



LMA Operational Resilience Working Group Guidance

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LMA Operational Resilience Guidance

1. Introduction

1.1. In March 2021, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in conjunction with the Bank of England (BoE) (the UK Regulators) published their final policy and supervisory statements on Operational Resilience. The publications are based upon two consultation papers which were published in December 2019. Consultation closed in October 2020 and the LMA and Lloyd's submitted a joint response. Alongside and complementary to Operational Resilience consultation process, the PRA have consulted on outsourcing and third-party risk management and published a further policy statement PS7/21. The final policies, supervisory statements and FCA Handbook changes are not substantively different from those proposed in the consultation papers.

References

Please refer to the LMA Operational Resilience web page for links to all of these documents:

1. FCA - Building Operational Resilience PS21/3
2. PRA Outsourcing and Third Party Risk Management PS7/21
3. PRA Supervisory Statement SS1/21
4. PRA Policy Statement PS6/21
5. LMA's response to the consultation papers

1.2. The UK Regulators have taken a services approach to operational resilience. They require Managing Agents (firms) to identify their most important 'end to end' services that affect policyholders which the UK Regulators have called 'important business services' (IBS), and protect these from disruption.

1.3. Overseas regulators are also turning their attention to how best to regulate for the changing level of threat of disruption and increasing customer expectations. This guidance does not address any overseas regulatory requirements.

Guidance objectives

1.4. The purpose of this guidance is to provide Managing Agents with practical tools and templates to enable them to provide evidence to support their operational resilience self-assessments.

1.5. The UK Regulators have wanted to avoid being too prescriptive in the regulatory requirements and are working with the Financial Services industry through the Cross Market Operational Resilience Group (CMORG) and its sub-committee, the Operational Resilience Collaboration Group (ORCG) to produce more detailed standards and guidance on operational resilience. This guidance complies with the documents issued as at 31 March 2021 by the ORCG.

1.6. The UK Regulators recognise that operational resilience practices will mature, particularly in the areas of mapping and scenario testing. This guidance will be updated as practice changes.

UK Regulators' Objectives

1.7. Operational resilience is defined as the ability of firms and the financial sector as a whole to prevent, adapt, respond to, recover and learn from operational disruptions. The UK Regulators' objectives with regards to operational resilience are to:

- **Maintain Market integrity** by ensuring the soundness, stability and resilience of the UK financial system and the orderly operation of the financial markets.
- **Protect Consumers** from intolerable harm; and
- **Enable firms** to manage their reputation and financial position.

1.8. The outcome the UK Regulators are seeking is, for 'firms and the financial sector to better prevent, adapt, respond to, recover and learn from operational disruptions. Through improvements to firms' operational resilience'. They expect harm to consumers and risk to market integrity caused through disruption to be minimised. (It should be noted that the UK Regulators use the terms consumer/end user/client/participants and customer interchangeably).

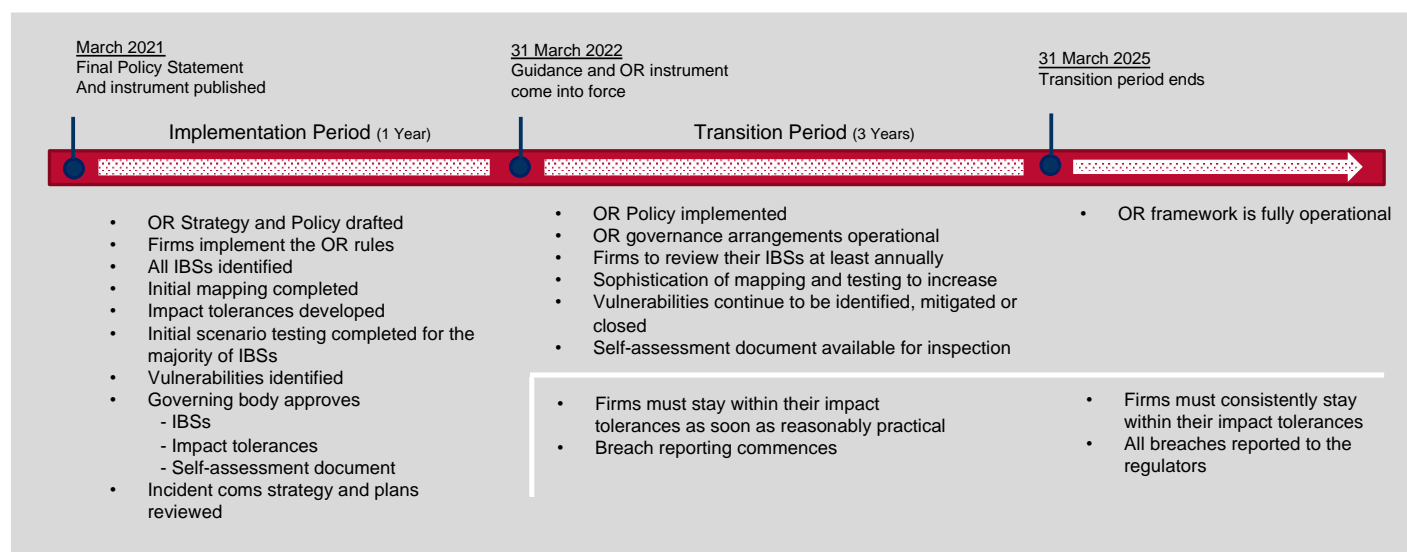
1.9. The UK Regulators want firms to build on their operational resilience through analysis, monitoring and driving change. Where resilience weaknesses are identified, firms are expected to act. (For example, by investing in improving processes, better infrastructure or training, building back-up systems, addressing vulnerabilities in legacy systems or improving contingency plans).

1.10. The steps all Managing Agents will need to take are:

- a) Develop an operational resilience strategy, policy and governance framework to implement the FCA and PRA operational resilience requirements.
- b) Identify the important business services (IBS) that if disrupted could cause intolerable harm to consumers, the firm itself and/or impact market integrity.
- c) Map the resources (facilities, people, internal processes, suppliers, technology, information) required to deliver each IBS,
- d) Undertake a series of resilience assessments on each resource to identify resilience gaps/vulnerabilities/weaknesses (findings).
- e) Develop and set the impact tolerances required for each important business service.
- f) Based on a risk assessment, design and conduct scenario testing, for each IBS, to understand if the IBS can remain within the impact tolerances during a severe but plausible disruption. The regulator has specified that all communications plans need to be reviewed.
- g) From the mapping and the scenario testing: identify, prioritise findings then address, mitigate or risk accept the findings.
- h) Conduct lessons learned exercises from both actual incidents and testing to identify, prioritise and invest in a firm's ability to respond and recover from disruptions as effectively as possible; and
- i) Create a self-assessment document to report to the Board which, on request, is available to the UK Regulator and/or Lloyd's.

1.11. The UK Regulators recognise that change is a material source of disruption and a material driver of change in resilience. Whilst not explicitly set out in the UK regulatory requirements, managing agents will need to build "operational resilience by design" into their change frameworks. Any significant change to (or creation of) an IBS will require operational resilience considerations to be built into the design from the outset.

Timeline



Governance and Strategy

1.12. **Governance** – Managing agents if appropriately managed should not expect to be changing materially the components of their approach to operational resilience. It is recognised that historically the Lloyd’s market has not experienced extreme operational failure. However, with the move to greater digital dependence, the operational resilience environment is changing, and this will have an impact on the impact tolerances (driven by customer expectation) and the operational risk profile. Conceptually, the move from managing the preparation, response and recovery by department or functions (traditional business continuity and ITDR) to an ‘end to end’ service approach demanding that firms prevent, adapt, respond to, recover and learn from operational disruptions will entail a cultural and structural change. This is a proactive approach which seeks to build resilience thus minimising the impact of a disruption before an event has occurred.

1.13. **Boards** - Firms’ governing body or boards are required to approve the list of IBSs and impact tolerances (including their rationales), the self-assessment document and scenario analysis. Managing agents should consider revising their risk appetites to align with the resilience of IBSs and to the organisation’s appetite for disruption. The deliverables need to be regularly reviewed to ensure the firm’s ability to stay within impact tolerance is maintained.

1.14. **Management** – Clear accountabilities and responsibilities for operational resilience need to be established. These where possible should be absorbed into the existing governance structures. If a board does not exist, then senior management should take overall responsibility for Operational Resilience.

1.15. **SMF24** – Where it exists the role should hold overall responsibility for implementing operational resilience policies and reporting to the board for senior management.

1.16. IBSs will need to be owned, the level of resilience understood and monitored on an ongoing basis. Operational Resilience is not a process whereby controls are established and then monitored, it is a cycle of activities resulting in self assessments when either there is significant change to the process to deliver a service or annually and continuous monitoring.

