

Operational Resilience

Not just an operational risk review

March 2022



The HKMA's recent initiative

The Hong Kong Monetary Authority (HKMA) issued its OR-2 Operational Resilience Consultation (v.1) in December 2021. Operational Resilience is the ability of a bank to deliver critical operations through disruption. It enables a bank to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events in order to minimise their impact on the delivery of critical operations.



What impact will the HKMA's new requirements have on authorised institutions and why is it significant?

01 | Under the new HKMA initiative, banks must view operational resilience as a strategic growth imperative.



The HKMA will assess compliance through inspections, independent assessments and the investigation of future disruptions to critical business operations and services. Failure to properly implement the new requirements could lead to difficulties in obtaining HKMA approval for the launch of new products and/or impact a Bank's CAMEL rating and ability to meet the Authorization Criteria under the Banking Ordinance.

02 | The Board and Senior Management is accountable to the HKMA and will need to confirm that the Bank is "Operationally Resilient".



Operational resilience must be driven from the Board and Senior Management, with clear ownership and accountability. The Board and Senior Management will be required to confirm to HKMA that the Bank is "Operationally Resilient" based on the results of testing on the Bank's ability to respond and recover within tolerance AIs given severe but plausible scenarios.

03 | Significant work is required to comply with the new standards – Banks simply cannot solely rely on their existing operational risk frameworks or business continuity plans.



Banks will only have 12 months to develop their framework and a further 24 months to fully implement it. The Board and Senior Management will only be able to confirm that the Bank is "Operationally Resilient" after completion of the following requirements outlined below:

- Identified and documented critical services and operations;
- Identified and documented severe but plausible scenarios;
- Set tolerance for disruption with metrics identified to monitor and measure AI's ability to remain within tolerance;
- Mapped resources deployed to deliver critical operations/ business across technology, data, people, facilities, suppliers and key dependent processes to identify vulnerabilities;
- Fully implemented an incident management programme to effectively respond to incidents and manage critical operations delivery; and
- Completed testing with satisfactory results and remediated any issues identified.



What will you need to do as an Authorised Institution?

- 1 (a) Identify scenarios
- 2 (b) Set tolerance
- 2 (c) Map resources
- 2 (d) Implement incident management
- 2 3 (e) Test

How can KPMG help with the new regulatory requirements?

Gap Analysis

- 01**
- ✓ Assess **current state functional capabilities and suitability** through various lenses including governance, organisational design, technology, process, roles and responsibilities.
 - ✓ Review design of **current functional operating model(s)** and identify existing capabilities to be leveraged for OR.
 - ✓ Perform **data and tooling** activities to help you identify the kind of data you need to capture, required scale, pros and cons of underlying systems and current reporting requirements.
 - ✓ Perform **comprehensive data mapping exercise** to provide a more granular view of the process, and identify critical components.
 - ✓ **Identify gaps** and alignment required to meet regulatory expectations.

Implementation (Roadmap, design, enhancement and PMO)

- 02**
- ✓ Define a **high-level roadmap**, including transition states and agree key dependencies on data and tooling needed to achieve target-state design.
 - ✓ Define **long-term, strategic Operational Resilience capabilities**, including target state operating model design, risk management policies and procedures.
 - ✓ Run **PMO office for implementation**, establish a governance and reporting structure and introduce relevant tools and templates to design and support the programme from initiation, communicating key risks during status updates.

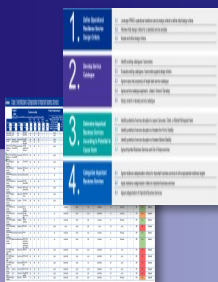
Post-implementation Review and Testing

- 03**
- ✓ To **assess against regulations**. Highlight, identify, and remediate gaps.
 - ✓ Conduct **scenario testing and simulations** to evaluate resilience.

KPMG's Leading Operational Resilience Accelerators



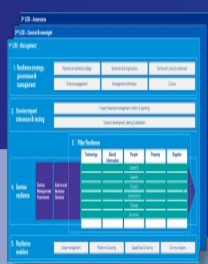
Maturity Assessment Model



Assesses current practices which is aligned with regulatory standards & KPMG's Enterprise-Wide Operational Resilience framework (EWOR).



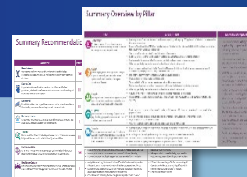
Enterprise-wide OR Operating Model



KPMG has developed an indicative operating model for Operational Resilience for use within sophisticated financial services organizations.



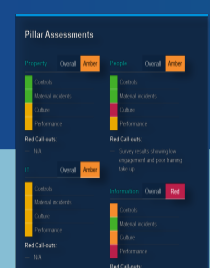
Critical Operations Assessment Tool



KPMG has a unique methodology to establish critical operations and setting impact tolerances.



Service Mapping Toolkit



KPMG has developed a library of indicative pillar resilience frameworks to assess the resources that support the provision of important business services.

KPMG has assembled a global, multi-disciplinary team with subject matter advisors who have significant depth and capability across the Resilience, Operational Risk, BCP / BCM, Cyber and Technology domains. We draw on this depth to ensure that our clients have access to the right perspectives as we collaborate on an Operational Resilience Programme that meets your needs.

Contact us

If you would like to further discuss the implications of the new HKMA's requirements for Operational Resilience for your business, please contact us:



Jeffrey Hau
Partner
T. +(852) 2685 7780
E. jeffrey.hau@kpmg.com



Tom Jenkins
Partner
T. +(852) 2143 8570
E. tom.jenkins@kpmg.com



James O'Callaghan
Partner
T. +(852) 9096 9267
E. james.ocallaghan@kpmg.com



Isabel Zisselsberger
Partner
T. +(852) 2826 8033
E. isabel.zisselsberger@kpmg.com



Henry Shek
Partner
T. +(852) 2143 8799
E. henry.shek@kpmg.com



Michael Monteforte
Partner
T. +(852) 2847 5012
E. michael.monteforte@kpmg.com



Gemini Yang
Partner
T. +(852) 3927 5731
E. gemini.yang@kpmg.com



Paul Cheng
Director
T. +(852) 2847 5075
E. paul.cheng@kpmg.com



Cara Moey
Director
T. +(852) 3927 4652
E. cara.moey@kpmg.com



Pluto Shen
Director
T. +(852) 2140 2296
E. pluto.shen@kpmg.com

kpmg.com/cn/socialmedia



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