

11 July 2013

Mr Neil Grummitt
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Dear Neil

Submission on APRA's changes to prudential standards to harmonise risk management requirements

We refer to APRA's Discussion Paper on harmonising cross-industry risk management requirements (the "Discussion Paper") and draft Prudential Standards CPS 220 Risk Management and CPS 510 Governance. This letter sets our key observations and comments on the proposal for your consideration.

ClearView supports APRA's overall direction and intent as set out in the Discussion Paper. In particular, we support:

- the key focus of harmonising and consolidating prudential standards across APRA-regulated industries;
- to focus and enhance requirements for risk management including risk management governance;
- the requirement to have a strong risk management culture; and
- a principle-based approach to the application of risk management requirements.

Nonetheless, we have concerns on the following matters:

- potential duplication of the roles of the Board Audit Committee (BAC) and Board Risk Committee (BRC) with respect to risk management, applying this requirement to smaller institutions and inconsistencies with ASX requirements;
- the practical issues of an independent Chief Risk Officer (CRO) in smaller institutions; and
- the proposed cross-industry approach omitting the superannuation industry.

These are discussed in turn below.

Board Risk Committee

CPS 510 requires that an institution has both a BAC and a BRC. While two distinct committees would promote sufficient time and focus being spent on risk management and prevent it from being 'swallowed up' by other issues, our concerns with the current requirements are the following:

- a) It is not clear to us the roles of these two committees. The BRC "provides the Board with objective non-executive oversight of the implementation and on-going operation of the institution's risk management framework" and the BAC provides "an objective non-executive review of the effectiveness of the institutions.....risk management framework". Does APRA require that the BRC sit in between the BAC and Board? Or is the intention to take away the role of the Board regarding risk management and placing it with the BRC? In our opinion neither of these scenarios is ideal. The former scenario over-engineers risk management governance by having another layer of committee and the latter does not appear appropriate given that risk management is a core responsibility of the Board. Another example of this duplication in roles is in CPS220 where paragraph 43 requires results of an annual review of risk management to be reported to BAC but paragraph 44 requires the independent review be reported to the BRC. In our view it would make sense for the BRC to assume all the risk management framework responsibility.
- b) The requirement to have two separate board committees does not take into account the size and complexity of an institution. We can see how large institutions with complex structures could benefit from a dedicated BRC but believe that it may cause unnecessary duplication in smaller institutions (such as ClearView). The Discussion Paper states that APRA proposes the BRC must operate under a different charter than the BAC, although the composition requirements will not prohibit the same people sitting on both committees. Having regard to ClearView's size and risk profile, we consider our current Board Audit Risk and Compliance Committee is sufficient to ensure robust risk management practices. We are concerned that a requirement for a separate charter but an allowance for the same committee composition, results in duplication and excess costs particularly in the face of a) above, and hinders efficiency and transparency. We suggest APRA consider permitting smaller institutions not be required to have separate committees.
- c) Recommendation 7.2 of the ASX Corporate Governance Principles and Recommendations 2010 states "A board committee is an efficient mechanism for focusing the company on appropriate risk oversight, risk management and internal control. The appropriate committee may be the audit committee, a risk management committee or another relevant committee." Further, ASX Markets Supervision on Principle 7: Recognise and Manage Risk Guide for Small – Mid Market Capitalised Companies, states the following with respect to how the board of a smaller institution should structure its responsibilities for risk oversight:

"the responsibility for risk is a responsibility of the full board of directors. However, the Principles endorse procedural items being handled by a committee, such as an audit and risk committee, with appropriate reporting to the main board"

In accordance with ASX Principle 7 and the guidance provided by ASX Markets Supervision, ClearView has a combined audit and risk committee, ClearView's Board Audit Risk and Compliance Committee, which on behalf of the Board, monitors the operation of the risk management framework and facilitates review of the key process and procedures underlying the risk management framework. We suggest by requiring separate risk and audit committees, the proposed changes to CPS510, are inconsistent with existing ASX Principles and Recommendations which recognise the ability for a smaller institution to have a combined committee where appropriate.

Independence of the CRO

We support reinforcing the second line of defense by having an independent CRO but can only see the value outweighing the cost in the largest institutions where the size, complexity and risk profiles lend themselves to such structures. In smaller institutions, like ClearView, our concern is that this creates the additional cost of remunerating another senior executive and may result in the over allocation of scarce resources to risk management. This may then result in the inappropriate creation of a risk 'ivory tower' where in order to be seen to get value out of a large spend, behavior develops to over allocate "risk management" to the CRO, and it not being owned by the business. This comes at the cost of broader, more appropriate business unit risk management.

We support the comments in the Discussion Paper that a principles-based approach will be applied allowing exemptions for smaller institutions who can demonstrate that they have met the principles underlying the requirement. We request APRA provide clarity on what constitutes a 'smaller institution' including where the line will be drawn.

Omitting superannuation

We appreciate that APRA has only recently implemented new Superannuation Prudential Standards. Nonetheless, we note that there are a number of inconsistencies between existing standards (such as LPS 220 and CPS 510) and the new SPS's (such as SPS 220 and SPS 510), which makes management and compliance for businesses such as ClearView, which is subject to both, cumbersome and inefficient. Excluding RSE licensees from the cross-industry harmonisation of risk management and risk management governance does nothing to address these inconsistencies in standards.

We propose that institutions that have general insurers, life insurers or ADI's as well as a RSE be given the option to comply with CPS 220 (and CPS 510) instead of complying with SPS 220 (and SPS 510), albeit that this may require some minor extension of the CPS's e.g. APRA could allow groups to comply with CPS 220 plus paragraph x,y and z of SPS 220 for its RSE.

We trust the above comments and observations are of assistance to APRA. We would be pleased to elaborate on or further explain any aspect of this submission if that would be of help to you.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Greg Martin".

Greg Martin
Chief Actuary & Risk Officer
ClearView Wealth Limited

A handwritten signature in cursive script, appearing to read "Simone Leas".

Simone Leas
Risk & Capital Manager
ClearView Wealth Limited