1.17. The activities outlined above may not be managed as firms are currently structured and firms should think how they fulfil the ongoing operational resilience requirements. This will form part of the firm’s **OR Strategy**. Other aspects to be considered may be:

- The maturity of the mapping activities.
- Ensuring the basic resilience building blocks (for instance third party contract clauses demand suppliers consider OR) are in place.
- Measuring performance against the building blocks.
- The increasing sophistication required when scenario testing.
- The reliance by different IBSs on shared resources.
- The contribution of group and divisional level activity to resilience; and
- The contribution of holistic functions (for instance crisis management) to resilience.

1.18. Where firms have a group function the PRA expects firms to identify a proportionate number of IBSSs. Further details as to the role of group can be found at section 9 in the in the supervisory statement SS1/21.

1.19. In summary firms will have to develop an OR strategy supported by an **OR policy and implementation plan** at the least covers activity up to March 2025.

Proportionality

1.20. Proportionality is “baked in” to the rules, with the expectation that firms will apply the rules in a way which reflects the potential impact on consumers, financial viability and market integrity if their services are disrupted.

1.21. The UK Regulators have designed the requirements to be dependent on the number of IBSSs and the duration of the impact tolerances, which will be dependent on a firm’s size and the real time nature of their services. Most of the services offered by the managing agents are not real time. The rules are designed to allow firms to cater for different business models.

1.22. The nature of insurance and reinsurance is to diversify rather than concentrate risk. Roughly 15% of Lloyd’s business is with UK policyholders and many entities are large commercial entities and not SME or consumers. The PRA accepts that that the Lloyd’s market and insurance industry generally does **not** pose a systemic risk in the same way as the banking industry. In addition, Managing Agents do **not** pose a significant risk to widespread consumer harm through the failure of investments, annuities or the unavailability of mainstream consumer products. As a result, managing agents can disregard the requirement to understand the impact on market integrity however the Society of Lloyd’s cannot and therefore some market stress testing may have to take place. Within the guidance the LMA has continued to include references to market integrity as it is expected that the guidance will be widely read.

Application and Scope

1.23. The Lloyd’s market is part of a complex eco-system. The rules apply to all Managing Agents and the Society of Lloyd’s separately. Brokers are supervised by the FCA and, have determined that the rules should only apply to “enhanced SM&CR firms” which typically means the larger brokers. However, under the requirements for third party risk management, all brokers, (and Coverholders) undertake activities critical to the delivery of services to the end customer (policyholders) and are best placed to understand the effect of business interruptions on them.

1.24. The rules do not apply to non-regulated entities. However, managing agents will have reliance on some third parties and will need to agree appropriate service standards to meet the rules. Material third parties (including DCA and coverholders) will therefore need to have an understanding of the rules and firms need to contractually bound to deliver the operational resilience requirements.

Lloyd’s Approach to Syndicate Capability

1.25. Lloyd’s is supportive of this guidance and believe it will align to the Corporation’s future Operational Resilience oversight principles, though the exact nature of Lloyd’s oversight of Operational Resilience is currently being determined. The regulation requires that all firms produce an Operational Resilience self-assessment document and whilst it is not currently expected that Lloyd’s will produce a template for this assessment, there is a possibility that managing agents may be required to provide copies of their self-assessments to Lloyd’s. Going forward Lloyd’s will be including breaches of impact tolerances in the Corporation risk appetite metrics and as such will be working on a reporting solution to allow for the gathering of this information from the market.

LMA Initiatives

1.26. The LMA have recognised that the interactions between centralised applications, coverholders, DCAs and brokers are complex and do not fit the standard third-party relationship model. As a result, the LMA are undertaking analysis of the requirements against these parties and will revert to MAs with the next steps. We have noted some of the ongoing initiatives in Appendix 3.

Requirements

2. Selection of Important Business Services

Summary of the Legislation

2.1. This section of the guidance addresses the requirement for firms to select their IBSs. It outlines the legislation, the deliverables and considerations. It includes two approaches firms might wish to consider and within the appendix are a series of supporting templates.

2.2. The UK Regulators define an IBS as follows.

PRA	FCA
<p>A service provided by a firm, or by another person on behalf of the firm, to another person which, if disrupted, could pose a risk to:</p> <ol style="list-style-type: none"> (1) (where the firm is an O-SII/where the firm is a relevant Solvency II firm) the stability of the UK financial system. (2) the firm's safety and soundness; or (3) (for Solvency II firms) an appropriate degree of protection for those who are or may become the firm's policyholders. 	<p>An IBS is defined as being a service provided by a firm, or by another person on behalf of the firm, to one or more clients of the firm which, if disrupted, could:</p> <ol style="list-style-type: none"> 1. Cause intolerable levels of harm to one or more of the firm's clients; or 2. Pose a risk to the soundness, stability or resilience of the UK financial systems or the orderly operation of financial markets.

2.3. An IBS will have a clearly identifiable customer (retail and/or wholesale) who are dependent upon the firm's services. Services can only be an IBS where they are provided by a firm or by another person on behalf of the firm, to one or more identifiable end users. Examples of IBSs can be found at Appendix 1.

2.4. The PRA believes that 'encouraging boards and senior management to make judgements in the selection of their IBSs will facilitate better decision making as firms build their operation resilience'.

2.5. The UK Regulators have listed 13 factors which firms should consider when selecting their IBSs:

1. The nature of the client base, including any vulnerabilities that would make the person more susceptible to harm from a disruption.
2. The ability of clients to obtain the service from other providers (substitutability, availability and accessibility).
3. The time criticality for clients receiving the service.
4. The number of clients to whom the service is provided.
5. The sensitivity of data held.
6. Potential to inhibit the functioning of the UK financial system.
7. The firm's potential to impact the soundness, stability or resilience of the UK financial system.
8. The possible impact on the firm's financial position and potential to threaten the firm's viability where this could harm the firm's clients or pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
9. The potential to cause reputational damage to the firm, where this could harm the firm's clients or pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
10. Whether disruption to the services could amount to a breach of a legal or regulatory obligation.
11. The level of inherent conduct and market risk.
12. The potential to cause knock-on effects for other market participants, particularly those that provide financial market infrastructure or critical national infrastructure; and
13. The importance of that service to the UK financial system, which may include market share, client concentration and sensitive clients.

At Appendix B is a grid of the factors (above) against which firms may wish to score their IBSs.

2.6. The PRA have highlighted that 'in the context of insurance firms, IBS identification should also take into consideration the protection a policyholder requires from a business service'. They state that the impact tolerance will contribute to policyholder protection as well as to the overall safety and soundness of the insurance firm.

What is not an IBS

2.7. The UK Regulators have specifically called out that payroll is not an IBS. Services which directly support an IBS such as payroll should be documented when the service is mapped, these are called internal services. In addition, the UK Regulators have stated that centrally provided technology, transaction booking, risk management, HR, audit, second line functions and IT services are unlikely to constitute an IBS.

Key Deliverables

- The list of IBSs.
- Explanation of how the firm developed the list for the self-assessment document; and
- Formal sign off by the board of the list of IBSs.

2.8. The FCA Policy Statement gives an example whereby claims handling for motor insurance is identified as an IBS (Page 15). Further analysis of the process steps identifies FNOL as being in the chain, which if not available in a disaster could cause intolerable harm to the customer (Page 24). Further examples of what firms are thinking of including within their IBSs inventories are included in Appendix 1.

Wider Context and Considerations

2.9. The UK Regulators want firms to ensure that IBSs are sufficiently resilient to protect key stakeholder groups (customers, the firm, market integrity) from intolerable harm. To do this firms will have to identify their IBSs, understand which part of the IBS is the most critical service/activity (chain) and ensure it is operationally resilient.

2.10. The IBS needs to continue to service stakeholders during a severe but plausible event and stay within the parameters specified by the impact tolerances. Therefore, if an IBS caters for two different sets of customer groups with distinct points of intolerable harm, these can either be managed through setting Recovery Time Objectives (RTOs) or sub-tolerances to prevent the customer harm or splitting an IBS into two IBSs. The regulation only allows for two (FCA and PRA) impact tolerances per IBS.

2.11. Therefore, on the one hand the more IBSs a firm has, the more work it will have to undertake, on the other hand IBSs need to be granular to identify and therefore protect designated stakeholder groups.

2.12. Firms should also be cognisant that the list of IBSs will have to be reviewed and reapproved at least annually, or whenever a material change takes place. In addition, firms will have to review the list upon material change to either their business or operating market. Lastly, if a firm breaches an impact tolerance it will have to report the breach to the UK Regulators.

