UK FINANCE

A response to the Cabinet Office's Call for Evidence for The National Resilience Strategy.

27 September 2021

About us

UK Finance represents over 300 of the leading firms providing finance, banking, markets, and payments related services in or from the UK. Our members are large and small, national, and regional, domestic and international, corporate and mutual, retail and wholesale, physical and virtual, banks and non-banks. Our members' customers are individuals, corporates, charities, clubs, associations, and government bodies, served domestically and cross-border. These customers access a wide range of financial and advisory products and services, essential to their day-today activities. The interests of our members' customers are at the heart of our work.

Overview

UK Finance is pleased to respond to the Call for Evidence for the National Resilience Strategy (NRS). The financial services sector plays an important part in national resilience and has for many years invested heavily in building its capacity to anticipate, mitigate and respond to operational disruptions.

UK Finance believes that improving the UK's national resilience should be driven by three core elements:

- Empowering firms to strengthen their own resilience;
- Encouraging cross-sector collaboration particularly at times of operational stress. This would require reforming legislative protections, which can be achieved by amendment to the *Civil Contingencies Act* 2004 (CCA) to provide greater protections for firms acting collaboratively in the national interest; and
- An expanded role for the National Risk Register (NRR) and/or similar registers.

We have offered our comments on the Vision and Principles and four of the six broad thematic areas: Risk & Resilience, Responsibilities and Accountability, Partnerships, and the Interconnected world.

In addition, we also recommend that the Government proactively works to increase awareness of the National Resilience Strategy, and in turn the National Risk Register, by promoting a culture of collaboration and trust between all sectors of the economy, the Government, and regulators. Furthermore, we recommend the Government actively map key supply chain and outsourcing interdependencies in partnership with the private sector.

1. Vision & Principles

Elements we support

Our members welcome the proposed vision and principles of the National Resilience Strategy. A collaborative approach to building national resilience will help strengthen the UK's ability to prevent, adapt, respond to, recover and learn from operational disruptions. Enabling collaboration across and between industry sectors is an integral part of building the resilience of the UK economy and should form the cornerstone of the Government's future strategy.

Elements requiring further consideration

The resilience principles focus on how the UK can maintain operations in the event of an emergency rather than setting minimum service levels the Government would seek to maintain in times of crisis.

Whilst the principles lay out a clear approach to support the definition of a national resilience strategy, we believe the Government should state its specific expectations around what national resilience looks like by defining its priorities on a service-led basis rather than by focusing on specific sectors or individual firms. Throughout our response we provide a number of examples where this approach has, in financial services, proved demonstrably beneficial and recommend it be considered for adoption across other parts of the UK economy.

With respect to strengthening firms' own resilience, the Government should consider a similar approach to that outlined in the operational resilience policy statements issued by the UK's financial services regulatory authorities.[1] The policy statements require firms to identify their important business services; set impact tolerances against those business services; and then map, document, and test the people, processes, technology, facilities, and information that support them, with the first phase of implementation due by March 2022. These steps are complemented by other requirements and expectations under the outsourcing requirements which aim to facilitate greater resilience and adoption of the cloud and other new technologies.[2] A similar approach at the national level would see the Government identify which services it considers a priority to maintain under short-term, medium-term, and long-term operational stresses and disruptions. Once identified, the Government should take steps to encourage individual firms to strengthen their own resilience and put frameworks in place to encourage a collaborative approach to reducing systemic risk.

The second key element of improving the resilience of the UK is putting in place frameworks that support collaborative action to address systemic risks and recover from operational disruptions. The mapping of key interdependencies across services and sectors in an end-to-end approach is essential if we are to prevent and respond to the most serious disruptive events, and this can only be achieved through collaborative partnership within and across sectors, and with the support of regulators and the Government. Government has a critical role to play in enabling the identification and mapping of interdependencies between sectors and the global supply chain and sharing this analysis in a way that enables businesses and organisations to benefit is essential.

2. Risk & Resilience

Elements we support

We believe the UK Government's National Risk Register has the potential to be a very useful tool for helping build the UK's resilience. It can do this by informing a firms' initial understanding of the threat landscape at a national level while helping government address systemic risk in a transparent way.

Elements requiring further consideration

We believe the process around the development and dissemination of the NRR, could be improved in order to maximise its potential benefits.

Consultation and development

The current process around the development of the NRR would benefit from greater direct input from firms, market participants and other practitioners with specific knowledge of threats and the impact of identified risks if they become realised. Specifically, we believe the Government should actively consult private sector stakeholders in developing its National Strategic Risk Assessment (NSRA) and, by extension, the development of the NRR. This direct engagement would enable Government

[1] https://www.fca.org.uk/publications/policy-statements/ps21-3-building-operational-resilience.
[2] https://www.bankofengland.co.uk/prudential-regulation/publication/2021/march/outsourcing-and-third-party-risk-management-ss.

to benefit from the knowledge and experience of those who are actively assessing, managing and mitigating a wide variety of risks (often on a global basis) while also socialising the NRR across the private sector. In the case of financial services, we suggest the Government look to the Cross Market Operational Resilience Group (CMORG) for input when developing the NSRA. CMORG is co-chaired by the Bank of England (BoE) and UK Finance with the objective of supporting the improvement of operational resilience of the sector through public-private collective action. The group forms the strategic focal point for financial sector-wide operational resilience collaborative activity and is supported by specialist industry groups who undertake the design and delivery of operational resilience improvements.

