Navigating change

Implementation of the revised FINMA circular on operational risks and operational resilience

In a rapidly evolving regulatory landscape, the announcement of the FINMA's circular 2023/1 'Operational risks and resilience – banks' brought significant changes to the banking sector. FINMA has emphasized the increasing importance of the Board of Directors (BoD) and Executive Committee's understanding and visible involvement in the management of operational risk and ensuring operational resilience. The revised circular emphasizes the need to identify vulnerabilities beyond data, operations, and infrastructure. This expanded scope encompasses considerations on supply chain disruptions, liquidity challenges, and regulatory impacts such as stranded assets due to climate change.

Set to take effect on 1 January 2024 with transition periods of up to two years with regards to operational resilience, this article delves into a collection of practical guidelines for gearing up for the regulatory change and examines considerations banks should undertake to effectively navigate in this phased implementation process. Implementing and organizing the transition to the new provisions requires careful planning, cross-functional collaboration, and effective execution.

Gap analysis: involving all stakeholders and go beyond an 'implemented-or-not' categorization

To effectively implement the new circular, banks need to assess its impact. For some of the new provisions, it is crucial to involve different subject matter teams to gain comprehensive and well-rounded assessment of the gaps between the current and the desired state of compliance with the new regulations. The impact assessment typically involves the following steps:

1	Understand the regulation: Identify its scope, objectives, key requirements, timelines, and any associated guidance or interpretations
2	Ensure all key stakeholders are on board: Teams that are impacted and teams responsible for the assessment and implementation are typically no longer just within the risk, compliance and ICT department
3	Analyze the current state: Identify existing policies, processes, controls, and systems that are aligned with the requirements and those that need enhancements
4	Identify gaps and perform initial assessment: This may involve a detailed review of governance structure, processes, documentation, data management, technology infrastructure, reporting mechanisms, and more.

Inadequate gap analysis and insufficient or late stakeholder engagement typically result in overall additional work due to an initial lack of understanding and the development of inefficient remediation measures.

- ☐ Current state including references to policies, manuals, systems, and processes are documented
- ☐ Subject matter experts are involved in the assessment
- ☐ Gaps and challenges (e.g. ineffective risk culture) are identified, assessed, and documented

Establishing BoD and executive sponsorship along with a cross-functional implementation team

To begin with, identify a visible BoD member and senior leader responsible for the operational resilience programme, bringing clarity, accountability and decision-making authority in the entire value chain. Successful implementation requires a collaborative effort across various functions within the bank, breaking down silos. For instance, a scenario where a bank experiences a significant disruption in its ability to access necessary funds or liquid assets could occur due to various factors such as a technological glitch, a cyberattack, or an unexpected market event and hence stakeholders would include Finance, Treasury, ICT and security teams.

24%
have established executive leadership[1]

- ☐ Executive sponsorship is established and visible, tanking a holistic view including a strategic dimension
- ☐ Roles and responsibilities of the implementation team members are defined

[1] Roundtable on operational risk with 33 poll participants in May 2023 with banks or other financial institutions

Developing a phased implementation plan: consider resource planning and account for senior management approval requirements

A well-structured and comprehensive implementation plan is crucial for success. To ensure timely and efficient implementation of identified gaps, identified challenges, available resources, interdependencies of required action items and the entry dates of the various provisions needs to be considered. The implementation plan also includes a high-level resource planning (quantitative and qualitative).

Banks failing to prioritize resources appropriately, i.e. insufficiently allocate personnel, budget, or technological resources, hinder the execution of crucial initiatives.

- ☐ Teams also outside the project for implementing the changes are involved
- ☐ The need for collaboration with external partners, such as technology vendors, consultants, and legal experts to close quantitative and / or qualitative resource gaps is assessed and acted upon
- ☐ Resources and budgets are secured in an early stage
- ☐ The timeline to ensure a timely closure of compliance gaps is communicated to stakeholders
- ☐ A central project organization is set up to ensure a holistic view and align efforts

From design to operationalization: Appoint a project management team

The total revision of the ‘Operational Risk – Banks’ circular 2008/21 came as a significant and transformative change for many banks. To effectively navigate the necessary enhancements, it is essential to assign clear project management ownership, designate a competent project manager, and ensure sufficient staffing and resources. Banks failing to do so, often face a lack of progress because decisions are postponed or remain unaddressed, hindering the project's overall success.

70%

are in the intermediary state of implementations due in 2024[2]

- ☐ Action plans are and action owners assigned to address each identified gap. Necessary steps, resources, and timeline required to close the gaps and achieve compliance are documented
- ☐ Policies and procedures are updated, internal controls enhanced, new technology solutions implemented, training and education orchestrated as required to close identified gaps
- ☐ Continuous monitoring takes place including an assessment of the effectiveness of the implemented remediation measures
- ☐ Action plans are being updated to address any emerging challenges or changes in regulatory requirements.
- ☐ Results, identified risk, decisions, and progress are being communicated to relevant stakeholders, including senior management, and internal teams
- ☐ The effectiveness of implemented deliverables is reviewed after the closure of the action items

[2] Banks attending the roundtable differed in their implementation status for the different provisions. The shown figure is an estimate.
The following scaling was used:
Mature stage: Implemented framework, governance in place, takes holistic view of [e.g. data], creating opportunities.
Intermediary stage: Framework in place under implementation and limited to compliance with regulations.
Planning stage: No implementation of change, actions taken may include e.g. exchange with stakeholders, understanding status.

The circular is effective on 1 January 2024. Is your outlook positive to meet the given deadlines?

Act, if you are unsure.

If you seek external advice or other type of support, we’re happy to discuss your specific need with you.

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