Approaches

2.13. There are a number of potential approaches to identify IBSs. It is important to define and design a methodology that is clear and auditable. Firms may use any approach that is suitable to their business model. The guidance gives two examples below:

1. Example - Approach 1
 - a. Firms initially leverage off any internal work to assist with the identification of IBSs. This might include:
 - i. Existing work on customer journeys.
 - ii. Work completed by the customer oversight group.
 - iii. BCP BIAs where processes have been ordered by RTO.
 - iv. Service architecture and/or process mapping already undertaken.
 - v. List of products currently offered by the firm.
 - vi. Work completed on critical business functions.
 - vii. Work on value streams which include turnover/revenue and transaction volumes; and
 - viii. Impact assessments to determine the most critical business services.
 - b. Draft a list of IBSs.
 - c. Review and score the list against the 13 factors, thus confirming that the list is aligned to the regulator's requirements. (Appendix 2)
 - d. Hold a workshop with a broad range of SMEs in the business, to verify the list and scoring.
 - e. Recommend the list to a senior forum (Steering Committee, Exco) for review and approval.

f. Prior to Q1 2022 gain board approval for the IBS list and associated impact tolerances.

2. Example – Approach 2

- a. Facilitate a workshop with the senior management team and document a draft list of IBSs. During the year adjust the list as the project progresses and the firm's understanding of the IBSs evolve.
- b. Review and score the list against the 13 factors, thus confirming that the list is aligned to the regulator's requirements (Appendix 2); and
- c. Prior to Q1 2022 gain board approval for the IBS list and associated impact tolerances.

Notes

It is easy for firms to become confused with the plethora of supporting processes and services as to which ones might be an IBS. It may help firms if they review their potential list of IBSs against three criteria.

- Is it a service?
- is it important?
- If the service, upon failure does not cause customer harm it may not be an IBS.

3. Mapping Important Business Services

Summary of the Legislation

3.1. Mapping the end to end service and the supporting resources is an integral part in understanding and analysing an IBS. The regulator states that they view the mapping as assisting with:

1. Identifying the vulnerabilities in the delivery of an IBS; and
2. Testing the ability to remain within impact tolerance.

The purpose of both outcomes is to identify the weakness or areas of low resilience so that these can be prioritised and addressed whilst confirming that during a disruption the IBS can continue to operate within the impact tolerances.

This section of the guidance focuses on the mapping, resilience assessments and the analysis of an IBS not scenario testing. The guidance for scenario testing is included in section 5.

3.2. The guidance breaks down mapping and analysis into three steps.

	Steps	Key Deliverables
1.	Develop the IBS Service Map	The IBS service map
2.	Define Resilience and Analyse the Resources	Resilience Standards IBS Analysis
3.	Reporting the findings	List of findings/observations

Governance

3.3. A firm's board or governing body is expected to approve the mapping, this may take the form of a discussion with the SMEs, who have greater knowledge of the underlying processes and may have been involved in the mapping. It should be noted that the SMF24 or equivalent, is responsible for Operational Resilience and therefore responsible for mapping and analysis.

Step 1 – Develop the IBS Service Map

3.4. Firms could use their existing methods of either process/service mapping, supplementing these, as necessary, to show how the IBS is supported by enabling processes and resources (facilities, information, people, processes, technology, third/fourth party suppliers). The regulator expects firms to take a proportional approach to mapping taking into account the size, scale and complexity of the organisation. Firms acknowledge that keeping the maps update will be an ongoing challenge.

3.5. In terms of granularity, UK Regulators expect firms to show the relationship with the resources. In practice this means identifying each of the high-level stages in an IBS and then detailing the resources which support each stage. The regulator is allowing firms to 'develop and evolve' the detail held within the maps over the 3-year transition period. The maps need to be reviewed and updated every 12 months or upon material change. See Appendix 3 for a guide as to the granularity of level of detail required.

3.6. The guidance from the UK Regulators on each of the resources has been supplemented with notes from the LMA. In response to the consultation papers the UK Regulators were asked to provide further advice on what they meant by resources 'which support the operation of important business services'.

- **People** – People that support the provision of the important business service. Firms need to understand which people are responsible for processes, technology and implementing and monitoring controls. As well as understanding overall senior management accountability this could include individuals responsible for specific capabilities, the size and strength of their teams, training/education and wider organisational people challenges such as HR controls, employee attrition, hiring practices and key personnel succession planning.

- **Processes** – A process is a structured set of activities designed to produce a specific output. The ability to define what processes are responsible for delivering outputs in an organisation is a key element of an organisation's approach to technology.

Note – Internal services and processes should be listed in the mapping.

- **Technology** – Underlying systems and architecture to support the provision of the service.

Note – this resource category may need to be split into three categories 1. Applications specific to the IBS, 2. Shared applications used across the firm and 3. Hardware.

- **Facilities** – Office locations, printing facilities, mailing, credit card production / statements / client communications.

Note - This would include cheque printing facilities.

- **Information** – Any data, feeds or material that is required by a firm to deliver a service
- **Third-Parties** and supply chains – Firms can outsource activities but cannot outsource the responsibility for supplying the service. Appointed representatives are considered to be suppliers.

Note –

- Material outsourcers, third parties, coverholders, brokers and DCAs all fall into this category. This guidance references to all these categories as third parties or suppliers. See Appendix 4&5 for Materiality.
- Typically, third parties are controlled through a contract, therefore their resilience is managed through the terms of the contract, regular supplier meetings and audits
- The LMA is not expecting MAs to map the processes of third parties but is expecting all third parties to be included in the mapping. i.e. the relationship is fully understood
- The UK Regulators are expecting MAs to assess third parties for materiality and conduct a resilience assessment when they are found to be core to the IBS. (see Appendix 4&5)
- The LMA is expecting third parties to meet the OR requirements as detailed in the contract. The contract needs to be aligned to the firms OR standards, OR regulations and reflect the accountabilities of the MA. (for instance, all services provided should have an RTO and RPO in the contract). Initially third party contracts will not be aligned to the firms OR standards however this must be addressed during the transition period and
- MAs should not be onboarding third parties which are not resilient.

3.7. At Appendix 3 is an example of the mapping using a grid format and represents the minimum standard in terms of detail. Firms may also consider some other formats for instance a high-level process flow or a customer journey map. The maps will develop as the work progresses and more resources will need to be added.

3.8. The UK Regulators acknowledge that it would be difficult for firms to be able to assess the resilience of all applications and third parties and have therefore introduced the concept of materiality. At Appendix 4&5 there are two examples of methods to assess materiality. All resources which support an IBS need to be shown in the mapping, only those which are deemed to be material need to be assessed for resilience.

Step 2 – Resilience Assessments

3.9. As part of the mapping phase firms need to analyse resources for vulnerabilities i.e. weaknesses. Therefore, firms will have to develop a resilience standard for each resource or use their existing policies and standards.

3.10. In order to understand if a resource is resilient, resilience assessment will have to be carried out for each resource. Firms will need to compare the resource against a resilience standard. The standard defines resilience for that resource. The standards form part of the firms OR Policy and should be designed to ensure the IBS is resilient and during a severe but plausible event can keep within the impact tolerances.

3.11. Example: - Below are three examples of standards for technology which should be aligned to a firms BIAs/BCPs or IT architectural standards.

1. All in house applications will have a DR plan in place.
2. All in house applications will have defined RTO and RPO; and
3. All RTOs and RPOs will be annually tested and must pass or meet the RTO and RPO.

The firm selects the first application for assessment. The application is deemed to be material or core because it is essential to keep the IBS within the parameters of the impact tolerance and is not substitutable.

3.12. The firm then compares the application to their resilience standard. Where the application meets the standard, it is considered to be resilient and passes if it fails, this becomes a finding (vulnerability) which management need to address or risk accept.

How does a firm develop a set of resilience standards?

3.13. The ORCG have listed a number of requirements against each of the resources which firms might consider. Many of the standards which firms wish to use will already be in existing regulations policies, standards and or controls frameworks. For instance, PRA outsourcing and Third Party Risk Management. Therefore, a firm may not have to develop a standard but choose to use their existing standards (approach 1 below).

3.14. Firms are generally developing three approaches to resilience standards. Approaches 2 and 3 are recommended:

1. **Using the current standards as resilience standards** as defined in the company's existing policies and standards.
2. **A single set of resilience standards** defined to fit the OR regulation; and
3. **A set of resilience standards which has 3 levels of resilience** - reflecting that all IBSs do not need to be hardened to the same level and that applying one level of resilience standard will be unnecessarily costly. claims FNOL, claims handling, claims payment - FNOL/payment may both have short timescales, but handling is going to have longer tolerances. Applying the same level of resilience to handling would be a good example of making it unnecessarily costly.

(As a reminder the resilience standards cover facilities, information, people, process, technology, third party suppliers)

How are firms Analysing Resources and completing their resilience assessments?