Dissemination of the finalised NRR

Currently, the main means by which the NRR is disseminated and accessed is via publication on www.gov.uk. We believe that a more proactive approach to publication would be beneficial. The Government should build awareness about the existence of the NRR by proactively engaging with the Critical National Infrastructure (CNI) firms following its publication, socialising the NRR more widely and aggressively amongst smaller and medium sized firms, and by publicly positioning it as an essential tool for resilience planning. We would particularly recommend that the Government engage with trade associations in supporting its communications around the NRR.

Management and active reduction of systemic risk

We believe the private sector can be a powerful ally in addressing and mitigating some of the risks identified in the NRR. A close relationship between key firms within each CNI sector and the relevant lead government department is therefore essential. We recommend that each lead department be required to regularly engage with their relevant key private sector stakeholders on the NRR with a view to developing appropriate response and recovery capabilities to those identified risks.

3. Responsibilities and Accountability

Elements we support

We believe that the current division of resilience responsibilities between central government, the devolved administrations, local government, and local responders is appropriate. However, there are areas where stronger collaboration between public and private sector would bring tangible benefits to the UK's overall resilience.

Elements requiring further consideration

The UK financial services sector has an effective framework that allows for efficient and consistent sharing of information in the event of a systemic operational incident. The Sector Response Framework (SRF) sets out how information is shared between government, regulators, CNI operators, firms and local resilience cells in the event of major operational disruption. We believe this type of approach could serve as a model for how other sectors of the UK economy respond to operational incidents.

Under the SRF, the Bank of England convenes and chairs a meeting of the Cross Market Business Continuity Group (CMBCG), if requested to do so by CMBCG participants, or if the Bank considers that circumstances warrant it. The CMBCG provides a forum for the financial authorities, key firms, and Financial Market Infrastructure (FMI) to share information and, if appropriate, take collaborative action in the event of a major operational incident. This has proven effective in times of crisis and may serve as an effective model for other sectors.

Similarly, the Financial Sector Cyber Collaboration Centre (FSCCC) is another model of collaborative action that has also proven effective and could be adopted across other CNI sectors. FSCCC acts as the central point of collaboration for the financial services sector with respect to cyber incidents. It brings together a network of industry participants and partners to identify the potential impact of cyber threats as well as enabling a coordinated response during an incident of this nature. It also

provides a single point of contact both to and from the regulatory authorities and the National Cyber Security Centre (NCSC) for communication and updates on incidents.

Civil Contingencies Act 2004

We believe the CCA is an important legislative vehicle that enables the Government to respond to the most serious disruptive events. However, as there is currently no explicit provision for financial services regulatory bodies in the current legislation, we believe there would be value in amending the CCA to formally recognise the UK financial authorities - BoE, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) – under a new section of the Act. This will enable the UK authorities to rely on the Act in emergency situations, recognising financial services as a critical sector, and removes them of the burdens that would be placed on them under the designation of "responder". Most importantly, this legislative recognition would provide the UK financial authorities additional flexibility via specific provisions contained within the CCA to enable greater cross-industry collaboration during an incident.[3]

We foresee that this new section would be dedicated to allowing information sharing to support decision-making by regulatory authorities who are involved in responding in emergencies. There can be analogies drawn with other areas of the financial services which have been provided with protection as part of collaborative exercises. For example, the *Criminal Finances Act 2017* (CFA)[4] includes a specific section which allows for information sharing provisions under the Act. This would not need to be financial services specific; it could also extend to other authorities in critical sectors and may facilitate and allow information sharing to mitigate against risks.

Finally, we believe that entities undertaking collaborative action during a time of systemic operational stress should enjoy a measure of protection if those actions can be demonstrated to be in the national interest. This may result in quicker decision-making at key times.

4. Partnerships

Elements we support

The identification and designation of various entities as Critical National Infrastructure (CNI) is an important tool in improving the UK's overall resilience. With the entities included in the CNI register spanning all parts of the UK's economy, it is important that the Government identifies key outsourcing and supply chain interdependencies, and where inherent vulnerabilities may exist.

Elements requiring further consideration

There is an urgent need to develop greater understanding of risks and dependencies across supply chains and outsourcing arrangements that have the potential to impact on the UK's resilience. Should the Government not already have a process in place to identify and assess these interdependencies, UK Finance recommends that the authorities prioritise the identification of critical concentration risks in the supply chain. This is critical if the Government's vision to make the UK the most resilient nation is to be achieved.

