

# **Resilience to Third-Party Service Provider Disruptions: Lessons from a Tabletop Exercise**

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Report of the Payments Risk Committee

*October 3, 2022*

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Sponsored by the Federal Reserve Bank of New York, the Payments Risk Committee is a private sector group that includes senior managers from several major banks in the United States. The Committee identifies and analyzes issues of mutual interest related to risk in payment, clearing, and settlement systems. Where appropriate, the Committee seeks to foster broader industry awareness and discussion and to develop input on public and private sector initiatives. Current members of the Committee are Bank of America N.A., The Bank of New York Mellon, Bank of Tokyo-Mitsubishi UFJ, Citibank N.A., Deutsche Bank AG, Goldman Sachs, HSBC Bank USA, JPMorgan Chase, Morgan Stanley, State Street Bank and Trust Company, UBS AG, and Wells Fargo.

## Background on PRC

The Payments Risk Committee (PRC) is a private sector group of senior managers from U.S. banks that is sponsored by the Federal Reserve Bank of New York. The Committee identifies and analyzes issues of broad industry interest related to risk in payments and settlement systems. It also seeks to foster broader industry awareness and discussion, and to develop input on public and private sector initiatives. The current members of the Committee are Bank of America, The Bank of New York Mellon, Bank of Tokyo-Mitsubishi UFJ, Citibank, Deutsche Bank, Goldman Sachs, HSBC Bank USA, JP Morgan Chase, Morgan Stanley, State Street Bank and Trust Company, UBS, US Bank, and Wells Fargo.

## Introduction

As part of the Payments Risk Committee's continuing objective to support risk management practices for the safety and efficiency of financial market infrastructures, the PRC organized a tabletop exercise in October 2022 among its members that focused on how member banks would prepare, manage, and respond to a disruption to a critical third-party service provider.

Tabletop exercises are routinely used as a tool to test preparedness and communication protocols and to enhance practices and response capabilities in the event of an idiosyncratic or market-wide disruption. The PRC tabletop scenario focused on how PRC banks would address an outage of a third-party service provider that supports PRC banks' payments, clearing, and settlement activities.

The scenario focused on the steps that individual banks would take in response to the outage, including communications:

- Within participating financial institutions across appropriate parts of an organization and, as needed, escalated to senior management,
- Across firms to other financial institutions, and
- With financial market utilities (FMUs) and regulators.

The exercise followed a tabletop simulation approach, in which participants from each PRC member bank were presented with an operational disruption at a third-party service provider that unfolded over the course of a single day. At various junctures over the course of a single day participants were presented with new information regarding the nature of the outage, the steps that the affected third-party was taking to address the outage, and updates on when the third-party's service may have been able to be restored. At each juncture, participants discussed the likely steps that they would take within their organization to respond to the outage, as well as information that they would like to receive from and information that they would like to share with other financial institutions, FMUs, and regulators.

Participants represented senior leaders of their respective firms with responsibility for payments operations, information technology, business continuity planning, and client and industry relations. The enclosed report summarizes the primary findings that may be of use to the public and other interested firms to promote overall industry resilience and risk management for potential disruptions to third-party services used by industry participants' payments and settlement systems.

*The conclusions and recommendations of this report do not necessarily represent the policies or views of the participating institutions, the Federal Reserve Bank of New York, or the Federal Reserve System.*

## **Primary Findings**

The 2022 tabletop exercise proved to be a useful learning opportunity for all participating organizations. The scenario was designed to require engagement across multiple areas within each participating member firm. Key findings from the exercise include:

- Participating institutions maintain incident management and communication protocols related to payments, clearing, and settlement (PCS) activities in the event of a disruption. Points of contact, escalation triggers, and other contingency practices vary firm to firm.
- Decision-making around contingency plans consider various factors, including time of day of outage, time-critical payments at that time of day, liquidity and cash balances, and options for alternative arrangements and scalability.
- Institutions rely on communication from the affected institution during a disruption, including periodic updates on estimated recovery time and information on root cause of the disruption. Effective communication improves participants' decision-making on incident response and their communications, both internally and with other affected parties (including their customers).
- Opportunities for senior executives to discuss cross-industry PCS risk concerns add value and may help clarify issues and risks to the broader industry, market, and clients.
- For disruptions that affect multiple institutions, cross-industry coordination and crisis management procedures could help with risk mitigation and rapid response to reduce the potential impact and knock-on effects. In an industry-wide event, this communication needs to be coordinated given the demands on staff responding to the event across many institutions.

## Next Steps

PRC discussed key takeaways and action items following the tabletop exercise in its November 2022 General Meeting. Specific feedback from PRC firms included:

- Develop multiple channels for both internal and external communications in a coordinated manner as part of business continuity plans.
- Continuously engage third-party service providers and FMUs to understand their business continuity plans ahead of time and develop contingency communication protocols in the industry.
- Understand time-critical payments and critical times of day with heightened risks and their potential impacts on contingency procedures.
- Conduct future tabletop exercises that increase in scenario complexity and uncertainty to enhance preparedness and collective ability to respond to disruptions to the clearing and settlement landscape.

## **APPENDIX A: PARTICIPATING INSTITUTIONS**

Bank of America

Bank of New York Mellon

Citi

Deutsche Bank

Goldman Sachs

HSBC

JP Morgan Chase

Morgan Stanley

MUFG

State Street

UBS

US Bank

Wells Fargo

Federal Reserve Bank of New York

Federal Reserve Financial Services

Federal Reserve Board of Governors