



6 October 2020

TO: APRA REGULATED ENTITIES

TRANSITION TO APRA'S NEW SUPERVISION RISK AND INTENSITY (SRI) MODEL

As Australia's prudential regulator, APRA oversees the soundness and stability of the banking, insurance and superannuation sectors in order to protect the interests of bank depositors, insurance policyholders and superannuation members, and to promote financial system stability more broadly. Through its supervision function, APRA seeks to protect the Australian community by identifying and responding to significant risks in financial institutions and the financial system in a timely and effective manner.

As part of a broader response to the changing and increasingly challenging operating environment, APRA has updated its supervision philosophy and developed a new risk assessment model that will replace the existing PAIRS and SOARS framework.

APRA's supervision philosophy

APRA's supervision philosophy is designed to ensure that its supervisory approach and activities align with its mandate and vision for financial resilience and supervisory excellence. At the heart of the philosophy are three core attributes that underpin APRA's supervisory approach (risk based, forward looking and outcomes focussed), supported by a number of foundational elements that describe the key areas of emphasis.

A new approach to assessing risk and determining supervision intensity

A fundamental element of APRA's supervisory approach is the need for a structured framework to identify and assess risks so that APRA can effectively direct its resources towards the areas and entities of greatest risk. Central to achieving this outcome has been APRA's PAIRS and SOARS framework, which has served APRA well for almost two decades.

Over recent years, however, the type and nature of prudential risks has evolved. Governance, culture, remuneration and accountability (GCRA), operational resilience and cybersecurity have increased in prominence and the focus on member outcomes in superannuation has become more acute. This has driven the need to review PAIRS and SOARS and develop a more contemporary model able to better respond to the changing landscape.

The new model is called the **Supervision Risk and Intensity Model (SRI Model)** and its design features ensure greater elevation of non-financial risks whilst preserving the importance of financial resilience. It also introduces recovery and resolution considerations, and more systematically factors in the impact of the external environment on an entity's risk profile. The new model better caters for industry nuances, and is aligned with APRA's enforcement approach to ensure a timely and appropriate supervisory response to identified risks.

What does this mean for APRA regulated entities?

The transition from PAIRS and SOARS to the SRI Model commences in October 2020 and will be completed by June 2021. The move to the SRI Model could lead to a change in the

intensity of supervision that APRA applies for some entities. This is a function of the additional risk categories, coupled with the enhanced assessment of systemic importance of entities and the consequent need for a more in-depth risk assessment. It is important, therefore, for entities to ensure that they understand how the model works. Attached to this letter is a detailed guide to the SRI Model which outlines the various risk categories, the risk rating approach and how this translates into supervisory intensity.

Entities will be advised of the outcome of their SRI rating once this new risk assessment is completed. As APRA is adopting a staged approach to transition, this will mean some entities will transition to the SRI model earlier than others. Once advised, the SRI entity rating will be confidential, as is the case now under PAIRS and SOARS.

Where to find more information on the SRI Model and APRA's Supervision Philosophy?

The SRI Model Guide, accompanied by APRA's Supervision Philosophy, can be accessed on the APRA website: <https://www.apra.gov.au/supervision-philosophy>.

APRA will conduct a series of webinars in November 2020 to provide an overview of the new SRI model and answer any questions.

Further details can also be found in the SRI FAQs: <https://www.apra.gov.au/Industry-Supervision-FAQs>. If you have a question that is not addressed via the SRI FAQs, please contact your APRA supervisor.

Yours sincerely,

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Deputy Chair