While, collectively, we must strive to save lives, we must also strive to save livelihoods during and after the pandemic. Ensuring safety and security within our communities should continue to be priorities for government, regulators and industry during this crisis; however, we must also look to the future. Following the global financial crisis of 2008/2009, regulatory enhancements generally resulted in financial institutions being significantly strengthened. As referred to in our GRI report\(^1\), once we move through this current crisis stage, we will have to deal with transition and, then, forge a sustainable path — a path that has been referred to as the “new normal”. We know from past crises that financial institutions entering those crises in strong shape were far better positioned to be able to pivot and prosper when the “new normal” arrived.

OUR CURRENT REALITY – UNDERESTIMATED RISK

Although it is unlikely that any financial institution in Canada failed to identify pandemics as an emerging (or potential) risk, financial institutions did not identify pandemics among the top 10 risks to the Canadian Financial System.

Key aspect to this underestimation was failure to fully appreciate the significant contagion effects of a global pandemic. It is interesting to note that, with the possible exception of climate risk, a pandemic event is a key catalyst for all of the "Top 10" risks identified by our membership.

Figure 1: Responses by Financial Institution Type

<table>
<thead>
<tr>
<th>Financial Institution Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>44%</td>
</tr>
<tr>
<td>Insurance</td>
<td>20%</td>
</tr>
<tr>
<td>Crown Corporation</td>
<td>12%</td>
</tr>
<tr>
<td>Pension</td>
<td>16%</td>
</tr>
<tr>
<td>Asset Management</td>
<td>8%</td>
</tr>
</tbody>
</table>

Figure 2: Top 10 Risks Ranked by the Severity of their impact on the Canadian Financial System

- Cyber Risk
- Geopolitical Risk
- Economic Risk
- Consumer Debt
- Housing Market
- Climate Risk
- Industry Disruption
- Regulatory Risk
- Interest Rate Risk
- Credit Risk

OUR CURRENT REALITY — IMPORTANCE OF RISK MANAGEMENT

With the onset of the pandemic-driven lockdown since March 2020, financial institutions’ operational resilience plans have been truly stress-tested. Appropriately, organizations have had to set their priorities on safeguarding the health and safety of employees while also serving customers and clients capably. At the same time, maintaining organizational strength, in terms of solvency, has been a necessity requiring CROs to adopt a survival perspective and assess whether their organizations have sufficient capital and liquidity to withstand this crisis.

In fact, the importance of healthy relationships between risk committees and risk management teams is never more important than in times of crisis. If, within our organizations, relationships are built on solid foundations of mutual respect, combined with a clear understanding and expectation of constructive challenge, we are on the right path.

Regulators have long been advising industry that we must go beyond focusing on business continuity management and disaster recovery, advocating that we must also ensure that our organizations focus on operational resilience.

The current reality is very much focused on the systemic aspects of pandemic and the important role that the financial services sector must play in both maintaining economic stability and, importantly, helping to lead the transition back to recovery. In this context, “resiliency” goes beyond survival and needs to reflect sustained operational capacity for effective functioning of the economy.

This is certainly front and centre in organizations today. How should we think about what we have seen so far? Numerous support programs have been rolled out. These include support from government to industry, from government direct to consumer and, importantly, from industry to consumer. The cooperation among governments, regulators and industry has been impressive and has put Canadians in most need at the forefront.

But organizations have never had to operate under the current conditions—an almost complete shutdown of the economy, and an almost complete work-from-home operating environment other than for essential services.

In our current environment of unprecedented and uncertain times there is a sense of panic and a desire to lash out. Some of us have lived through past crises, and even sat in front row seats, but this situation is different. We have not effectively shut down the entire economic engine around the globe in our lifetime. Here again, the elevated levels of contagion and interconnectedness are what largely differentiate the current environment.

Although the financial industry did not cause this crisis, it is crucial that we take a leadership role as we, while mindful of our health crisis, at the same time confront an economic one.

OPERATIONAL RESILIENCE — KEYS TO SUCCESS

Operational resilience is key to how we emerge from this crisis. Business continuity has typically focused on how a business can resume its services in response to a disruptive event, but many scenarios have not assumed that nearly all employees and most functions would be carried out from home for an extended period of time.

The general shifts that regulators have been making in many jurisdictions, including Canada, have improved our ability to manage through this crisis thus far. However, this recovery will take years, will change how businesses operate and determine which businesses survive. The full impact remains unknown.

If we look to the most recent (pre COVID-19) regulatory summary and coordinated consultation papers on new requirements to strengthen operational resilience in the financial services sector (from the Bank of England, PRA and FCA) it provides very good guidance as to what we should expect to see as directional movement in Canada and other countries.
OPERATIONAL RESILIENCE EXPECTATIONS OF FINANCIAL INSTITUTIONS.