3.15. There are two approaches firms are currently using and firms might consider:

Approach 1

The firm decides that they are going to use their internal departments to develop the resilience standards and then assess the resilience of each IBS.

1. Firms agree with their internal policyholders and technical SMEs the resilience standards.
2. Firms map the first IBS.
3. The internal departments test those resources identified in the map and deemed material (see Appendix 4&5) for keeping the IBS within the impact tolerance against the resilience standards. The following functions maybe involved.
 - Procurement or Vendor Management – Third-party suppliers
 - IT – Technology and Information
 - Facilities – Locations
 - HR – People (Teams)
 - BC and ITDR teams – All resources
4. The findings are documented.

Approach 2

The firm decides that they are going to use a project team or the resilience team to develop the resilience standards and then assess the resilience of each IBS:

1. Firms agree with their internal policyholders and technical SMEs the resilience standards.
2. Firms map the first IBS.
3. The project team analyse the material (see Appendix 4&5) resources against the resilience standards; and
4. The findings are documented.

Step 3 – Document the findings

3.16. When the findings are documented, firms may choose to include them in an interim report which encompasses the work performed to date with the view of adding the findings which will take place on scenario testing.

- The findings should be cleared with the IBS owner or equivalent stakeholder group and other relevant stakeholders; and
- When appropriate, the findings are combined with the findings from the scenario testing phase, then prioritised and raised to management for resolution or mitigation.

4. Developing Impact Tolerances

Summary of the Legislation

4.1. The UK Regulators wish to protect market integrity and customers whilst maintaining the soundness and stability of the firms. To this end they have stipulated that dual regulated firms will have to set at least one if not two 'Impact Tolerances' for each IBS. The impact tolerances indicate when intolerable harm would be inflicted upon consumers or firm and pose intolerable risk to the market. The UK Regulators require firms to stay within their impact tolerances during a disruption.

4.2. The UK Regulators define the impact tolerance as follows:

Term	PRA	FCA
Impact Tolerance	The maximum <u>tolerable level</u> of disruption to an important business service or an important group business service as measured by a length of time in addition to any other relevant metrics.	means the maximum tolerable level of disruption to an important business service, as measured by a length of time and <u>in addition</u> to any other relevant metrics, reflecting the point at which any further disruption to the important business service could <u>cause</u> intolerable harm to any one or more of the firm's clients or pose an intolerable risk to the soundness, stability, or resilience of the UK financial system or the orderly operation of the financial markets.

4.3. Impact tolerances can be defined using a number of metrics but must always include a time-based metric. This means that the impact tolerance must designate a point in time or a period of time beyond which a customer cannot be returned to the correct financial position i.e., intolerable harm is caused. Other metrics which may be considered are:

1. The number and types (such as vulnerability) of consumers adversely affected, and nature of impact.
2. Financial loss to consumers.
3. Financial loss to the firm where this could harm the firm's consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
4. The level of reputational damage where this could harm the firm's consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
5. Impacts to market or consumer confidence.
6. The spread of risks to their other business services, firms or the UK financial system.
7. Loss of functionality or access for consumers; and
8. Any loss of confidentiality, integrity or available data.

4.4. When developing an impact tolerance firms should not take into account workarounds. However, they should factor in periods of peak activity and volumes.

4.5. The UK Regulators have specifically called out vulnerable customers within the FCA policy statement. Firms should consider vulnerable customers their needs and how much disruption to them will be tolerated when setting impact tolerances. The UK Regulators are not expecting specific impact tolerances to be set for vulnerable customers but do expect vulnerable customers to be taken into account when considering how much disruption should be tolerated. Communication plans will need to take into account the needs of vulnerable customers and methods to minimise harm.

4.6. During a severe but plausible event, firms are expected to remain inside their impact tolerances. This will entail firms deploying their workarounds as well as disaster recovery arrangements. If a firm breaches an impact tolerance this is reportable to the UK Regulators.

4.7. When setting impact tolerances, the following factors should be taken into account:

1. The nature of the client base, including any vulnerabilities that would make the person more susceptible to harm from a disruption.

2. The number and types (such as vulnerability/retail/commercial) of consumers adversely affected, and nature of impact.
3. Financial loss to clients.
4. The potential financial loss to the firm where this could harm the firm's consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
5. The potential level of reputational damage where this could harm the firm's consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets.
6. The potential impact on market or consumer confidence.
7. Potential spread of risks to their other business services, other firms or the UK financial system.
8. Potential loss of functionality of access for clients.
9. Any potential loss of confidentiality, integrity or availability of data; and
10. The potential aggregate impact of disruptions to multiple important business services, in particular where such services rely on common operational resources as identified by the firm's mapping exercise under SYSC 15A.4.1R.

4.8. During a disruption firms may wish to resume a degraded service to stay within impact tolerance. Firms should not do this if they will breach another regulatory obligation or increase the risk of harm to its clients or market integrity. Firms will need 'sound, effective and comprehensive strategies and processes' to comply with their obligations.

Understanding Vulnerabilities

4.9. For an IBS, vulnerabilities or resilience weakness or gaps will be highlighted as findings:

- during the mapping and analysis phase; and
- during the testing of the impact tolerances.

The findings will have to be addressed, mitigated and or risk accepted, at the latest, by the end of the transition period. Findings are inherent risk and not mitigated risk.

Impact Tolerance Vs Risk Appetite

4.10. Impact tolerances should not be confused with risk appetite. Impact tolerances assume a particular risk has crystallised rather than focusing on the likelihood of operational risks occurring.

- Risk Appetite = The amount of risk a firm is willing to take in pursuit of its objectives.
- Impact Tolerance = The amount of disruption/impact to an IBS a firm is willing to take.

Governance

4.11. IBSs and their associated impact tolerances need to be agreed by the board or governing body of the firm at least every 12 months or upon material change. The SMF 24 is responsible for implementing and reporting to the board on operational resilience. The responsibility for being able to remain within impact tolerance for an IBS is likely to rest with an IBS owner. IBS owners should review and agree the impact tolerance with the resilience team.

4.12. Firms will have to document the methodology and approach taken to setting impact tolerances. These should be included in the self-assessment document.

Key Deliverables

1. For each IBS:
 - a. Develop and document an FCA Impact tolerance.
 - b. Develop and document an PRA Impact tolerance.
 - c. Document the methodology and approach in the self-assessment document.
 - d. For each of the impact tolerances firms will need to demonstrate.
 - i. How they considered both the PRA and FCA objectives.
 - ii. Their recovery and response arrangements are viable to meet both impact tolerances; and
 - iii. Demonstrate that the scenarios are not constrained or limited by only testing the shorter impact tolerance.

2. It should be noted that deliverable d. can only be completed once the scenarios have been developed, tested and run. Therefore, this deliverable spans the guidance in this section and also in the section entitled Scenario Testing.

How to set the impact tolerances

4.13. Each regulator has set out the approach to setting impact tolerances based on its own regulatory objectives and believes that these do not conflict. Managing agents as dual regulated firms are expected to set two impact tolerances against each regulatory objective and to provide a justification if an impact tolerance is not applicable.

4.14. Dual regulated companies have to consider setting two impact tolerances unless they are out of scope or the IBS does not pose a risk to the regulator's objectives. In which case firms will have to explicitly justify why the impact tolerances are not applicable.

FCA Impact Tolerance

4.15. The FCA's objective with regards to operational resilience is 'primarily intended to advance the FCA's objectives of reducing harm to consumers and market integrity'¹.

4.16. The UK Regulator has accepted that if one MA were to fail this would not impact market integrity. MAs can therefore focus on setting an FCA impact tolerance which only takes into account when harm would become intolerable to the customer.

4.17. The impact tolerance for the FCA is a period of time from when the transactions should have been processed or completed to the point that intolerable harm has been inflicted on customers. Firms may wish to supplement this with other metrics as specified in the guidance and policy statements.

PRA Impact Tolerance

4.18. The PRA's objectives are to²;

- Avoid disruption to the financial stability of the UK.
- Promote the safety and soundness of PRA-authorized firms; and
- in the context of insurance to contribute to securing the appropriate degree of policyholder protection.

4.19. **Scope** - A firm must set a PRA impact tolerance for financial stability of the UK Market if their gross written premium is more than £15 billion or technical provisions exceeds £75 billion³.

4.20. The PRA impact tolerance for a firm should be set at the point in time (A date, deadline or time from the when the disruption commenced) at which further disruption to the IBS would pose a risk to the firm's safety and soundness, and/or policyholder protection. Firms may wish to supplement this with an additional metric for instance a financial value.

Summary

4.21. In summary, a Managing Agent with a GWP of less than £15bn will have to set two impact tolerances. One for the FCA focusing on preventing intolerable harm to customers and the other for the PRA focused on the safety and soundness of the firm and policyholder protection.

