



OPERATIONAL RISK EXPERT PANEL – OUTPUT PAPER

**AFB Expert Panels meet regularly and produce Output Papers on behalf of the whole membership (see Note).*

LONG-TERM HOME WORKING AND THE ASSOCIATED OPERATIONAL RISKS

A. IMPACTS FROM COVID-19 ON OPERATIONAL RISKS

Amidst a backdrop of political and social unrest, the most pressing influence on operational risk exposures through 2020 and into 2021 has undoubtedly been the Covid-19 pandemic and the various responses to it. Covid-19 is likely to change the way we measure and manage operational risks now and possibly forever.

The Covid-19 pandemic has necessitated a dramatic shift towards long-term home working¹ with many organisations now considering increasing home working post Covid-19². Unfortunately, the lockdown restrictions imposed to help combat the spread of Covid-19 have had a devastating impact on the UK economy:

- UK unemployment is expected to reach 2.6 million by mid-2021³
- The Bank of England (BoE) are forecasting a large decline in GDP growth (-11%) for 2020 and are consequently keeping interest rates low at 0.1%⁴
- Over £40bn in bounce back loans have been issued to help mitigate the impact to UK Businesses⁵

With the Basel Committee defining Operational Risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events” we have seen Covid-19 put stress on all four of these dimensions:

- Processes have had to change quickly to account for remote working and controls relying on proximity have become temporarily redundant
- People have had to adapt to new ways of working and deal with associated mental health challenges
- Systems have seen capacity challenges and stresses on key controls
- External events have driven changes in customer and client behaviours

Despite these challenges, according to ORX data, both the number and value of operational risk events fell steadily through H1 of 2020, with total losses halving when compared to the same period in 2019⁶.

¹ [Coronavirus and homeworking in the UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/coronavirus/articles/homeworking)

² [Home working here to stay, study of businesses suggests – Link: BBC article](#)

³ [BBC – UK Government Spending Review \(link\)](#)

⁴ [Bank of England Monetary Policy Report – November 2020](#)

⁵ [HM Treasury coronavirus \(COVID-19\) business loan scheme statistics, Gov, 2020](#)

⁶ [Op risk data: losses plummet during lockdown - Risk.net](#)

Note, these ORX results should be read in the context that regulators have focused on supporting banks through the crisis in H1 rather than imposing fines, with May seeing €76m in operational risk fines, one of the lowest monthly figures on record. Indeed, operational risk losses began to rise again from June, returning to pre-Covid levels.

The Operational Risk Expert Panel discussed how Covid-19 and the prolonged shift to home working has impacted their organisations' operational risk profile and the challenges that they have faced when executing their risk management framework. The panel specifically discussed their views against the following core areas:

B. PEOPLE RISKS & CULTURAL CHALLENGES

A prolonged period of remote working has had significant implications for the way new and existing employees interact with each other, and their subsequent mental wellbeing. Indeed, almost 20% of adults were likely to be experiencing some form of depression in June 2020 compared to 10% pre-pandemic⁷. This presents the following risks to an organisation:

- Reduced monitoring and oversight capabilities of employee activity
- Reduced organisational capacity as sickness absence is likely to be 40% longer for individuals suffering with mental health⁸
- Litigation risk as employees look to sue employers for stress-related illness

The panel highlighted the importance of retaining and promoting organisations' cultures, particularly where recruitment has continued. Firms emphasised the challenges of integrating new joiners into teams without ever meeting them in person.

The dependency on digital interactions and the subsequent impact on collaboration and personal networks was discussed from both perspectives. Some participants believed that removing informal, 'coffee-machine' discussions resulted in silos developing, whilst others felt that teams were more committed to ensuring continued engagement whilst working remotely.

The impact of remote working on risk culture was also highlighted, there was some concern among participants that event reporting has fallen, perhaps due to the relative ease of concealing events while operating remotely rather than any underlying reduction in event incidence. However, some participants found that people are more likely to raise concerns in a more relaxed, remote environment.

