

Avant Mutual Group Limited Submission to the APRA Harmonisation of Cross Industry Risk Management Requirements

We welcome this opportunity to provide our comments on the consultation paper released on 21 January 2013 with respect to Risk Management Prudential Insurance Harmonisation and draft CPS 220 (Risk Management) and CPS 510 (Governance). We would be happy to give further information to APRA upon request and to attend any consultation meetings.

1. About Avant

The Avant Mutual Group ("Avant") is Australia's leading medical defence organisation and one of Australia's leading Mutuals. Avant offers a range of insurance products and expert legal advice and assistance to over 60,000 medical and allied health practitioners and students in Australia. Insurance products include medical indemnity insurance for individuals and practices and private health insurance, which is offered by The Doctors' Health Fund Pty Limited subsidiary.

We also provide extensive risk advisory and education services to our members, as well as access to medico-legal assistance via our Medico Legal Advisory Service. We have offices throughout Australia, providing personalised support and rapid response to urgent medico-legal issues.

2. Executive Summary

Avant supports the harmonisation of risk management prudential standards where appropriate. However, we believe the revised standards need to be less prescriptive in order to recognise the diversity of scale and complexity of general insurance companies.

We disagree with the proposed requirement to:

- Establish a separate Board Risk Committee;
- Establish a Chief Risk Officer (CRO) role reporting directly to the CEO; and
- Complete annual internal or external audits of the compliance with, and effectiveness of, the RMF and three yearly reviews by external, operationally independent consultants.

We note also the ICA submission, which touches on these issues, and which we support.

3. Specific comments

Board Risk Committee

In smaller organisations the prudential objectives can be met without separating into both an Audit and Risk committee. To separate the Committees would not have any utility where the charter of a combined Audit, Risk and Compliance Committee can readily and clearly meet risk management objectives and APRA requirements without the unnecessary and unproductive duplication of responsibility and effort. The proposal would cost us money in establishing a separate committee which we do not feel would be justified by the lack of benefits.

Establishment of the CRO role

We believe Boards are in the best position to understand their risk management strategy and framework and the seniority and profile of the senior manager with specific risk management responsibilities. In large diversified insurance companies, a CRO role reporting directly to the CEO may be appropriate and practical. For smaller organisation we believe the objectives can be met by clearly defining the role of the nominated responsible risk manager to ensure they have effective oversight of organisational risks, and unfettered access to the CEO, Board and Board Audit and Risk Committee. Risk management roles need not report directly to the CEO in order to be effective.

We will be able to meet the intent of the new requirements within the current structure.

Annual and Triennial Independent Review of the Risk Management Framework

Whilst we agree a regular review is appropriate, we believe the Board is in the best position to mandate the frequency of review considering the size and complexity of the organisation. A requirement for a three yearly review and more frequently if material changes to strategy or operations occurs, at the direction of the Board, is a more appropriate requirement.

In respect to the above issues, we believe the existing prudential standards are sufficiently clear in the requirement for a risk management function (or role) with the necessary authority and resources to perform in an effective and independent manner. Risk Management Strategies, which must be regularly provided to APRA, clearly outline each organisations risk management and governance framework. If APRA considers these to be deficient for any organisation the opportunity currently exists to respond directly to that organisation to discuss and resolve any perceived deficiencies.

We welcome the opportunity to discuss our submission with you and thank you for the opportunity to comment.

Should harmonized prudential standards not be amended to reflect these submissions, we would like to give you an early indication that we will be applying for exemption from the above requirements.

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