

# Operational Resilience

Guidance for Coverholders & Delegated Claims Administrators

## What is Operational Resilience?

Operational Resilience (OR) is a Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) requirement. The requirement is being introduced to ensure that financial services organisations can operate in a resilient and robust way should disruption occur, plans are in place to minimise this for customers/policyholders and recover in a reasonable timeframe. The purpose of the following exercise is to ensure that insurers can demonstrate to regulators the extent of their delegated activities, and the appropriate due diligence in regard to the requirements of Operational Resilience legislation. CHs and DCAs interested in this information may have been identified by one or more of the Managing Agents they work with as in scope per the below risk assessment criteria. The FCA Policy Statement on Operational Resilience is located here: [FCA Ops Resilience Policy Statement](#).

### Scope of Operational Resilience

- All UK Insurers.
- All services identified as Important Business Services (IBSs).
- Where a UK Insurer identifies underwriting and/or claims/complaints handling as an IBS and then delegates authority to deliver that service to a Coverholder (CH) and/or Delegated Claims Administrator (DCA), as an agent of the UK Insurer, the CH/DCA becomes in scope. (This is irrespective of where the CH is domiciled.)
- The focus of Operational Resilience is on services provided externally to a customer, for example the ability to notify a claim, and the subsequent processing and payment of that claim.

### Factors of Operational Resilience

**Important Business Service (IBS):** This can be defined as any service offered to external customers whereby intolerable harm could result due to a failure in systems, process, data, third parties or people.

Insurers have identified the following Important Business Services:

- Underwriting – New Business\*, mid-term adjustment, renewal
- Claims – notification of loss (FNOL), claim adjustment/handling, claim payment/settlement
- Complaints

\*Where there is a high degree of substitutability, and customers can easily go elsewhere for cover then 'new business' is not likely to be an IBS.

Where insurers have delegated these activities to a CH or DCA they retain the responsibility for the IBS, whilst relying on the 3rd party to deliver that service.

Where a CH or DCA delivers these services on behalf of an insurer, the insurer needs to understand, for each IBS:

- The supporting internal processes (critical elements) that underpin/enable the delivery of that IBS
- An assessment and description of the point of intolerable harm to the customer
- The point in time when the intolerable harm would occur (the 'impact tolerance', see below)

- The maximum service outage 'MSO' (see below)
- Assurances of testing that has been performed, or will be performed to demonstrate that the service provider can recover their processes within the MSO

**Impact Tolerance (ITOL):** This can be defined as the point at which the customer (or firm or market) will experience intolerable harm as a result of a service not being delivered. The FCA definition is: “the maximum tolerable level of disruption to an important business service, as measured by a length of time reflecting the point at which any further disruption to the important business service could cause intolerable harm ... to “the customer””.

**Maximum Service Outage (MSO):** This can be defined as the maximum time it takes a CH or DCA to recover a service should there be severe disruption to any of the 5 pillars of Operational Resilience.

### What does this mean in practice?

- CHs and DCAs will need to make an assessment of the services that they provide on behalf of insurers in respect of the IBS's listed above.
- CHs and DCAs will need to determine the nature of the products being sold and the client base to make an appropriate grouping for the purpose of understanding points of intolerable harm. For example, intolerable harm can be more easily caused to a vulnerable consumer than it can to a large corporate firm.
- CHs and DCAs will need to consider what resources go into delivering IBS services i.e. what technology, people, data, third parties, and premises are required.
- It is important that firms understand across the delivery of services, where there may be vulnerabilities e.g. weak points which could mean that they are less resilient.
- CHs and DCAs need to assess their customer base and determine what kind of harm could be caused if the service is disrupted and the service can't be provided for a period of time.
- CHs and DCAs need to understand how much disruption can be caused to the service before any harm is caused to the customer.

### Risk assessment criteria for in scope CHs and DCAs

- CH writes a consumer book in the UK.
- CH writes a large book of business in the Lloyd's market based on premium income.
- CH writes business through multiple binders with multiple insurers in the Lloyd's market.
- CH has been granted claims handling authority and alternative options are limited.
- CH writes a large consumer book where the potential for poor customer outcomes is higher.
- DCA handles claims/complaints in a territory where there is no or limited alternative providers of this service.
- DCA handles claims/complaints on a niche class of business.
- CH or DCA is considered by a Managing Agent as material to their individual portfolio.

### Next steps

- In scope CHs and DCAs will be required by their Managing Agent to complete an operational resilience questionnaire that has been designed by the market to allow them to better understand the CHs/DCAs current approach to being operationally resilient, and to gather information on any gaps

the CH/DCA currently have in withstanding disruption to IBSs that would cause intolerable harm to customers should that disruption occur.

- The questionnaire is available [here](#) as well as on [Lloyds.com](https://www.loyds.com) for you to download and complete. You will also find an example answer to assist when completing the questionnaire.
- The completed questionnaire should be filed on ATLAS which will allow all Managing Agents (MAs) with whom CHs/DCAs hold a relationship to review. This centralised approach should reduce the burden on CHs and DCAs of receiving multiple requests from multiple MAs.
- Should any MA have further questions following their review of the completed questionnaire as filed on ATLAS the MA in question will contact the CH/DCA to follow up on an individual basis.
- CHs and DCAs who provided a questionnaire as part of the original centralised approach or any CH or DCA who has since been requested to complete and file a questionnaire by a MA : are advised that you will be required to confirm and attest that the information in your questionnaire remains current as part of Lloyd's ongoing compliance annual attestation Should any information change, you must re-upload the questionnaire with the correct details to ATLAS. This information will be available for review by your MA at any time.