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The relationship between risk management and operational resilience

After the 2007/2008 global financial crisis, regulators and organisations placed a key focus on financial stability as the crisis demonstrated to regulators that a financial collapse at one financial institution could threaten the manner in which risk management and operational resilience is effectively managed by many, if not all, financial institutions. These learnings led to regulators issuing a number of directives within their jurisdictions and working more closely with the financial services industry to mitigate these risks.

Over the past decade, whilst a strong focus on financial resilience remains, it has become evident that risks are ever evolving and multi-dimensional. This has resulted in a shift toward operational resilience. Recent events such as the COVID-19 pandemic, from which the world is still recovering, have made it clear that low likelihood, high impact events are happening more frequently and need to be addressed in an adequate and pro-active manner.

Defining resilience

Operational resilience is the ability to deliver critical operations in the face of disruption. It allows organisations to absorb internal and external shocks, ensuring the continuity of core operations by protecting key processes and resources such as systems, data, people and property. It is furthermore considered as an outcome that benefits from the effective management of operational risks.

Operational resilience is not defined uniformly globally, and especially within the African region. The Business Continuity Institute (BCI) published the results of the Africa Region Survey on Operational Resilience in May 2023. The results indicate that there is still confusion as to how to implement and ensure operational resilience, how traditional business continuity practices play a role and its differentiation from organisational resilience. In addition, most organisations in the banking and wider financial services sector stated that regulatory requirements are the main motive for having an operational resilience programme in place.

Defining risk management

Risk management is the process of identifying, assessing and controlling threats to an organisation's capital, earnings and operations. These risks stem from a variety of sources, including financial uncertainties, legal liabilities, technology issues, strategic management errors, accidents and natural disasters.

A successful risk management programme helps an organisation consider the full range of risks it faces. Risk management also examines the relationship between different types of business risks and the cascading impact these could have on an organisation's strategic goals.

The relationship between risk management and operational resilience

Risk management and operational resilience management complement each other and are both necessary in today's high-risk operating environment due to internal and external influences that organisations need to navigate. Operational resilience management focuses on contingencies to ensure availability of the organisation's critical resources, products and services, and risk management serves as an integral function to limit risk materialisation that may lead to unavailability, by ensuring adequate risk mitigation.

While the risk of interruption is the primary focus of operational resilience management, other risks and potential impacts that are identified through risk management may require further analysis to determine whether operational resilience strategies and solutions are required. In addition, the performance of activities under operational resilience management may lead to the identification of areas where further risk management is required.

By leveraging each other and creating synergies, operational resilience and risk management activities can be co-ordinated to reduce risk in all spheres of the organisation's internal and external environment.

Applying a concerted effort in achieving operational resilience will increasingly enable organisations to achieve greater synergies across strategic, financial, and operational activities, together with enhancing stakeholder trust and reducing operational risks to a level which is acceptable and within impact tolerances. Risks are no longer on the horizon but creeping up onto our doorsteps without warning, which makes the case for redefining resilience in a manner which is consistent with leading practices and within the context of the organisation.

The establishment of risk and resilience capabilities that are driven through cohesion, ongoing communication and consultation enable the organisation to effectively manage risks that impact the organisation's ability to continue in the pursuit of its objectives and strive for excellence where most needed.

Failure to manage risks effectively results in the surpassing of risk thresholds that will require continuity and resilience measures to be activated. Operational resilience, therefore, serves as the organisation's contingency to manage disruption-related risks.

Deriving value from the interplay between risk and resilience

When designing a strategy to create leverage and synergy between risk and resilience, it is vital to understand the way in which these disciplines work within the organisation to derive value at a strategic, operational and tactical level.

At a **strategic** level, leadership, commitment and governance are the underlying foundations upon which the organisation can emphasise the importance of risk and resilience and establish a structured approach for the respective objectives to be executed, monitored and governed. This approach will promote the "Strategic Linkage" between risk and resilience and enable the organisation to create efficiencies through the establishment of common approaches to reduce the duplication of efforts.

At an **operational** level, the organisation defines the arrangements, processes and activities that support strategic objectives in alignment with the tone at the top and the direction provided through the organisation's established governance structures. Through establishment of risk and operational resilience programs the organisation can set milestones, conditions for success and explain how the respective activities and tasks will be put into operation and in doing so, continuously measure its effectiveness. Hence, the "Operational Linkage" between risk and resilience seeks to create a dynamic relationship between the risk and resilience programs associated and aligned through ongoing communication and consultation between leaders of these business areas.

At a **tactical** level, the organisation's established processes and activities are executed within the respective areas in order to achieve the desired outcomes. While the establishment of programs outline the requirements, the performance of activities to enable the successful achievement of objectives takes place at the tactical level through execution on the ground. Hence, the "Tactical Linkage" between risk and resilience outlines the linkage between the operational areas where the continuous performance of activities is required that enables these activities to co-create and serve as inputs into each other. These inputs are intended to further enhance activities by leveraging efforts, leading to better decision making and continuous improvement.

The synergy between risk and resilience programs and activities within the organisation should enhance the functioning of both programs. Accordingly, the development of a holistic approach to risk and resilience will be beneficial for organisations adopting these principles.

Practical ways in which the synergies between risk and operational resilience can be executed include, amongst others, the following:

- Enable cohesion and optimisation of the appropriate steering committees to drive a consistent approach to responsibilities, accountabilities, consulting and informing of the disciplines. This will enable the organisation to create efficiencies through the establishment of common approaches to reduce duplication of efforts and create a better overall understanding and ownership of these disciplines and associated responsibilities.
- Implement an ongoing monitoring process to confirm that legislative and regulatory requirements related to risk and resilience are adequately satisfied and consistent with current practices.
- Establish an effective communication medium to ensure accessibility and cohesion.

The alignment of risk and operational resilience efforts can be enhanced by way of the following:

- Promote resiliency improvements through awareness over "what could go wrong" and possible recovery strategies to ensure that risk exposures are appropriately managed by considering risk appetite and tolerance levels.
- Evaluate and analyse insights from business continuity impact assessments when planning and performing risk scenario analysis.
- Identify interruption risks through risk identification activities as a basis to apply to resilience scenario planning processes. Leverage risk assessments to inform and provide inputs into business impact assessment activities to better understand the relevant impacts on operational process interruptions.
- Perform post-interruption event analysis to determine the effectiveness of operational resilience program response capabilities and identify interconnected risks as part of the risk assessment process.
- Conduct risk assessment activities and apply insights gained from resiliency and recovery capability assessments performed over operational resilience programs.
- Enhance efforts to co-ordinate risk and operational resilience activities relating to the identification of business interruptions and continuity events. This can be achieved through the development of specific tools and templates to identify and monitor risk events and incidents and establish effective mechanisms to report these events at a management and governance level.

The operational resilience program effectiveness analysis should provide a feedback loop to the overall risk efforts, thereby providing comfort that resiliency and recoverability efforts reduce interruptions and risk impact.

Conclusion

Risk management and operational resilience is not about re-inventing the wheel but more so an opportunity to bring together several focus areas into a holistic, all-encompassing approach. This will ensure the continuation of important business services and promote the achievement of organisational objectives in a co-ordinated manner.

Synergies between risk and resilience seek to address the gap between "Proactive" and "Reactive" resilience to ensure that organisations are not only anticipating challenges, but also recognising opportunities in advance and taking action to embed resilience in business-as-usual activities.