

**Actuaries
Institute.**

**Actuarial Outreach:
Taming the Operational Resilience
Hydra**

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12 June 2025**



Taming the Operational Resilience
Hydra

Why the Hydra analogy

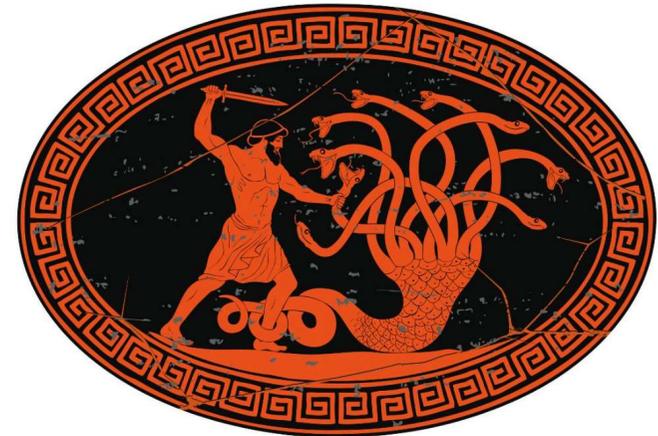
Mythical greek multi-headed beast slain by Heracles ... after some innovative thinking since its heads grew back after being cut off

Now means a difficult situation that is multi-dimensional, serious, evolving, and without clear solution(s).

Requires lateral thinking, flexibility and teamwork to resolve.

It is one thing to plan, another to implement.

- No plan survives contact with the enemy
- Plans are worthless, but planning is everything



Operational Risk (OpRisk)

Risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Traditionally, OpRisk excludes reputational and strategic risk.

CPS230 specifically includes: legal, regulatory, compliance, conduct, technology, data, and change management risks.

OpRisk processes and management underpin all other risk management activities.

OpRisk process and management are often focused internally and on possible future events

Managing OpRisk events is different but important

OpRisk

ERM risks

- Financial
- Non-Financial
- Governance
- Social
- Environment

- Reputation
- Strategic
- GCRA



Operational Resilience (OpResil)

Has multiple components, including ongoing OpRisk management

Addresses maintaining critical services to customers during provider disruptions

Has an external 'success test' and so an external focus. Potentially, a 'game changer'

Compliance with standards a necessary (minimal) step, but not sufficient for success

Is an opportunity improve business practices if embraced

Key is risk culture and risk maturity

Operational Resilience

- Governance and leadership
- OpRisk management
- Business continuity
- Interconnections and interdependence of critical operations
- Third party dependency
- Incident management
- Resilient technology and decision making
- 'Success test': Maintain critical services to customers



Business Not as Usual (BNaU)

Policies and procedure usually developed for Business as Usual (BaU) situations

When an entity is being disrupted (Business NOT as Usual – BNaU) standard policies and procedures may not apply

Need to maintain critical services to customers in BNaU circumstances and may require alternative approaches

Resilience is capacity to deal with BNaU situations

May be systemic – multiple entities affected



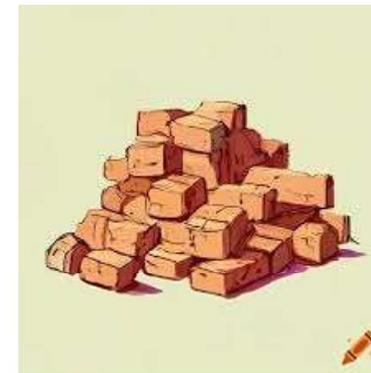
Managing an OpRisk portfolio

For individual risks events, combine expected risk event frequency, severity, and velocity to get an overall expected impact assessment

For two risk events, combine their individual impact assessments using an aggregate assessment heat map.

