

## **Submission on APRA's Proposals to Harmonise the Cross-Industry Risk Management Proposals**

Whilst we appreciate that one of the aims of the proposed changes is to harmonise the behavioural standards across all APRA supervised industries, we believe there are characteristics particular to Category C insurers which merit specific consideration in the standards. This is important to ensure both the effectiveness and efficiency of the risk management framework across the entire operations of the foreign insurer.

In the case of a Category C insurer, risk management operations and functions are usually aggregated outside Australia in either the Head Office or other offices of the foreign insurer. This can be considered similar to the situation in a group where one entity relies on elements of the risk management framework controlled or influenced by another entity in the group.

That being said, the standards (and resulting APRA supervision) should only apply in relation to the Australian Branch operations of Category C insurers as contemplated in the proposed standards CPS 220 and CPS510 (both para 3), and not be extended to include the Head Office, or other offices, outside Australia.

For those Category C insurers that rely on the group risk management framework, the RMS should document how the group risk framework meets the requirements of CPS 220. If the group risk framework does not achieve all of APRA's requirements, alternative processes should be put in place to meet the expectations and requirements of the standard for the branch, subject to the size, business mix and complexity of the branch. These processes can then be subject to review as outlined in para 44 (but refer below our further submission in regard the review provisions of the proposed standard).

To avoid doubt, we suggest references to 'Board' be noted to include 'Senior Officer Outside Australia' in the case of Category C insurers.

We have drafted suggested alternative sections covering **Group risk management** (paras 13 – 16 in the current draft) and **Requirements of the Head of a Group** (paras 17 – 19 in the current draft) as examples of how the standard could apply to Category C insurers.

We now turn to specific items we consider need clarification.

MIS - para 24 (g) and para 26 require an APRA regulated institution to have a management information system (MIS) that is adequate, both under normal circumstances and in periods of stress, for measuring, assessing and reporting on all material risks across the institution. Can APRA clarify whether this refers only to **financial** risks or is the requirement broader than that? We suggest it should be specified that the system requirements have regard to the relative size, business mix and complexity of the APRA-regulated institution.

Risk Management Function – para 37 requires a designated risk management function. We suggest it should be specified that the risk management function have regard to the size, business mix and complexity of the APRA-regulated institution and that this function can reside in the head office for a Category C insurer.

CRO – para 38 requires the risk management function to be headed by a designated Chief Risk Officer who must be independent from business lines, the finance function and other revenue-generating responsibilities. The standard further states that the CRO must not be the Chief Executive Officer (CEO), Chief Financial Officer, Appointed Actuary or Head of Internal Audit.

Consistent with our submission above, we request that the standard be clarified to ensure that a dedicated CRO is not required to be located in Australia for a Category C insurer. The existence of a CRO in Head Office should be acceptable given risks are primarily aggregated into the foreign insurer as a whole.

In addition, given the relatively smaller size, simpler business mix and complexity of Category C insurers, we suggest that that if a Category C insurer considers it appropriate that the CRO be the Chief Executive Officer (CEO), Chief Financial Officer, Appointed Actuary or Head of Internal Audit internal audit, it can apply to APRA to seek an exemption from the proposed requirement in para 39, setting out reasons why it believes it should be exempt. APRA should be able to approve alternative arrangements in writing for a regulated institution where APRA is satisfied that same objectives will be achieved. This is consistent with the provisions relating to internal audit in the current and proposed CPS 510.

Review of the risk management framework – para 43 has increased the requirements for the review of the effectiveness of the framework to be annual. Currently, compliance with the RMS is checked annually by the external auditor as required by GPS 310. We suggest the frequency and scope of the review for effectiveness should be as per the current standard, having regard to such factors as the size, business mix, complexity of the regulated institution's operations and the extent of any change to its business profile or risk appetite. The results are required to be reported to the Board Audit Committee. Given Category C insurers are exempt from having a Board Audit Committee per proposed CPS510 para 73 – it should be clarified as to who the report should go to in the case of Category C insurers.

Similarly, para 44 also requires a review of the appropriateness, effectiveness and adequacy of the RMF at least every 3 years by operationally independent, appropriately trained and competent persons. We believe this is appropriate and sufficient and therefore makes para 43 redundant.