Approach

4.22. When firms reach the stage whereby, they wish to develop the FCA and PRA impact tolerances, they will have completed the mapping phase and have a detailed knowledge of the IBS. The SMEs from the business who will need to be involved to develop the impact tolerances are very likely to find the concept of impact tolerances initially confusing. Therefore, firms will need to keep the process simple. The guidance recommends 3 steps.

¹ FCA Consultation Paper Appendix 3, Page 53, Para 7

² FCA Supervisory Statement, March 2021, Para 2.3

³ FCA Policy Statement PS, March 2021, Para 3.15

Preparation

4.23. Firms will have to collect appropriate information to set the Impact Tolerance. Much of this data can be have been collated in the IBS mapping. Firms will need to have an understanding of:

- The key features of the product and who is the primary and secondary target audience.
- The process stages and how they are supported by the underlying resources.
- The segmentation of the target customer audience and what is important to each of those groups.
- The key customer touchpoints derived from activity flows.
- How the transactions split and flow through the different process stages/teams/swim lanes/activity flows.
- Single points of failure within the activity flows.
- The peak values and volumes which historically have flowed through the process, teams and/or activity flows.
- Any current SLAs.
- Complaints which the organisation has received about the IBS in the past; and
- Post incident reports which involved the IBS.

Step 1 - Plan the meeting/workshop

4.24. The meeting is best kept to a small group of attendees who know the process well. Initially limit the ambition of the meeting.

- **Decision:** The firm needs to make a decision on how the meeting is going to be conducted. Whilst focusing on the services delivered to the customer, a decision needs to be made how these are going to be the points if intolerable harm going to be grouped by product or class?
- Confirm which of the regulatory objectives are applicable to the IBS. Therefore, is the meeting setting two impact tolerances or only one.
- The initial meeting should be planned with limited objectives i.e., covering one or two services/products only.
- Develop a grid to capture the information from the meeting (see Appendix 7).
- Invite experienced SMEs who interface with and know the customer, the product and the IBS.
- Keep the meeting small, perhaps less than 6 people: and
- If the meeting is online, consider how to use the screen and the minimum readable font size, when not in presentation mode.

Step 2 - Conduct the first meeting - Understanding the points of intolerable harm

4.25. Objective of the meeting is to understand document points of harm and then intolerable harm for each service. Below is a possible agenda for the meeting.

- Agenda
 - Explain the broad concepts of resilience:
 - Agree the customer grouping or segmentation (Vulnerable customer, Retail, Small SME etc).
 - Confirm the customer touch points are correct.
 - Agree which touch points are the most important (i.e., For claims this will be FNOL and settlement).
 - Focus on the first customer segment (FCA impact tolerance).
 - Ask the SMEs for the point of harm (Is it at 24 hrs or 4 days, 1 month etc). Ask the SMEs to give the meeting concrete examples of harm.
 - Ask the SMEs for the point of intolerable harm (Is it at 24 hrs or 4 days, 1 month etc). Ask the SMEs to give the meeting concrete examples of intolerable harm.
 - Focus on the firm (PRA Impact tolerance):
 - Ask the SMEs for examples of when and how the firm would be intolerably harmed if the IBS was not able to function.
 - How long would it take for the company to be intolerably harmed?
 - What would the harm be?
 - During a disaster, when would it become too difficult to operate the service?
 - When would customers take to Twitter to complain about the company not providing the service?
 - When would reputational harm and intolerable harm be inflicted on the firm and its reputation?
 - When would financial harm and intolerable harm be inflicted on the firm

Firms should not be taking into account any workarounds when developing the impact tolerances. Other than their willingness to recompense policyholders to put them into the correct financial position. It is anticipated that firms will have to have several meetings to conduct these sessions for each IBS.

Step 3 – Developing the Impact Tolerance

4.26. Once the set of meetings have completed, the firm will have enough information to make an informed decision as to where the impact tolerances for the IBS should fall. The firm should set its FCA impact tolerance at the first point at which a disruption would cause intolerable levels of harm to customers or risk to market integrity, then set its PRA impact tolerance at the point the firm becomes unstable and policyholder protection is affected. All IBSs and their associated impact tolerances will have to be approved by the board.

5. Scenario Testing

Summary of the Legislation

5.1. The UK Regulators want firms to regularly test their ability to remain within impact tolerances during severe but plausible events. The testing regime is permitted to mature over the implementation period. Tests should include all the departments and if possible, material third parties supporting an IBS and focus should be given to remaining within the impact tolerance as well as testing and exercising the response plans.

5.2. The LMA and Lloyd's recognise that due to MAs' reliance on services which are provided to all MAs some form of market wide testing will have to take place. The strategy for this testing will be released towards the end of the implementation period.

5.3. Firms will have to develop testing plans which start with the basics and then over the transition period become more sophisticated as further elements are brought in for instance:

- The scenarios become more severe.
- Multiple IBSs with common resources are tested jointly.
- Market wide testing is initiated.
- Further IBSs are identified.
- The changing nature of the threat (cyber) is reflected in new or amended scenarios; and
- Increase the severity of tests by assuming simultaneous disruptions to resources.

5.4. Firms will need to understand which threats are most likely to occur and include these within the testing schedule and secondly which resources would have the most impact if denied. Therefore, firms may want to leverage off their threat/risk assessments and secondly may want to conduct a resource impact assessment. i.e., ensure they are testing the resources which would have the most impact if the failed.

5.5. A range of scenarios should be tested including some scenarios which will exceed the impact tolerance. 'Boards and senior management will need to judge whether failing to remain within the impact tolerance in specific scenarios is acceptable and be able to explain their reasoning to supervisors'.

5.6. The following scenarios have been flagged in the FCA Consultation Paper CP19/19 as guidance.

- Corruption, deletion or manipulation of data critical to the delivery of important business services.
- Unavailability of facilities or key people.
- Unavailability of third-party services which are critical to the delivery of important business services.
- Disruption to other market participants; and
- Loss or reduced provision of technology underpinning the delivery of important business services.

5.7. The LMA advise that firms should select a range of scenarios which test different parts of the 'end to end' chain of activities within an IBS and also at some stage design in the four denials people, technology, locations and data.

5.8. Following the scenario tests, for inclusion in the self-assessment document, firms will have to.

1. Document the tests and the results.
2. Conduct a lesson's learned exercise; and
3. Develop a list of findings to address, mitigate or risk accept.

Approaches

5.9. The LMA would like to refer Managing Agents to the Operation Resilience Collaboration Groups (ORCG) guide Scenarios and Scenario Testing. The group is a cross industry forum which has produced an excellent guide to designing, executing and documenting scenario testing and can be found on the LMA Operational Resilience web page.

6. Self-Assessment Document

Summary of the Legislation

6.1. The purpose of the self-assessment document is to keep an up to date record of a firm's compliance with the operational resilience requirements. Firm's boards are accountable and should approve the documents. Boards and senior management should be cognisant of the firm's resilience and that the firm is able to stay within the impact tolerances.

6.2. The UK Regulators have continually emphasised that the way in which the document and its content is assembled should be proportionate to the size, scale and complexity of the firm. Firms are encouraged to use their existing tools (process mapping, transaction life cycles etc). Secondly, they have stated the need to include methodology and justification of decisions taken and conclusions reached.

6.3. The document should be well structured, can be composed of multiple files of differing types. It should show the operational resilience journey of the firm. The regulator has specified the following content⁴:

1. List of the important business services identified by the firm and the justification for the determination made.
2. Document the impact tolerances the firm's impact tolerances and the justification for the level at which they have been set by the firm.
3. The firm's approach to mapping under SYSC 15A.4.1R, including how the firm has used mapping to:
 - a. identify the people, processes, technology, facilities and information necessary to deliver each of its important business services.
 - b. identify vulnerabilities; and
 - c. support scenario testing.
4. The firm's testing plan and a justification for the plan adopted.
5. Details of the scenario testing carried out as part of its obligations under SYSC 15A.5, including a description and justification of the assumptions made in relation to scenario design and any identified risks to the firm's ability to meet its impact tolerances.
6. Any lessons learned exercise conducted under SYSC 15A.5.8R.
7. An identification of the vulnerabilities that threaten the firm's ability to deliver its important business services within the impact tolerances set, including the actions taken or planned and justifications for their completion time.
8. Its communication strategy under SYSC 15A.8.1R and an explanation of how it will enable it to reduce the anticipated harm caused by operational disruptions; and
9. The methodologies used to undertake the above activities.

6.4. The document should be reviewed regularly and upon change to either the firm, its IBSs or the market. The regulator has not specified when the document should be submitted only that it should be ready for submission.

