i.e. payroll and internal risk assessments).



Key

- Transversal process that is common in delivering both IBS
- Specific activity to deliver IBS 1
- Specific activity to deliver IBS 2
- Internal activities which govern the firm overall



Business service

- A service that a firm provides to an external end user or participant
- Clearly identifiable as a separate service and not a collection of services (e.g. as with traditional business lines)
- Client and reputational impacts are the focus
- End user must be clearly identifiable so the impacts of a disruption are clear
- Must be capable of having an impact tolerance set against it



Transversal processes

- Appears in business service maps
- Facilitates delivery of a business service rather than being the primary purpose
- In general not a client facing service
- Is performed consistently across multiple business services
- Critical part of a business service



Internal services

- A service that controls and monitors the activities of the firm
- End users are staff members or the firm itself
- Supports the internal operations and meeting legal and regulatory requirements
- Can still be considered 'critical' to how a firm operates but does not meet the regulatory definition of a business service

As a result, **business services** and **transversal processes** are the key elements for attention to meet the regulatory requirements. Firms may choose to invest resources to assess and enhance the resilience of their internal services, and they

may deem them to be critical to their operations, but these are not the core focus of the incoming policy as disruption to these services is much less likely to **directly** impact the end users of the service day-to-day.

Example services

Below we give some examples of each category within the wholesale banking sector. Compared to the retail banks, there is a larger degree of homogeneity within wholesale banking business services, which is assisted by natural asset class grouping (i.e. Fixed Income, Equities, Investment

Management). We see benefit in breaking down the value chain to reach the right level of granularity when defining business services. This will ensure firms are able to set meaningful impact tolerances against them.

Example business services

- Cash equities – execution
- Fixed Income – derivatives swaps – clearing
- Commodities – futures – settlement

Example transversal processes

- Payments processing
- Surveillance
- Trade and transaction reporting

Example internal services

- Other regulatory reporting
- Payroll
- Treasury

Next steps

When firms are clear how to define their business services they need to agree a methodology for determining which business services are 'important' according to the proposed definition and minimum criteria set out in the draft policy documents. This is an important step as it defines the breadth of work firms will have to complete ahead of the regulatory deadlines.

The implementation timeline for the policy looks challenging to address. Even with the six month delay we can expect the policy to be finalised in the first half of 2021 and in force

12 months later. That means firms have less than two years (from now) to determine their important business services, map them out end-to-end including the resource dependencies to deliver them, set impact tolerances, use scenarios to test the ability to remain within them, and prepare a self-assessment document to capture all of this which is signed off by the Board. It is at that point that firms will have up to three years (though the policy is clear that it is 'as soon as reasonably practical') to make the necessary investments to remain within impact tolerances.

To read more about how to meet the regulatory requirements refer to our white paper, '[Operational resilience: how to set and test impact tolerances](#)'.

To discuss how PwC can help you on this journey please contact



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