Individual firms are not in a position to develop a comprehensive and holistic cross-sectoral map of systemic interdependencies. It is government – with input from regulators, relevant government departments, agencies and key private sector firms – that must take the lead. We recommend the Government consult in the first instance with CNI designated firms and other systemically important private sector entities to deepen their understanding of what services underpin key business activities and to identify where vulnerabilities (such as concentration risk) may exist.

With many key services being supplied by organisations outside the UK, it is also vital that consideration be given to developing a better understanding of the risks that arise to resilience from

---

[3] Civil Contingencies Act s5(1)(b) and (4)(b).
[4] Criminal Finances Act 2017, s11.

overseas outsourcing arrangements. We recommend the UK work with trusted overseas partners in building this knowledge.

The financial services sector is an example of where this is being done. In our response to the 'Risk & Resilience' section, we referenced the operational resilience and outsourcing policy statements that were published by the PRA and FCA in March 2021. These introduced a requirement for in-scope financial services firms to identify their important business services and map these end-to-end. This approach, if applied across other sectors, could enable the creation of a comprehensive picture of the interdependencies and potential vulnerabilities across the UK's key service providers and their supply chains.

Facilitating greater cross-industry collaboration could also be an important tool in improving the resilience of supply chains. Encouraging firms to work together to develop a shared understanding of supply chain vulnerabilities would promote the early identification of potential risks and threats to service continuity. It could also create a wealth of data that would assist the Government in the development of the NSRA and empower firms to proactively reduce these risks before they become manifest. One mechanism in which to manage and oversee this collaboration could be via the UK Regulators Forum[5], or the approach suggested by the UK government's plan suggested for digital regulation which created the cross-specialism Digital Regulation Cooperation Forum.[6] This voluntary group has an aim of delivering a coordinated approach to digital regulation. We note the importance of having the regulators directly involved in this as members.

5. Interconnected world

Elements we support

The UK's approach to operational resilience is world leading. To remain so, we believe it is important that the Government now begins to consider our national resilience in the global context.

Many firms rely on numerous end-to-end processes that are often shared across jurisdictions. There is an opportunity for the Government to promote greater alignment of resilience policy, rules, principles and guidance globally. This is also recognised in the Plan for Digital Regulation referenced above. The plan supports delivering innovation-friendly regulation by establishing the new Digital Markets Unit that will seek to address some of these issues. We strongly encourage the Government to promote greater cross-border collaboration and sharing of information with relevant authorities and regulators overseas to identify, prevent and prepare for potential international threats to the UK's national resilience.

Elements requiring further consideration

It is difficult for the UK to assess systemic concentration risk internationally without a globally consistent approach to resilience. We believe the Government can address this by working with international regulators and policy makers to design and deliver minimum global resilience standards. The financial services sector is an example of where this is being done such as via the collaborative cross-border exercises undertaken by the European Central Bank and the PRA. This recognises the importance of well-coordinated supervisory approaches with respect to operational resilience due to the global and interconnected nature of the financial system.[7] As we have evidenced, these frameworks exist within some sectors (such as financial services) however this is not the case across all key sectors of the global economy.

---

[5] The Financial Services Regulatory Initiatives Forum is It is intended to improve and assist regulatory co-ordination as well as giving firms a clearer picture of the horizon for significant regulatory initiatives. The Forum is comprised of the Bank of England, Prudential Regulation Authority, Financial Conduct Authority, Payment Systems Regulator and Competition and Markets Authority, with HM Treasury attending as an observer member.

[6] https://www.gov.uk/government/collections/the-digital-regulation-cooperation-forum.

[7] https://riskandcompliance.freshfields.com/post/102gm0b/us-federal-banking-regulators-joins-the-growing-regulatory-response-to-operational-resilience.

We recommend the Government identify which sectors do not benefit from an overarching global regulatory framework and work with international partners to establish appropriate regimes.

Conclusion

The impact of regulation on financial services has been significant in improving the resilience of the sector. This has brought real and tangible benefits to consumers and market participants alike and serves as a model for how other parts of the economy can become more resilient.

At its core, improving the resilience of the UK economy should focus on three main elements:

- Empowering firms to strengthen their own resilience;
- Encouraging cross-sector collaboration particularly at times of operational stress, including reforming the CCA; and
- An expanded role for the National Risk Register.

We would welcome the opportunity to engage further on operational resilience with the Government and offer support should you wish to take forward any of our recommendations.

Responsible Executives

Andrew Rogan
Director, Operational Resilience
andrew.rogan@ukfinance.org.uk
020 3934 0263

Lorraine O'Donnell
Principal, Operational Resilience
lorraine.odonnell@ukfinance.org.uk
020 3934 1493

Daisy Johnson
Analyst, Operational Resilience
daisy.johnson@ukfinance.org.uk
020 3934 1417