C. FRAMEWORK EXECUTION CHALLENGES

Panel members were confident in the overall design and effectiveness of their operational risk frameworks; however, challenges were cited around executing all the components effectively during prolonged homeworking, specifically raising concerns around:

- Internal reporting - some members commented on a general reduction in the reporting of risk issues and events, with concerns that this could become an issue at a later date
- External reporting - following a period of relatively relaxed regulatory reporting requirements, fears were raised that a return to normal reporting will add to the burden on already reduced operational capacity
- Control Testing - the ability to execute control testing where manual steps are required and / or where sensitive data is involved was raised as a current challenge

⁷<https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/coronavirusanddepressioninadultsgreatbritain/june2020>

⁸ [Mental health: the new frontline for risk management - Risk.net](#)

- Collaboration - reduced personal networks and cross-team collaboration resulting from remote working was cited as a potential inhibitor to the overall effectiveness of the Operational Risk function. Nonetheless, all participants stressed the key role Operational Risk will play in identifying and removing such barriers to interaction across the 3LOD

D. FRAUD AND FINANCIAL CRIME RISKS

Changes to the operating environment, economic uncertainty and a proliferation of new products with temporary processes has driven increased exposure to fraud and financial crime risks. Under Covid-19, Banks have had to specifically manage and respond to:

- Pressures to release new products at pace (e.g., CBILS) and adapting supporting processes which by nature are susceptible to fraud
- Changing retail and corporate behaviours, affecting how transactions are monitored
- Covid-19 related scams
- The onboarding of new customers quickly and remotely
- Difficulties in operating normal controls, because of:
 - Reduced operational capacity due to staff members being unavailable through illness, caring responsibilities, staff being furloughed or released or reallocation to other tasks
 - Paper-based and face to face processes becoming infeasible due to home working
 - Systems which were not configured to support mass remote working

As a result, external theft and fraud have had the largest operational risk impact in H1 2020, accounting for 55% of total reported losses⁹.

Panel members agreed with the concerns raised around Fraud and Financial Crime risks, with some specifically observing an increased volume in phishing attempts and authorised push payment fraud on corporate client accounts.

E. CYBER & INFORMATION SECURITY RISKS

Cybercriminals are developing and boosting their attacks at an alarming pace, exploiting the fear and uncertainty caused by the unstable social and economic situation created by Covid-19¹⁰. Cyber and information security risks have been heightened because of:

- A greater reliance from customers on digital banking services
- A rapid procurement of collaborative tools for remote working, e.g., Microsoft Teams reported a 70% increase in daily users
- Increased attack surface as employees access sensitive systems remotely

As a result, we have seen:

- Cyber-attacks against the financial sector increase 238% globally between February and April¹¹
- An increasing reliance on suppliers for critical services, for example, the use of cloud increased by up to 50% between January and April¹²

⁹Op risk data: losses plummet during lockdown - Risk.net

¹⁰ <https://www.interpol.int/en/News-and-Events/News/2020/INTERPOL-report-shows-alarming-rate-of-cyberattacks-during-COVID-19>

¹¹ <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/cyberattacks-rise-in-pandemic-s-perfect-storm-8212-reminding-banks-of-risks-ahead-59064396>

¹² <https://searchcloudsecurity.techtarget.com/news/252483740/McAfee-Attacks-on-cloud-accounts-up-630-during-COVID-19>

The panel members were in full agreement regarding the increased threat to cyber and information security risks, and whilst no specific events were raised by members there was common consensus that this would continue to be a priority area through 2021.

F. FROM CRISIS MANAGEMENT TO BAU

The panel members debated whether the Covid-19 response and the shift to prolonged home working should now be treated as BAU and moved away from Incident or Crisis Management. Whilst the full impact of Covid-19 on businesses is currently unknown, most participants believed that the transition to BAU should commence, with the decision on whether to close the event being one for individual firms to decide.

To support the transition and closure of the event, suggestions raised to support the process included:

- Setting up working group(s) to formally plan the transition to BAU, and what that means in terms of a 'new normal', including the interim states of operation during the transition to a new-normal
- Using Operational Risk data to help inform the decision (i.e. once operations have stabilised it can support the decision to move to BAU)
- Ensure that there are discussions with Head Office regarding IT provision, with the panel highlighting the importance of demonstrating sufficient control locally

Participants were keen to stress that, whilst it is easy to revert to thinking of returning to the office as the solution, a different lens will be required, particularly as only 7% of British workers in a recent YouGov survey, want to return to the office in a full-time capacity¹³.

NOTE

Meetings of AFB Expert Panels are held in compliance with AFB's Competition Law Guidance. All issues discussed are included in the relevant Output Paper. AFB holds a central record of all attendees at Expert Panel Meetings. AFB Expert Panel Output Papers are intended as general guidance and no action should be taken in reliance on them without specific legal advice.

QUERIES AND FOLLOW-UP

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¹³ <https://www.thetimes.co.uk/article/more-than-90-want-to-work-at-home-3mw80wccz>

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