

In the digital age, increasing reliance on technology and COVID-19 have all played a part in driving operational risk and operational resilience to the top of insurers' agendas as they seek to strengthen their ability to withstand, adapt to and recover from operational hazards.



## Areas of focus...

<b>Strengthening operational resilience capabilities</b>	As expected operational resilience standards rise within Hong Kong, insurers are uplifting their resilience capabilities over their critical operations, thereby elevating traditional business continuity plans and contingency planning.
<b>Integrating operational resilience strategies</b>	Insurers' operations should be considered holistically to help ensure end-to-end resilience regimes can be implemented. Resilience planning has traditionally taken place in a siloed manner.
<b>Governance over operational resilience</b>	Enhancements will require support from the Board down to business functions. Operational risk and governance regimes may need to be updated to accommodate the enhancements.

## What is operational resilience?

**Operational risk** defines the non-financial risks an insurer may face whereas **operational resilience** refers to the steps an insurer takes to address such risks in order to minimise impact and destruction.

Operational resilience is **derived from** the effective management of operational risk.

**"An operationally resilient insurer is one that can encounter withstand, mitigate, recover and learn from the impact of a broad range of events that have the potential to disrupt the normal course of business by impacting critical operations or systems."**

*Source: Issues Paper on Insurance Sector Operational Resilience consultation paper (October 2022). International Association of Insurance Supervisors*

# 84%

of organisations report that they have discussed the value of organisational resilience

*Source: PwC's Global Crisis Survey 2021*

## Three key operational resilience sub-topics attracting the attention of senior management

### Cyber resilience



Hong Kong's insurers' reliance on digital technologies has accelerated during the pandemic which has resulted in a **greater need for robust cyber risk frameworks** to be in place. A key challenge is how insurers can gain assurance – that their cyber risk frameworks are effective and robust. Given the rapidly evolving nature of cyber risks, **forward-looking implications of potential threats are difficult to quantify** in a structured manner – expected industry standards are still evolving although many refer to the National Institute of Standards and Technology (NIST) framework.

### Third party outsourcing



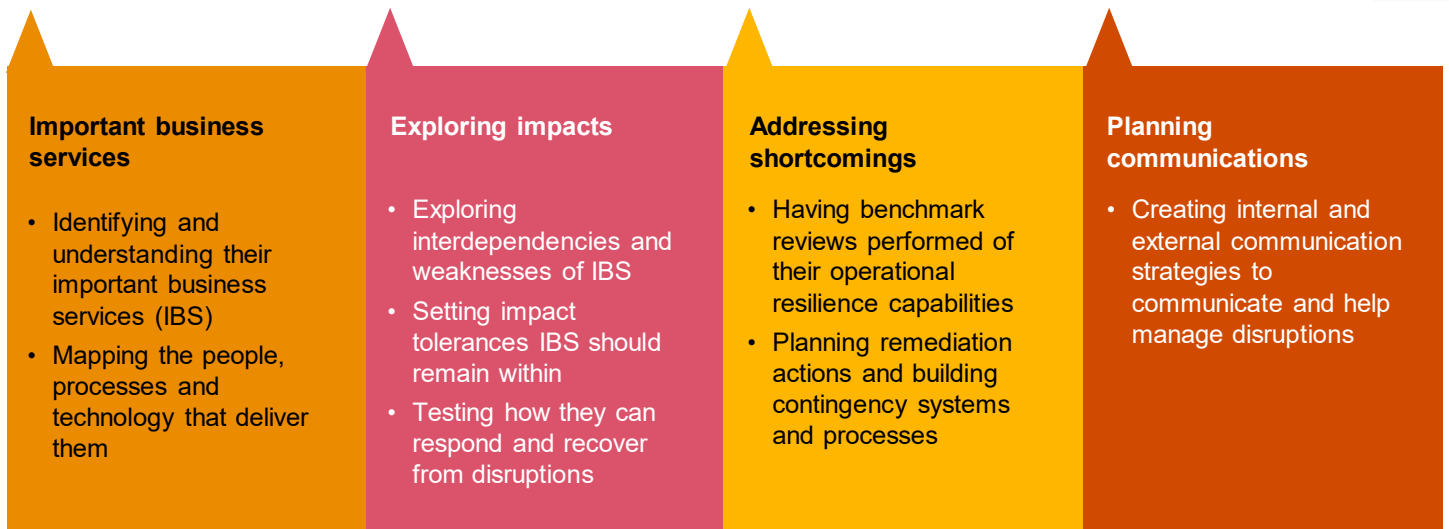
**Increasing reliance on third party providers** for critical and important services has become a common operational risk for many Hong Kong insurers. Insurers globally are currently **addressing concentration risks relating to the provision of critical services by third party** and outsourced service providers (these concentrations could be at the sub-contractor level). Hong Kong insurers have room for improvement with regards to meeting global best practices in areas such as engagement monitoring and exit management which have become major third party risk focus areas in other jurisdictions' insurance industries.

