

21 October 2022

General Manager, Policy
Australian Prudential Regulation Authority

OPERATIONAL RISK MANAGEMENT – SUBMISSION TO APRA

To whom it may concern:

The following information is on behalf of the two SCOR registered entities within Australia namely SCOR Global Life Australia Pty Ltd and SCOR Reinsurance Asia-Pacific Pty. Ltd. – Australia Branch.

We welcome the opportunity to comment on the following documents released by APRA on 28 July 2022.

- **Discussion Paper** – Strengthening operational risk management
- **Draft Prudential Standard 230 Operational Risk Management** (“CPS 230”)

We have set out below our feedback on APRA’s proposals, together with our response to the specific questions raised in the Discussion Paper.

Please note we would like our submission to remain in confidence.

Thank you for the opportunity to provide input into the proposed legislation at this stage.

Yours faithfully



**Chief Executive Officer,
SCOR Global Life Australia Pty Ltd**



**General Manager
SCOR Reinsurance Asia-Pacific Pte. Ltd.
– Australia Branch**

(A) Overview and key points

Overall, we support APRA’s aim to update the existing requirements of CPS 231 and CPS 232 and streamline into a new principles-based standard which can incorporate requirements to support the strong management of operational risks.

After reviewing the draft CPS 230 and discussion paper, SCOR would like to suggest some amendments on specific articles as summarised below:

- With reference to article 53 of the draft CPS 230 standard:
 - we would welcome a less prescriptive approach with respect to the clauses related to sub-item (d) (i.e. require notification by the service provider of its use of other material service providers, through sub-contracting or other arrangements). A suggested alternative would be to require the service recipient to include in the binding agreement provisions rules and limitations on sub-contracting, such that the service provider should be contractually liable for

- the performance and risk management practices of its sub-contractor and for the sub-contractor's compliance with the provisions in its agreement with the service provider.
- regarding the force majeure provision in sub-item (f), depending on the force majeure event (e.g. war, riots, etc), in practice it may be challenging to enforce the provision and service providers may not readily accept or agree to this provision. We propose for this requirement to be reconsidered noting that the regulated entity, as part of its Business Continuity Plan, should already have in place alternative arrangements in case of such a disruption.
 - Noting the reference to CPS 234 in article 50 of the draft CPS 230 standard, we would welcome additional articulation on how APRA considers the operational risk associated with information technology and security to operate between CPS 230 and CPS 234/CPG 234). Given how critical cyber risk and security will continue to be for entities, we consider it to would be appropriate to clarify principles of which standard applies where there may be alternative expectations of the guidance.
 - In article 23 of the draft CPS 230, APRA has included reputational risk within operational risk. We believe that reputational risk should be considered as a consequence of serious mismanagement of any type of risk leading to, for example, franchise damage, increased capital charge from regulators, downgrade, and loss of business or fall in share price. As such, we believe that reputation risk is not exclusively part of operational risk and should be excluded from the scope of CPS 230.
 - With respect to article 58 (a) and (b) of the draft CPS 230, we wish to understand what other circumstances would require a notification to APRA specifically pertaining to material changes or proposals of significant changes to an agreement (apart from changes to the service provider, services provided, geographical locations). We would welcome further guidance from APRA and/or further clarity to be included in the article.

(B) APRA's consultation questions

The following table gives responses to the 8 specific questions in the consultation document

Category	Key questions	Response
Overall design	1. Is a single cross-industry standard for operational risk management supported?	Yes, SCOR acknowledges the interest to have a streamlined approach for operational risk management within the industry and will support a single cross-industry standard.
	2. Are there specific topics or areas on which guidance would be particularly useful to assist in implementation?	In relation to operational risk controls (articles 28 to 30 of the draft CPS 230), we would welcome further guidance from APRA regarding the regular monitoring, review and testing of internal controls: risk-based approach, scoping, frequency, persons or functions to perform these tasks, among other potential useful recommendations. In relation to article 52, we welcome further guidance from APRA on what factors are to be considered when determining if a service provider falls within the category of 'systemically important'.

Category	Key questions	Response
	3. How could proportionality be enhanced in the standard, and is there any merit in different requirements for SFIs and non-SFIs?	We support allowance within the draft standard for the range of entities. In particular, there will be smaller entities within Australia as part of a large multinational group which are more likely to leverage internal outsourcing services than independent larger local entities. There will also be different approaches to the management and testing of operational risk based on the complexity and size of the entity. We would support consideration of different approaches based on SFI status.
	4. What are the estimated compliance costs and impacts to meet the new and enhanced requirements?	The new requirements will increase work for Legal & Compliance, Risk Management and some operational departments. While it is difficult to exactly determine the cost at this stage we estimate there may be a 20%-30% increase in workload for key personnel supporting the Australian operations, potentially requiring additional resources, at minimum an additional senior person across the impacted departments.
Specific requirements	1. How could APRA improve the definitions of critical operations, tolerance levels and material service providers?	We consider that the materiality criteria for service providers should also depend on the possibility to trigger alternate procedures, which would mitigate the risk and enable the maintenance of operations or their restoration within the pre-defined timeframe (e.g. possibility to handle asset management in-house within pre-defined timeframe in case of disruption of asset management services from external service provider)).
	2. What additions or amendments should be made to the lists of specified critical operations and material service providers?	See comment above. We consider that an additional consideration could be to allow internally-set criteria to determine if service providers are material or not.
	3. Are the notification requirements and the time periods reasonable?	As it may not be feasible to gather all information and take all relevant decision in relation to a BCP event within 24 hours, we would suggest: i) either to extend the full notification requirement to 72 hours (same as IT security incidents), ii) or to allow for notification in 2 stages, i.e. notify within 24 hours from activation of the BCP with information available at that time, which may be very limited, and provide subsequent analysis within 72 hours from BCP activation.

Category	Key questions	Response
	4. What form of transition arrangements and timeframe would be needed to renegotiate contracts with existing service providers (if required)?	See detailed points in section (A) above. In order to review if existing arrangements are compliant with proposed requirements, we suggest that entities could be required to amend terms and conditions in the next renewal cycle as per existing agreement, but not more than 2 years from the date where CPS 230 becomes in force.