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By email: PolicyDevelopment@apra.gov.au

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Dear Mr Brennan

CONSEQUENTIAL CHANGES TO APRA PRUDENTIAL STANDARDS

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback on the changes to the Prudential Standards due to the introduction of Prudential Standard CPS 220 Risk Management and revisions to Prudential Standard CPS 510 Governance. We wish to raise two areas for consideration in relation to the proposed amendments.

Materiality

The Insurance Council recognises that some inconsistencies remain across the prudential standards in relation to requirements to address material versus immaterial risks to a group. We support the consistent application of the materiality threshold found in paragraph 20 of CPS 220 and paragraph 17 of CPS 510 (as shown below) to the equivalent parts of the relevant prudential standards:

- *CPS220, Paragraph 20:* "Where a non-APRA-regulated institution of a group engages in business activities that may pose a material risk to the group, the Head of a group must ensure that the risk management framework addresses the risks posed by that institution to the group and APRA beneficiaries."
- *CPS510, Paragraph 17:* "Where a non-APRA-regulated institution within the group engages in business activities that may pose a material risk to the group, the Head of the group must ensure that such business activities are undertaken in a way that complies with the group governance arrangements."

Specifically, we consider that an inconsistency in relation to materiality exists in the related paragraphs in CPS 232 Business Continuity Management and CPS 231 Outsourcing.

CPS 220 and CPS 510 require the Head of the Group to ensure that the risk management framework, or group governance arrangements, apply to non-APRA regulated institutions that engage in business activities which may pose a **material** risk to the group.

The current wording of CPS 232 by comparison appears to require that all non-APRA regulated institutions within a group fully and consistently comply with the group business continuity management requirements – irrespective of whether their business activities pose a material risk to the group or not. Below are the relevant excerpts:

- *CPS 232, Paragraph 3:* “A requirement imposed upon a regulated institution that is also Head of a Level 2 group is to be read as requiring that regulated institution to ensure that the applicable provision is applied appropriately throughout the Level 2 group.”
- *CPS 232, Paragraph 19:* “In addition to the requirements stated elsewhere in this Prudential Standard, the Board of the Head of a Level 2 group must:
 - (b) consistently apply BCM for each part of the Level 2 group;”

A similar issue exists in relation to the existing wording in paragraphs 3 and 4 of CPS 232. Paragraph 3 of CPS 232 includes the word “appropriately” but paragraph 4 suggests that all regulated institutions (including a NOHC that is the Head of the Level 2 group) have to comply with this Prudential Standard in its entirety:

- *CPS 232, Paragraph 4:* “All regulated institutions have to comply with this Prudential Standard in its entirety, unless otherwise expressly indicated”

We also note that CPS 520 Fit and Proper has a similar treatment for entities that are material/immaterial to the group, as per Attachment C, 1(f).

Committee Access:

The Insurance Council endorses the policy principle that the External Auditor and Appointed Actuary have access to “all” Board Committees. However, in practice this may be unnecessarily prescriptive. While it is logical that the External Auditor and Appointed Actuary have access to the Board, Board Audit Committee, Board Risk Committee and Board Remuneration Committee, some other Committees appear to have little relevance (such as the Board Nomination Committee and Diversity Committee). The Insurance Council suggests that access to “all relevant Board Committees” may be more appropriate.

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council’s General Manager Policy – Regulation Directorate by email: janning@insurancecouncil.com.au or tel: 029253 5121.

Yours sincerely



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