Approaches

6.5. The wide parameters the regulator has allowed will enable firms to take numerous approaches to how the self-assessment document is compiled and maintained. Below we provide links to one possible approach however this is still in development and firms should develop the optimum method of meeting the requirements whilst taking into account the size, scale and complexity of their own organisation.

There are two template artefacts on the LMA Operational Resilience web page which you can download and use.

⁴ Operational Resilience Instrument 15A.6.1

7. Glossary

Description	Abbreviation	Definition
Business Continuity	BC	The capability of the organisation to continue delivery of products or services at acceptable pre-defined levels following a disruptive incident
Consultation Paper	CP	In <u>Consultation Papers</u> the UK Regulators consults on proposed changes to the FCA Handbook rules. They outline the proposals, ask questions and invite responses from our varied audiences, including the financial services industry and consumer organisations. CPs contain draft Handbook rules
Client	N/A	The regulator uses the terms client, customer, consumer and end user interchangeably throughout the CP
Discussion Paper	DP	Discussion Papers focus on a particular topic or area of interest. The main aim of a DP is to create a conversation or debate the issue.
Financial Conduct Authority	FCA	The Financial Conduct Authority (FCA) regulates the financial services industry in the UK. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers
Harm		<p>“Harm to consumers or market integrity can include the following factors (source –FCA CP 05/12/19):</p> <ul style="list-style-type: none"> • The number of types (e.g., vulnerability) of consumers adversely affected and the nature of that impact • Financial loss to consumers • Financial loss to the firm where this could harm the firm’s consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets • The level of reputational damage where this could harm the firm’s consumers, the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets • Impacts to market or consumer confidence • The spread of risks to other business services, firms or the UK financial system • Loss of functionality or access for consumers • Any loss of confidentiality, integrity or availability of data
Important business service	IBS	An IBS has two complementary definitions and can be found on page of the guidance
Impact Tolerance		The impact tolerances is defined on Page 15 of the guidance
Internal service/process		A service or process which supports an IBS
Prudential Regulation Authority	PRA	The Prudential Regulation Authority (PRA) is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm
Recovery Time Objective	RTO	The period of time following an incident within which a product or service must be resumed, or activity must be resumed, or resources must be recovered
Resources		Assets that can be drawn on by a person or organisation to function effectively.
Recovery Point Objective	RPO	The point to which information used by an activity must be restored to enable the activity to operate on resumption
Senior Managers and	SM&CR	This is the regulatory regime which supervises and certifies executives in financial services

Certification Regime		
Senior Management Function 24	SMF24	This is defined as the person of having responsibility for the internal operations and technology of a firm
Senior Management Arrangements, Systems and Controls (Handbook)	SYSC	The FCA Handbook sets out the FCA's detailed rules made under powers given to it by FSMA 2000, as amended by the Financial Services Act 2012.
Policy Statement	PS	In a policy statement the regulator publishes the response to the answers received to the original CP questions and sets out the rules. The PS contains the final legal instrument (Handbook rules)
Service/Process/Activity		An IBS is made up of services which in turn are made up of processes which are broken down by activities
Supervisory Statement	SS	Supervisory statements set flexible frameworks for firms, incorporating new and existing expectations. They focus on the expectations and are aimed at facilitating firm and supervisory judgement in determining whether they meet those expectations. They do not set absolute requirements – these are contained in rules

8. Disclaimer

Whilst every effort has been made to provide accurate information in this guidance document, managing agents should ensure they are familiar with the relevant policy and supervisory statements from the FCA and PRA and the rules therein.

Appendices

Appendix 1 - Examples of IBS Registers from 4 Managing Agents and Lloyd's

These examples are only indicative and an MA could / should base their own IBS's upon their customers, the regulatory requirements and their own internal processes. The examples are real and based on the existing IBS lists from managing agents. The lists are subject to change as managing agents progress their resilience programmes. Managing agents may also find it helpful to refer to the list of IBSs within the documentation which is about to be published by ISORG.

Example 1	Example 2	Example 3	Example 4	Lloyd's
<ol style="list-style-type: none"> 1. Claims – FNOL 2. Claims - Settlement 3. Underwriting – New Sales 4. Underwriting - Renewals 5. Underwriting - Endorsements 6. Complaints 	<ol style="list-style-type: none"> 1. Claims – Payments 2. Claims - Handling 3. Buying a Policy 4. Complaints 5. Processing premiums and credit control 6. Ceded Reinsurance 7. Amendments/Cancelling a policy 8. Financial and Reg Reporting <p><i>Not an IBS but included in the programme</i></p> <p>Payroll</p>	<p>Mission Critical Business Processes/Activities (RTO ≤ 2 days)</p> <ul style="list-style-type: none"> • HR – Payroll • GT – HFM (Hyperion Financial Management) - Consolidation & Local Statutory Reporting • Policy Management – Issuing Certificates • Technology – Infrastructure Services <p>Highly Critical Business Processes/Activities (RTO ≤ 5days)</p> <ul style="list-style-type: none"> • Claims – FNOL • Marketing & Comms • Security – Information Security Incident Management • Claims – External Reporting, Document Intake, Indexing, Payment Process Failure • TCD (Transformation & Change Delivery) • DIA (Data Intelligence & Analytics) • Finance – Technical Payments (Cash Management & Accounting) • HR – Payroll (upstream data capture) • Policy Management • Technology – Enabling Functions 	<ol style="list-style-type: none"> 1. Underwriting 2. Claims 3. Regulatory Reporting 4. Reserving & Financial Reporting 5. Outward Reinsurance 6. Investment Management 7. Complaints (Lloyd's / non-Lloyd's) 8. Capital Modelling 9. Treasury & Cash Management 10. Catastrophe Modelling, Planning & Response 	<ol style="list-style-type: none"> 1. FAL Investment Management Corporate Actions 2. Payment of Syndicate losses and cash calls 3. FAL Stock Market Trading on behalf of members 4. Capital Collection 5. Auctions 6. In Event of a Major Catastrophe 7. Complaints 8. Central Fund & FAL Investment Management 9. Central Settlements

Appendix 2 - Scoring an IBS (13 Factors)

IBS	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	Total
	Vulnerabilities that would make the person more susceptible to harm from a disruption	the ability of clients to obtain the service from other providers (substitutability, availability and accessibility);	the time critically for clients receiving the service	the number of clients to whom the service is provided	the sensitivity of data held	potential to inhibit the functioning of the UK financial system	the firms potential to impact the soundness, stability or resilience of the UK financial system	the possible impact on the firm's financial position and potential to threaten the firm's viability ⁵	the potential to cause reputational damage to the firm, where this could harm the firm's clients or pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets	whether disruption to the services could amount to a breach of a legal or regulatory obligation	The level of inherent conduct and market risk	the potential to cause knock-on effects for other market participants, particularly those that provide financial market infrastructure or critical national infrastructure	the importance of that service to the UK financial system, which may include market share, client concentration and sensitive clients (for example, governments or pension funds)	
Potential IBS 1														
Potential IBS 2														
Potential IBS 3														
Potential IBS 4														

Firms have used a variety of scoring methods to understand if a service should be an IBS and then the relative importance of a potential IBS. Two examples are listed below.

1. Score each factor High, Medium, Low and then assign a numeric value as a total
2. Score each factor 1 to 5 and then sum the totals.

Firms should be aware that when discussing the results, the number of factors addressing clients is greater than those addressing the firm and market integrity. The grid is only a guide and the decision as to what is an IBS and not an IBS is the decision of management and the Board

1. ⁵ The factor has been shortened and the full wording is "the possible impact on the firm's financial position and potential to threaten the firm's viability where this could harm the firm's clients or pose a risk to the soundness, stability or resilience of the UK financial system or the orderly operation of the financial markets."

Appendix 3 – Example IBS Mapping (Grid format)

The LMA Operational Resilience Working Group have developed a grid-based map which details all the resources. This represents the minimum the standard. Firms should consider other maps, for instance process maps with swim lanes and maps which shows the customer journey. In the example some collective terms have been used for instance coverholder and broker these need to be detailed in full. Within the grid/map firms could reference a full list held in an Appendix.

Example screenshots from the IBS Mapping document. Refer to the artefacts on the LMA Operational Resilience web page for the full document.