Notification requirements – para 50 requires on adoption, and following any material revisions, submission as soon as practicable, and no more than 10 business days, after approval, of the risk appetite statement, business plan, RMS, and where applicable, group liquidity management policy. To avoid doubt, we suggest that the words “and following any material revisions” be removed from the standard as normal practice is to submit after every revision subsequently approved by the Board (or Senior Officer Outside Australia in the case of a Category C insurer).

Para 53 provides that where an APRA-regulated institution conducts business in a jurisdiction outside Australia, it must notify APRA as soon as practicable, and no more than 10 business days of becoming aware, that its right to conduct business in a jurisdiction has been materially affected by the law of that jurisdiction or its right to conduct business has ceased. This raises potential compliance monitoring issues due to the infrequent nature of such changes and we would request that in the case of a foreign insurer, they only be required to report annually in the risk management declaration, any change in jurisdictions where they conduct insurance business. Alternatively, we suggest Category C insurers be exempted from this requirement.

We also suggest that there should be an equivalent paragraph to the current GPS 220 para 36, which provides that a regulated institution is not required to duplicate content between its ICAAP summary statement or ICAAP report required under GPS 110 and its RMS. Cross-references are appropriate to facilitate integration between the documents. This should be a general provision and not limited to specific documents but apply across the entire risk management framework.

As a final comment, and consistent with previous submissions, given APRA are strong proponents of risk-based supervision and it is said to be ingrained in APRA's supervisory approach, we suggest it would be appropriate if the necessity for an entity to comply with the requirements of the standards corresponded to the supervisory stance of an entity. The standards should, at a minimum, explicitly exempt entities, where the size, business mix and complexity warrant normal supervision from requirements that increase the regulatory burden and cost with no material benefit to the regulated institution or APRA's supervision. Alternatively, APRA's willingness and ability to grant exemptions to the requirements of its standards should be consistent with the supervisory stance applicable to the regulated institution.

## **Group risk management**

13. An APRA-regulated institution that is part of a group or is a Category C insurer, may meet the requirements of this Prudential Standard on a group basis, provided that the Board of the institution (or Senior Officer Outside Australia in the case of a Category C insurer) is satisfied that the requirements are met in respect of that institution.

14. For the avoidance of doubt, compliance by a group or a Category C insurer with the requirements of this Prudential Standard does not relieve the Board of an APRA-regulated institution within the group (or Senior Officer Outside Australia in the case of a Category C insurer) from the need to comply with any prudential requirements of that institution, unless specifically excluded by a paragraph in this Prudential Standard.

15. Where an APRA-regulated institution is part of a group (or is a Category C insurer) and any element of the risk management framework is controlled or influenced by another entity in the group (or office outside Australia in the case of a Category C insurer), the institution's risk management framework must specifically take into account risks arising from the group framework, and clearly identify:

(a) whether the institution's risk management framework is derived wholly or partially from group risk management policies or functions;

(b) the linkages and significant differences between the institution's and the group's risk management framework;

(c) how these linkages and significant differences change the risk profile of the institution; and

(d) the process for monitoring by, or reporting to, the group on risk management including the key procedures, the frequency of reporting and the approach to reviews of the risk management framework.

16. Where APRA is of the view that the fulfilment of a requirement of this Prudential Standard by a group does not adequately address the requirement for an APRA-regulated institution within that group, APRA may require that institution to meet the requirement on a separate basis for the operations supervised by APRA within a reasonable timeframe specified by APRA.

## **Requirements of the Head of a group or Head Office in the case of a Category C insurer**

17. The Head of a group (or Head Office in the case of a Category C insurer) must develop and maintain processes to coordinate the identification, measurement, evaluation, reporting, and control or mitigation of all material risks across the group, in normal times and periods of stress. The Head of a group (or Head Office in the case of a Category C insurer) must ensure its Board (or Senior Officer Outside Australia in the case of a Category C insurer) has a comprehensive group-wide view of all material risks, including an understanding of the roles and relationships of subsidiaries (or branches in the case of a Category C insurer) to one another and to the Head.

18. The Head of a group (or Head Office in the case of a Category C insurer) must develop and maintain a liquidity management policy for the group to adequately and consistently identify, measure, monitor, and manage its material liquidity risks. The policy must include a strategy that ensures the group has sufficient liquidity to meet its obligations as they fall due, including in stressed conditions, and outline processes to identify existing and potential constraints on the transfer of funds within the group.

19. 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**