Build a portfolio aggregate assessment using pairwise combinations that is robust and accessible

This provides a management tool at the risk portfolio level rather than at the level of a set of individual risks



Aggregating two risks

Risk event impact = f(Frequency, Severity, Velocity). Can shown on a heat map

Heat maps 'bucketed'

Aggregation heat map

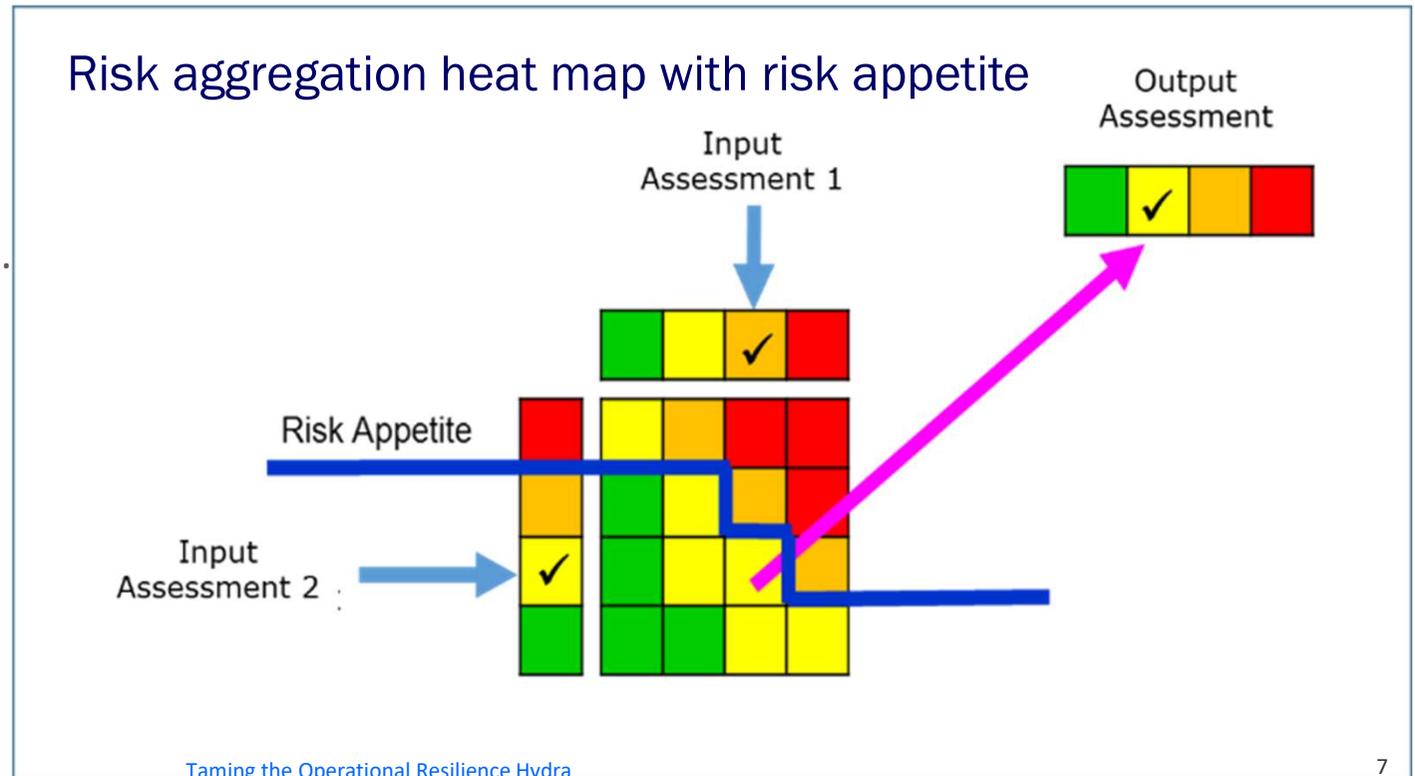
Impacts (in and out)

Structured approach

Quantitative & Qualitative

Avoid spurious precision

Input to decision making



Assessing CPS230 progress

OpRisk risks events can be costly.

OpRisk is inherent in all business and OpRisk event occur regularly.

PFS has conducted an initial survey of CPS230 readiness

The plan is for annual surveys tracking CPS230 progress and building a database

Initial results will be discussed separately



Key messages

Operational resilience is:

An opportunity if a broader perspective than ‘compliance’ is taken

A ‘bigger game’ than operational risk that includes managing BNaU

Outward facing and a paradigm shift with a customer ‘success test’

Part of APRA’s increasing focus on non-financial risks

Aggregating individual risk assessments supports managing risk portfolios

CPS 230 compliance is a necessary foundation, but not sufficient for success

We have initiated an industry wide survey to track progress and build a database

A journey has begun, but effective implementation may take a while



Thankyou ... Questions

Taming the Operational Resilience Hydra

- We welcome your feedback and comments
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