### Business continuity management (BCM)

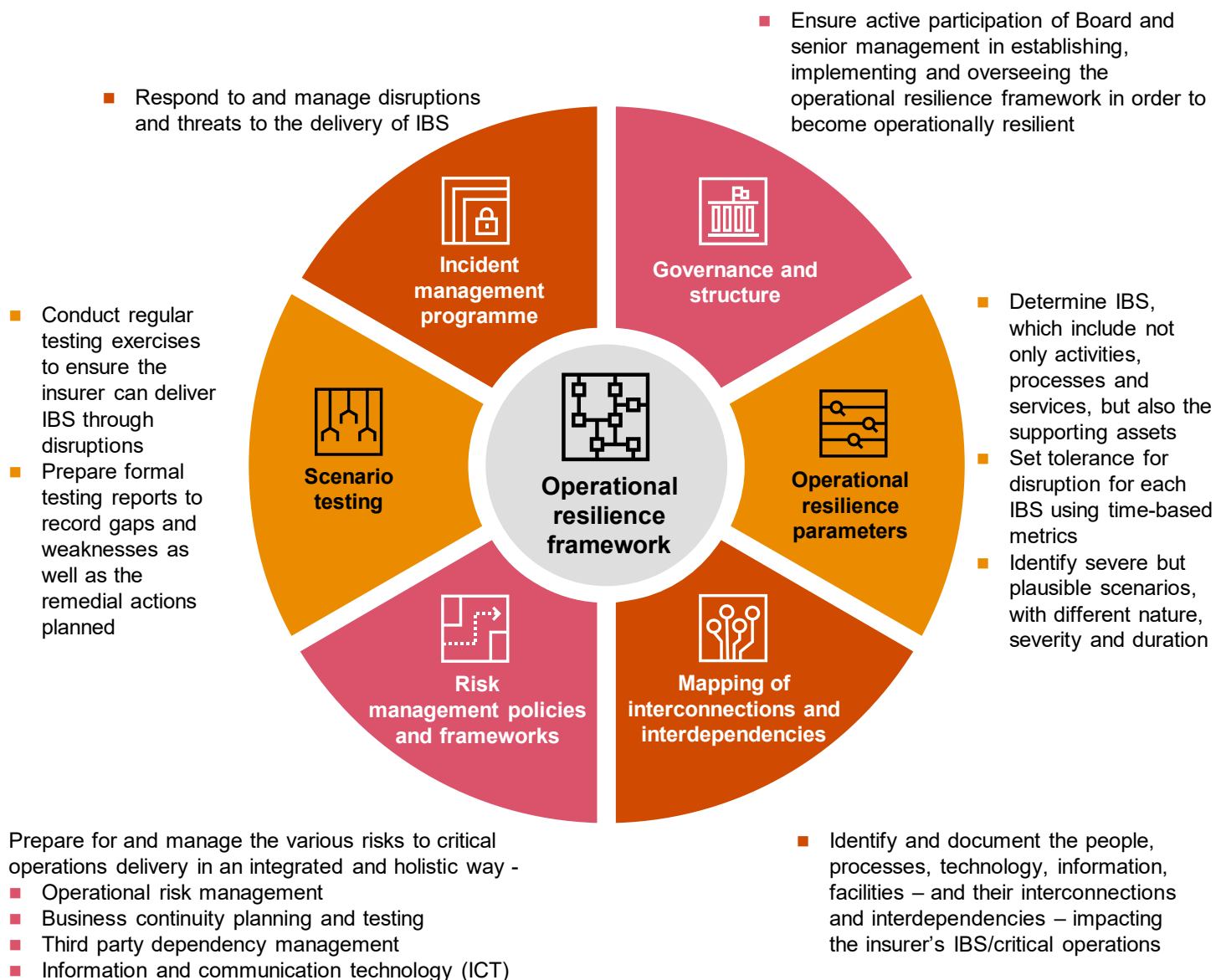


The insurance sector comprises a **multitude of interconnections and interdependencies between various systems, participants and service providers**. Although business continuity management frameworks are widely established, focus has shifted towards ensuring **the relevant practices are well integrated with insurers' overall operational resilience** (e.g. considering business continuity in the context of critical operations and their internal / external dependencies). Since the pandemic, business continuity strategies and testing have been broadening to cover scenarios that are longer term and wider reaching in nature.

## What are insurers in Hong Kong doing to start addressing operational resilience?



## PwC suggested solution: A robust operational resilience framework to promote sustainable business and achieve cross-functional agility in operations...



## How PwC can support you...

### Organisation and governance

Drive resilience from the Board and senior management levels and engage all relevant functions in a holistic way:

- Elevated stature, scope and understanding
- Structure, roles and responsibilities
- Policies and procedures

### Tools and processes

Determine IBS, impact tolerances and recovery preparations:

- Identification of IBS
- Mapping of processes and systems to operations
- Definition of impact tolerance
- Scenario testing

### Decisions and strategies

Embed operational resilience tools and preparation into business-as-usual (BAU) decisions and strategies:

- Strategic investment
- Contingency strategies and plans
- Internal/external communication plans
- Periodic (self-)assessment

## For more information

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