

Ensuring Operational Resilience in Financial Services Supply Chains

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In its letter entitled **Supervision Strategy for the Retail Banking Portfolio** the Financial Conduct Authority (FCA) clearly highlighted that the level of incidents and outages experienced by financial institutions remains too high. They rightly fear that the current economic and societal environment will require financial institutions to enact rapid changes, cut costs and place greater dependency on third parties. This, coupled with an increasing migration of core systems to the cloud, could stretch the operational resilience of financial institutions.

The risk of incidents and outages could be further amplified through the acceleration of digital traffic, as consumers move towards greater digital engagement with their Banks and financial services providers. The FCA expect financial institutions to take greater care of their obligations and to carefully consider how they procure, contract for, and assure critical third parties so as to reduce the likelihood of incidents and outages impacting customers.



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What is a Supply Chain Resilience?

What does this mean for financial institutions and what can non-FCA regulated organisations take from this? To answer this question, we need to consider what would constitute a resilient supply chain. At Hanya Partner's we believe a supply chain is resilient when it is ...

“ **Effectively managed so as to minimise incidents, failures and outages which might result in client or customer detriment.** ”

Organisations deliver this through the implementation of Supply Chain Assurance programmes, whose primary purpose is to proportionately manage the operational risk environment in which critical vendors operate.

The scope of a Supply Chain Assurance programme ought to cover the full vendor lifecycle:



Diagram 1 - Vendor Life Cycle Model

Assurance activities during the Procurement and Contracting phases of the vendor life cycle are well established, if not always well executed. However, many organisations fail to prepare vendors and contracts for the assurance activities to be performed during the Supply phase. It is essential that contracts are negotiated in such a way as to obligate vendors to actively support Supply Chain Assurance activities post contract execution. Without these obligations, many vendors will seek to minimise the effort they invest in assurance so as to minimise the cost to themselves.

Within the vendor life cycle the Assurance activities ought to be aligned to the unique risk profile each supply chain presents to a client organisation, but would typically encompass the following risk domains as a minimum:



Diagram 2 - Assurance Risk Domains

Underpinning these risk domains should be a programme of Supply Chain Oversight activities which co-ordinate and manage Supply Chain Assurance activities, insights, and produce vendor scorecard reporting for strategic and critical vendors, detailing,

- Status of on-going assurance
- Identified risks
- Identified control gaps
- Mitigation activities
- Operational resilience improvements and recommendations.

What Should You Do Now?

You need to evaluate whether your Supply Chain Assurance programme is fit for purpose, is working effectively and, where deficient, remediate. You can do this by undertaking the following activities:

Health Check	Assess the robustness of your supply chain assurance programme. Review the adequacy of relevant policy, process, and control documentation.
Test	Conduct sample testing to assess the application and effectiveness of your supply chain assurance programme for strategic/critical vendors.
Remediate	Utilising the control gaps/weaknesses identified through the Health Check and Testing, develop and action a remediation and improvement plan.

In Summary

The FCA continues to push for greater operational resilience from the financial institutions it regulates but what it is asking for has not changed. What has changed is the level of concern for the current operating environment, the potential risks this generates for the firms it regulates and the likely scrutiny the FCA will apply to this topic. The FCA's focus on operational resilience has been heightened, Supply Chain Directors and Heads of Procurement should take note and take this opportunity to evaluate their Supply Chain Assurance programmes before their Internal Audit Departments or the FCA do so.

Phil White | March 2022

About Hanya Partners

Hanya partners with leading organisations across a range of sectors including financial services, utilities and the public sector and provides consultancy services in the areas of sourcing & supplier management, talent & organisation health and IT & digital transformation.

The firm comprises a team of experts who work in the UK and internationally and have more than 20 years' experience across corporate and consulting roles within the private and public sector. Hanya Partners is part of Taranata Group, alongside six other talent and capability brands.



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