

Chapter 13

Operational risk: systems and controls for insurers

13.6 People

- 13.6.1** **G** A *firm* should consult ■ SYSC 3.2.2 G to ■ SYSC 3.2.5 G for *guidance* on reporting lines and delegation of functions within a *firm* and ■ SYSC 3.2.13 G to ■ SYSC 3.2.14 G for *guidance* on the suitability of *employees* and *appointed representatives* or, where applicable, its *tied agents*. This section provides additional *guidance* on management of *employees* and other human resources in the context of operational risk.
- 13.6.2** **G** A *firm* should establish and maintain appropriate systems and controls for the management of operational risks that can arise from *employees*. In doing so, a *firm* should have regard to:
- (1) its operational risk culture, and any variations in this or its human resource management practices, across its operations (including, for example, the extent to which the compliance culture is extended to in-house IT staff);
 - (2) whether the way *employees* are remunerated exposes the *firm* to the risk that it will not be able to meet its regulatory obligations (see ■ SYSC 3.2.18 G). For example, a *firm* should consider how well remuneration and performance indicators reflect the *firm's* tolerance for operational risk, and the adequacy of these indicators for measuring performance;
 - (3) whether inadequate or inappropriate training of *client*-facing services exposes *clients* to risk of loss or unfair treatment including by not enabling effective communication with the *firm*;
 - (4) the extent of its compliance with applicable regulatory and other requirements that relate to the welfare and conduct of *employees*;
 - (5) its arrangements for the continuity of operations in the event of *employee* unavailability or loss;
 - (6) the relationship between indicators of 'people risk' (such as overtime, sickness, and *employee* turnover levels) and exposure to operational losses; and
 - (7) the relevance of all the above to *employees* of a third party supplier who are involved in performing an *outsourcing* arrangement. As necessary, a *firm* should review and consider the adequacy of the staffing arrangements and policies of a service provider.

Employee responsibilities

13.6.3

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A firm should ensure that all *employees* are capable of performing, and aware of, their operational risk management responsibilities, including by establishing and maintaining:

- (1) appropriate segregation of *employees'* duties and appropriate supervision of *employees* in the performance of their responsibilities (see ■ SYSC 3.2.5 G);
- (2) appropriate recruitment and subsequent processes to review the fitness and propriety of *employees* (see ■ SYSC 3.2.13 G and ■ SYSC 3.2.14 G);
- (3) clear policy statements and appropriate systems and procedures manuals that are effectively communicated to *employees* and available for *employees* to refer to as required. These should cover, for example, compliance, IT security and health and safety issues;
- (4) training processes that enable *employees* to attain and maintain appropriate competence; and
- (5) appropriate and properly enforced disciplinary and employment termination policies and procedures.

13.6.4

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A firm should have regard to ■ SYSC 13.6.3 G in relation to *approved persons*, people occupying positions of high personal trust (for example, security administration, payment and settlement functions); and people occupying positions requiring significant technical competence (for example, *derivatives* trading and technical security administration). A firm should also consider the *rules and guidance* for *approved persons* in other parts of the Handbook (including *APER*, *COCON* and *SUP*) and the *rules and guidance* on *senior manager* responsibilities in ■ SYSC 2.1 (Apportionment of Responsibilities).