IBS Claims Settlement

Accountable Executive Role
IBS owner
Consumer / Market Participants

Policy holders, Brokers

Important Business Services	Services	Processes	Internal People	Third parties	Technology	Data	Premises	Scenarios	Impact Tolerances
	FAOL	<ul style="list-style-type: none"> External event notification Receive first notification of loss Match claim with policy Triage initial routing Sanction/ fraud checks? 	<ul style="list-style-type: none"> Claims Adjuster 	<ul style="list-style-type: none"> Brokers XCS (supply Claim services including EC2) Claims adjuster/PFA/claims management services Coverholders Charles Taylor (supply services including TRAX) LMOSS (manage DA SATs from Charles Taylor & XCS) 	<ul style="list-style-type: none"> Email/Voice connectivity /webchat/ mobile app /chatbot Access to EC2 / TRAX Policy Admin System Sanctions checking tool? Storage On site (cloud) Desktop access & network Laptop / printer/ hardware if required Fraud detection tool/s/external checking tools? Cyber surveillance and detection tool? DA SATs / other DA Tools? 	<ul style="list-style-type: none"> Policy details to attach policyholder to claim Claim details Initial party Correspondence Businesses? 	<ul style="list-style-type: none"> e.g. internal data centre 		
Claims settlement	Claims handling / Adjustment	<ul style="list-style-type: none"> Case management Negotiate/agree claim Decline claim Claims Insuring Expert management Cost management TPA 	<ul style="list-style-type: none"> Claims Adjuster Claims Authorities in house claim file operations Adjudicator (large losses) 	<ul style="list-style-type: none"> Brokers XCS External expert/insurances (including outsourced back office support) Charles Taylor (supply services including TRAX) LMOSS (manage DA SATs from CT and XCS) Loss fund services? 	<ul style="list-style-type: none"> Access to EC2 / TRAX Policy Admin System Email/Voice connectivity /webchat/ mobile app /chatbot Storage On site (cloud) Desktop access & network Laptop / printer/ hardware if required DA tools Loss fund tools? Claims Admin systems / dts 	<ul style="list-style-type: none"> Claims file including Claims Adjudicator Expert report (coverage documents) Bondware? 			
	Pay Claims	<ul style="list-style-type: none"> Claim payment Expert Fee Reinstatement premium (PP) Management Reinsurance collections if required for cashflow 	<ul style="list-style-type: none"> Claims Adjuster in house back office operations Finance – cash management Reinsurance recoveries (see if large loss) 	<ul style="list-style-type: none"> Brokers XCS Levy's central settlement Finance – cash management Coverholders Other payment providers Loss fund providers? 	<ul style="list-style-type: none"> Email/Voice connectivity /webchat/ mobile app /chatbot Access to EC2 / TRAX Policy Admin System Reinsurance recovery systems Payment tools Loss fund tools? 	<ul style="list-style-type: none"> Confirmation of receipt of premium (if allowed) Reinsurance coverings Claims messaging Payment details 			

IBS Underwriting risks

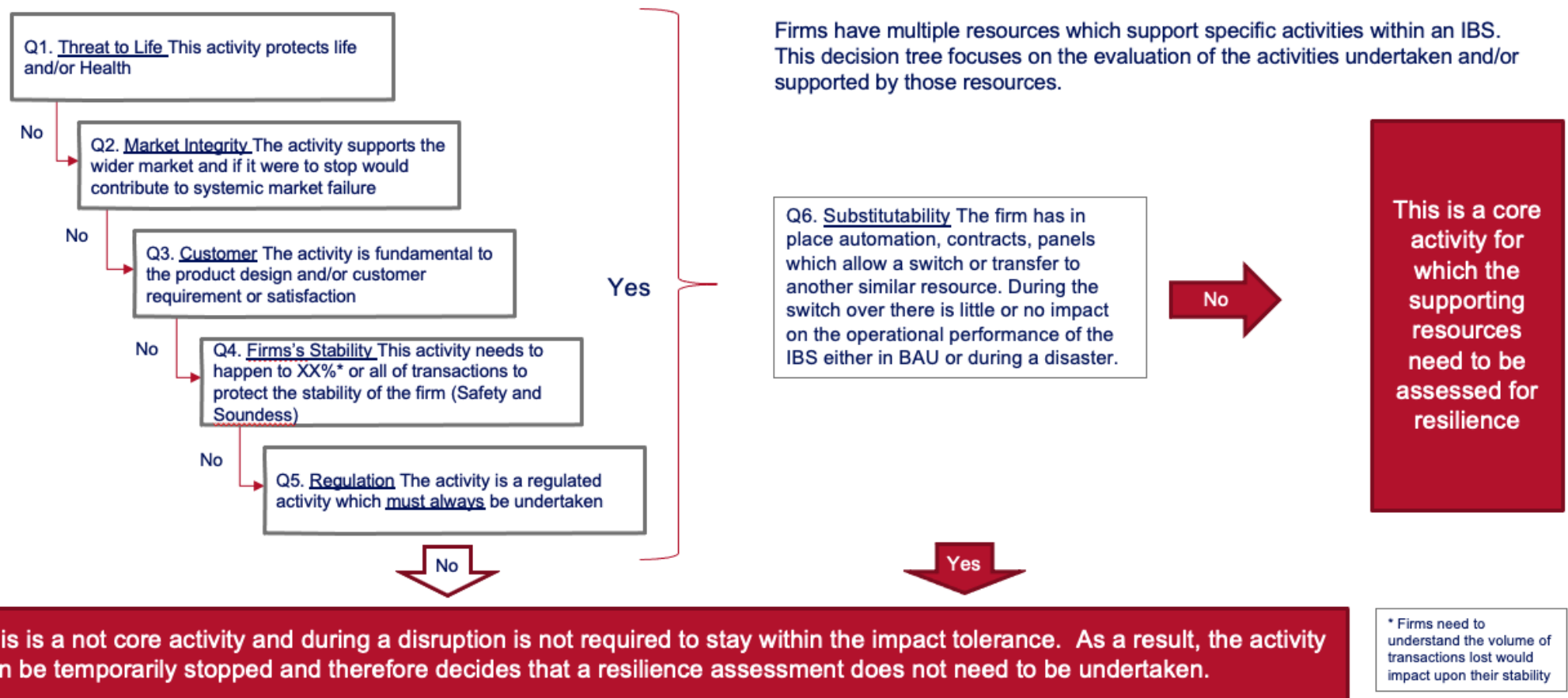
Accountable Executive Role	
IBS owner	
Consumer / Market Participants	Policy holders, Brokers

Important Business Service	Services	Processes	Internal People	Third parties	Technology	Data	Premises	Scenarios	Impact Tolerance
	<ul style="list-style-type: none"> Submission / Quote 	<ul style="list-style-type: none"> Receive submission, clear risk and provide quote to broker 	<ul style="list-style-type: none"> Underwriting Assistants Underwriters Actualized pricing team? 	<ul style="list-style-type: none"> Brokers Electronic placement provider (PPL (IBS), WhiteSpace etc) LMC055 services (SSO, TAME / API Partner) and LMC055 	<ul style="list-style-type: none"> Email Broker proprietary systems Rating Tools Policy Admin System Rating tools? Cyber surveillance and detection tools Sanctions checking tools Printer / Desktop / network access 	<ul style="list-style-type: none"> MRC Policyholder and risk data Pricing data (including claims experience) Due diligence documentation 	<ul style="list-style-type: none"> Lloyd's box 		
Underwriting new businesses / renewals	<ul style="list-style-type: none"> Bind/policy issuance 	<ul style="list-style-type: none"> Policy is bound in documents and policy documents and invoice issued to insured 	<ul style="list-style-type: none"> Underwriting Assistants Underwriters 	<ul style="list-style-type: none"> Brokers Electronic placement provider (PPL, WhiteSpace etc) X05? LMC055 services (GDC, DDMT) 	<ul style="list-style-type: none"> Email Policy Admin System Storage (onsite / cloud) Placement tools Printer / Desktop / network access 	<ul style="list-style-type: none"> Policy documentation 			
	<ul style="list-style-type: none"> Premium collection 	<ul style="list-style-type: none"> Broker collects premium from insured. LPANs / eAccounts, online created for paid premium 	<ul style="list-style-type: none"> In house finance 	<ul style="list-style-type: none"> Banks Brokers X05 X05 Binder 360or equivalents? Lloyd's central settlement services 	<ul style="list-style-type: none"> PAS Access to on line banking tools Printer / Desktop / network access 	<ul style="list-style-type: none"> X05 messaging LPANs Bordenaux 			

Appendix 4 – Materiality – Decision Tree

Decision Tree - Materiality

Introduction - All resources need to be named on the IBS map. However, only those which are material to the IBS need to be assessed for resilience. This slide is an example of a decision tree which will assist firms splitting their resources into two categories. **Core** which are fundamental to the IBS and keep it within impact tolerance. **Non-core** which support an activity which may add value, differentiate a product but is not fundamental to market integrity, preventing customer harm or underpinning the the stability of the firm. It should be noted that current working assumptions have only excluded three categories of suppliers from resilience assessments. Banks, utility companies and those suppliers/application which are deemed to be Non-Core.



