

## **FERMA's initial views on the European Commission's proposal for a regulation on digital operation resilience for the financial sector**

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FERMA welcomes the European Commission's proposal for a "regulation on digital operational resilience for the Union financial sector" as part of its Digital Finance Package. This proposal is a crucial first-step in raising operational resilience in an important sector. However, it is vital that the EU pursues a similar framework in other industries to ensure that operational resilience is raised across the board.

### General comments

While there are clearly boundless opportunities provided by operations becoming more digital, it is clear that increasing digitalisation presents more and more risks to companies. More must be done to prepare the Internal Market for potential catastrophic events resulting from systemic digital risks.

In the eyes of the risk management community "digital risks" continue to be the most significant threats to businesses in the short (12 months) and medium-term (3 years) , as shown by the [European Risk Manager Report 2020](#). Cyber threats are the number 1 risk in both time frames (i.e. short- and medium- term), and the threats of "data theft and fraud" are growing in significance as risks to organisations across the EU.

Preparedness at national and Union level should be enhanced through looking at these risks with the risk management approach. This means building up robust capabilities to prevent, detect, respond to and mitigate operational threats. The EU should aim to enhance the operational—and in particular, cyber—resilience of all key economic sectors and reduce fragmentation of the internal market by increasing the level of operational harmonisation requirements applied.

### Risk management

Importantly, in our view, the proposal for a regulation incorporates in many significant areas the principles of enterprise risk management including the 'Three Lines of Defence' model, which FERMA has advocated for a number of years. Recently, for example FERMA, together with the European Confederation of Institutes of Internal Auditing (ECIIA), in a 2019 [joint paper](#) advocates for cyber risk governance models that go beyond the implementation of IT measures in order to efficiently protect organisations' assets and ensure their resilience and continuity

Applying the principles of risk management to operational resilience is the right way to go. In this current moment, where the COVID-19 pandemic has drastic implications on teleworking

and digitalisation in general, it is crucial to view the changing world in terms of risks, and how to mitigate their impact.

### Risk transfer

As this current pandemic and resulting financial impact has shown, many companies' resilience has been strained. Despite the risk management and prevention measures taken by organisations there will still be some element of the risk associated with digitalization that will fall outside of companies "risk appetite" and it will therefore aim to transfer this risk.

Often that will be in the form of insurance. FERMA has been actively raising awareness in this area, authoring a guide to help organisations understand their cyber risks ([here](#)). The report helps guide organisations to prepare for discussions with insurance intermediaries and insurers.

Unfortunately, FERMA sees the current capacity for transferring risks such as cyber to be insufficient. Moreover, there is not enough "capacity" in the market for insurance or financial protection for the size of risks companies face, such as the next pandemic.

This is why FERMA advocates for the EU to foster the conditions for the stimulation of greater financial protection through a public-private partnership that could build the material capacity within the insurance and reinsurance industry to increase coverage for oncoming crises. For more on this consult our position paper [here](#).

### Next steps

FERMA looks forward to its continued interaction with the Commission on this important topic.

**Contact person:** Charles Low, FERMA Head of EU Affairs, [Charles.low@ferma.eu](mailto:Charles.low@ferma.eu)

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