- **Identify important business services** that if disrupted could cause harm to consumers or market integrity, threaten their firms’ viability or cause financial system instability.

- **Set impact tolerances** for each important business service, which quantify the maximum tolerable level of disruption.

- **Identify and document** the people, processes, technology, facilities and information that support important business services, and

- **Take actions to be able to remain within impact tolerances** through a range of severe but plausible service scenarios.

This provides a sound perspective on what to expect moving forward and where we should focus our leadership and risk management efforts. We have been afforded a challenging trial run and, from all accounts so far, have fared exceptionally well. But, we still have a long way to go before we get to any form of recovery.

So, how do we assess our operational resilience?

Operational resilience is our ability to prevent, respond to, recover (hopefully stronger) and learn from operational disruptions to our most critical business services.

Focusing on the customer/client and our ability to deliver our most critical business services, end to end, over a sustained time period, will be key to shifting from traditional continuity to operational resilience. This process should start with a clear understanding and articulation of the organization’s key purpose/vision/mission, which can then provide overarching context for critical business services.

The three key factors distinguishing operational resilience from traditional disciplines, such as business continuity, are:

- It is centred on understanding critical business services, end to end (ex. how the most important services our customers/clients rely on are delivered as a ‘service’ across organizational silos). Identifying critical business services is a key differentiator in operational resilience. It requires identifying those business services that are most critical to organizations - sometimes referred to as the ‘crown jewels.’

- It is proactive and adaptive in its approach and requires a much greater and formal understanding of the impact tolerances firms have appetite for. Impact tolerance requires the identification of timeframes and priorities that any one financial institution is prepared to tolerate for each service. By identifying our impact tolerance, we will drive the levels of protection, monitoring and recovery required for each service. Impact tolerance should consider meeting customer/client needs, regulatory requirements, reputation and other relevant factors.

- It drives unity of effort and purpose across the resilience related disciplines. This leads to more effective and more efficient risk management.

Operational Resilience – Key Guidelines

The following provides some guidance on how to better position our financial institutions to achieve operational resilience:

1. **Board Leadership:**

   - There should be an explicit expectation that operational resilience be a clear priority for board oversight.

   - The risk committee should be actively involved and clearly understand the priorities and plans to respond and recover from a disruption.

   - Board members must understand that regulators are increasingly holding boards accountable for the resilience of the organization.
2. Operational Resilience Plans Must Be Enterprise Wide:

- Clear line-of-sight to organizational purpose/vision/mission

- An end-to-end business assessment of the most critical business services is required as to end accountability.

- It should contemplate external threat (such as cyber, climate and pandemics) and internal threats (such as internal change initiatives and IT failure).

- Your framework should build off existing business continuity and other frameworks and be clearly understood across the organization.

- Need balanced portfolio of preventative, detective and mitigating measures.

- Plans need to be informed by clear articulation of operational risk appetite and robust assessment of operational risks.

3. Clear Senior Management Accountability:

- Individual senior management accountability is critical.

- Speed and innovation should be explicit expectations of senior management.

4. Tolerance and testing:

- Stress testing and scenario planning is a key requirement.

- All three levels of defence should be engaged and clear on their roles.

- Need to articulate risk appetite for operational risk, which then serves as benchmark for tolerance/testing and risk budgeting/actions.

5. Operational Resilience Culture:

- The foundation of operational resilience puts the client at the centre.

- An operational resilience framework includes technology but is not limited to it.

- A culture that learns from past experiences - of themselves and of others.

- Must become proactive as opposed to reactive.

- Organizational resilience depends upon individual resilience on the part of employees and leadership. Operational resilience culture recognizes this and endeavours to foster resilience at the individual level through health and wellness programs, technology and tools providing clarity of purpose, etc.

6. Communication:

- Communications should be robust during normal business and during times of crisis.

- Channels of communication must be both targeted at employees but also customers/clients and stakeholders.

- Transparency and timeliness are key.

- Leadership visibility is key requiring innovative approaches and embracing various mediums/technology.
7. Continuous Improvement:

- Operational resilience should be viewed as the highest of strategic priorities and permeate the entire organization.

- Operational resilience is not a document on the shelf. It is a framework for how you manage the business and must be included as the backbone of your strategic planning.

- Operationally resilient firms must have the ability to solve for the problems of the future not the problems of the past.

- Requires a continuous learning culture, informed by both internal and external perspectives

OUR COLLECTIVE RISK MANAGEMENT
CALL TO ACTION

Our current unprecedented reality is a pivot point. It will be the catalyst for a stronger more relevant and more sustainable operating model moving forward. So far, during the crisis, our financial institutions have moved with a cadence and pace of responsiveness not frequently witnessed. We must maintain and accelerate embracing the “new normal” while we demonstrate operational resiliency that will ensure success and lead the way over the long run.

“Our Greatest glory is not in never falling but in rising every time we fall”
— Oliver Goldsmith