Appendix 5 – Supplier Materiality – Scoring Grid

A second example of how Managing Agents are scoring suppliers to understand materiality, is included below.

			<div>Affects IBS</div> <div>Y1</div> <div>N0</div>				<div>Volume/Value</div> <div>H5</div> <div>M3</div> <div>L1</div>							<div>Segments</div> <div>All5</div> <div>Consumer / Vulnerable Customer5</div> <div>Consumer / General Public4</div> <div>Commercial / SME3</div> <div>Commercial / Above SME2</div> <div>Insurance / Brokers Reinsurers Captives1</div>				<div>Substitution Available?</div> <div>Y-4</div> <div>N0</div>				<div>Scoring</div> <div>37-40Critical & Important</div> <div>20 - 36High</div> <div>5 - 20Medium</div> <div>0-5BC</div>	
			<div>Affects IBS</div>						<div>Impact to Underwriting</div>			<div>Impact to Claims</div>			<div>Impact to Complaints</div>		<div>Additional Criteria?</div>		<div>Substitution?</div>				
Third Party Name	Third Party Category	Lloyd's Business	Claims FNOL	Claims Settlement	U/w NB	U/w Rnwl	Complaints Handling	Any other IBS	U/w Authority?	Monthly Policy Volume	NWP per month	Claims Authority?	Monthly Claims Volume	Monthly Claims Value (USD)	Complaints Authority?	Monthly Complaint Volume	Customer Call Centre?	Customer Segment	Substitution available?	Scoring	Level of Criticality		
TPA 1	DCA	Y	Y	Y	?	?	N	N	N	n/a	n/a	Y	L	245000	N	n/a							
TPA2	DCA	Y	Y	Y	N	N	Y	N	N	n/a	n/a	Y	22	530,000	Y						High		
TPA3	DCA	N	Y	Y	N	N	N	N	N	n/a	n/a	Y	90	18,000	Y			Consumer / General Public			Critical & Important		
TPA4	DCA	N	Y	Y	N	N	Y	N	N	n/a	n/a	Y	164,000	49,090,777	Y								
		</																					

Appendix 6 - Work to be Undertaken by LMA, LIMOSS and Lloyd's on Suppliers

The LMA and Lloyd's recognise that there are substantial benefits in terms of a coordinated approach to certain supplier categories, as a result the following guidance is being given and will be subject to further updates in 2021/22.

Supplier	Distribution	Services	Proposed Approach	Work to be undertaken by the LMA, LIMOSS and/or Lloyd's
Brokers	Open Market	Underwriting – New Business Underwriting – Renewals Underwriting – Endorsements	Brokers are to be treated as substitutable for underwriting and therefore do not need to be assessed for resilience.	LMA to liaise with brokers to understand if the point of intolerable harm can be communicated to the underwriter.
Brokers	Open Market	Claims	In order for brokers to become fully substitutable claims functions within brokers need to be able to hand over mid claim to another party.	
Coverholders	Binder	Underwriting – New Business Underwriting – Renewals Underwriting – Endorsements Claims Complaints	Coverholders are not substitutable, and their resilience needs to be assessed and contingency plans developed as appropriate	Lloyd's is going to understand how the OR requirements can be brought into the standardised documentation for; <ul style="list-style-type: none"> • Binding agreements • Registration • On boarding • Contracts • Audits
DCAs	Open Market and Binder	Claims	DCAs are not substitutable, and their resilience needs to be assessed and contingency plans developed as appropriate	Lloyd's is going to understand how the OR requirements can be brought into the standardised documentation for: <ul style="list-style-type: none"> • Delegated Claims Authorities
PPL, DXE, LIMOSS Managed Services	All	As appropriate	These centralised third-party services which support the entire Lloyd's marketplace are not substitutable. MAs need to understand the resilience of these services and contingency	On renewing these centralised third party services, Lloyd's, the LMA and LIMOSS need to build in the OR requirements into the contract Lloyd's to consider market wide severe but plausible scenarios
Lloyd's	N/A	Complaints	TBC – these will be provided in future versions of the guidance	TBC - these will be provided in future versions of the guidance

Appendix 7 - Customer Intolerable Harm – Workshop Output

The table below is used during the meeting/workshop to discuss customer harm and then intolerable harm with the SMEs from the business, in this case the claims managers. It is important to capture what the intolerable harm will be. This will assist in building the case for where the impact tolerance will fall when the analysis is completed. The example below is a specialist motor underwriter which insures modified cars for the disabled, 4 by 4s, high value vehicles, vintage and super cars.

IBS	Customer Segmentation/ Stakeholders	Volumes and Values (daily)	Customer Touchpoints	Existing SLA	Average Peak Volumes ⁶	4 – 12 hrs	9 – 24 hrs	24 – 48 hrs	Day 3 – 7	Day 7 to 14	Day 15 to 30	2 nd Month	3 rd Month	4-6 Months	Statement of Intolerable Harm (IH)
Motor Claims	Vulnerable (Retail) Customers	• FNOL - 230 calls a day, 150 New claims	FNOL (Registering a claim)	1 day	30 calls a day	H	IH								Intolerable Harm is caused when vulnerable customers cannot be provided with an alternative means of transport within 24 hours of the accident. This is either authorisation to use a taxi service or a courtesy car. Currently authorisation has to be given by the call centre on the phone.
			Investigation	Nil	N/A										NIL
			Settlement	5 days	30 payments a day						H		IH		Intolerable Harm is caused when the garage invoice is not settled by 60 days after the vehicle is repaired. As garages will no longer deal with our customers.
	Retail Customers	• Investigati on 2,000 cases in the claims managemen t system	FNOL	1 day	200 calls a day		H	IH							Intolerable Harm is caused when customers cannot be provided with a courtesy within 48 hours of the accident as many of our customers will not be able to go to work and/or take children to school.
			Investigation	Nil	N/A										Nil
			Settlement	5 days	110 payments a day						H		IH		Intolerable Harm is caused when the garage invoice is not settled by 60 days after the vehicle is repaired. As garages will no longer deal with our customers.
	Managing Agent	• Settlement 140 payments or £900K									H	IH			Harm is caused at the 20-day point as the internal paper-based work arounds become increasingly difficult to manage. At the end of the second month the Finance have stated that without the claims system they will have lost control. In addition, claims managers have said that the paper-based workaround will become unworkable.
Impact Tolerance		FCA Impact Tolerance Customers become intolerably harmed if FNOL cannot respond to customers within 24 hours. Therefore, the Managing Agent has set the impact tolerance at 24 hours.				PRA Impact Tolerance The Managing Agent believes that the risk to financial soundness and internal operational stability will be realised at the end of the 2nd month (40 working days) and have therefore set their PRA impact tolerance at the end of the second month following a disaster.									

⁶ If available, firms may choose to track both volumes and values through the process.

Appendix 8 – Alternative Method of Assessing Customer Harm

The method for assessing customer harm below is to understand the level of harm indicated by the RAG status and apply this to the regulatory objective i.e., to protect the customer or the firm. The heat map will give firm a high level of where the most harm will fall.

Harm on each Customer Type(1/2)							<div><div></div><div></div><div></div></div> High (approx. 5 points in total) Medium (approx. 3 points in total) Low (approx. 1 point in total)
Business Information				Harm Factors (Refer FCA and PRA as guidance) TO BE AGREED			
	Business Services 2	Customer Segments (Consumer, Commercial, Insurance)	Customer Type	P1. Impact on Consumer	P2. Impact on Firm	P3. Impact on UK Financial System	Final Score
Claims	First Notification of loss	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium
	Settlement	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium
Underwriting (New Business)	Quotation Process	Consumer	General public				Medium
			Vulnerable customer				Medium
			SME				Medium
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium
	Policy Issuance	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium

Harm on each Customer Type(2/2)							<div><div></div><div></div><div></div></div> High (approx. 5 points in total) Medium (approx. 3 points in total) Low (approx. 1 point in total)
Business Information				Harm Factors (Refer FCA and PRA as guidance) TO BE AGREED			
	Business Services	Customer Segments (Consumer, Commercial, Insurance)	Customer Type	P1. Impact on Consumer	P2. Impact on Firm	P3. Impact on UK Financial System	Final Score
Complaints	Intake of Complaints	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium
	Complaints Resolution	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				Medium
			Brokers/Reinsurers/Captives				Medium
Renewal	Policy Renewal	Consumer	General public				High
			Vulnerable customer				High
			SME				High
			Above SME				High
			Brokers/Reinsurers/Captives				High
Underwriting (Policy Changes)	Policy Changes	Consumer	General public				Medium
			Vulnerable customer				High
			SME				High
			Above SME				Medium
		Insurance	Brokers/Reinsurers/Captives				Medium

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