

Background

1. The Royal Automobile Association of South Australia Incorporated (RAA) is the ultimate, unregulated (APRA), parent of a corporate group that includes two APRA regulated entities: RAA Insurance Limited, which is an authorised insurer; and RAA Insurance Holdings Limited which is an authorised non-operating holding company form the “Insurance Group”, a level 2 regulated entity.
2. For the purposes of this submission RAAI will mean RAA Insurance Limited **and** RAA Insurance Holdings Limited
3. For the purposes of this submission RAA means the Royal Automobile Association of South Australia Incorporated **and** its wholly owned subsidiaries.
4. The provision of insurance products to RAA members is a key feature of the business model of RAAI. As a result, RAA’s interests are deeply integrated with RAAI. This is best illustrated by the relationship between RAAI and RAA’s brand, its sale and distribution of RAAI’s products and the provision of other corporate and support services to RAAI by other companies within the RAA Group.
5. All employees of RAAI are employed by RAA, with the related costs charged to RAAI under a Shared Services Agreement.
6. The Boards of RAAI retain ultimate responsibility in meeting their obligations as regulated institutions, however where it is appropriate they utilise group services to meet these requirements.
7. The RAA Insurance Audit, Risk & Compliance Committee and RAA Group Audi, Risk & Compliance Committee are run concurrently. Individual minutes are retained and reported to the appropriate boards.
8. The Boards of RAAI have previously decided to utilise group services where they meet the regulated entities’ requirements which include:
 - (i) Risk & Compliance Services;
 - (ii) Distribution, Sales and Marketing Services;
 - (iii) Information Services;
 - (iv) Human Resource Services;
 - (v) Corporate Services; and
 - (vi) Internal Assurance Services.

CPS 220: RISK MANAGEMENT

9. RAAI welcomes the package harmonising risk management practices and the additional clarity provided by APRA on a number of risk management framework expectations.
10. It is noted however that the draft standard proposes certain limitations, expenses and complexities upon a smaller entity such as that of RAAI.

CHIEF RISK OFFICER

11. Paragraph 13 states that *“An APRA-regulated institution that is part of a group may meet requirements of this Prudential Standard on a group basis, provided that the Board of the institution is satisfied that the requirements are met in respect of that institution.”*

Utilisation of Shared Service/ Group Resources

12. RAAI currently operates risk management, operational compliance and internal assurance (audit) on a group basis through a Shared Services Agreement with RAA.
13. These functions have unfettered access to the Chief Executive (CE) Insurance and RAAI Board of Directors, and *vice versa*
14. The requirements for a Chief Risk Officer reporting directly to the CE Insurance would not enhance risk management across the RAA Group, or any individual entity within the RAA Group, as a smaller organisation.
15. Risk Management Function: Paragraph 38 states *“An APRA-regulated institution’s risk management function must be headed by a designated Chief Risk Officer (CRO). The CRO must be involved in, and have the authority to provide effective challenge to, activities and decisions that may materially affect the institution’s risk profile.”*
16. For a smaller entity such as RAAI the introduction of a Chief Risk Officer provides an additional direct reporting line to the CE Insurance.
17. As a smaller entity RAAI utilises skilled resources of a Shared Services team headed by a Senior Manager of Group Risk and Compliance. The Senior Manager has unfettered access to the CE Insurance, Group Managing Director (GMD) and Directors of the RAA and RAAI Boards.
18. The Senior Manager additionally holds an internal business authority level across the RAA Group, including RAAI, whereby he may temporarily and immediately stop and report any activity across the RAA Group.
19. The Board of the regulated institution is best placed to understand how best to meet its regulated obligations appropriate to its size, complexity and risk profile and as such to determine how the utilisation of group resources may be used to assist it to meet its obligations both practically and efficiently, which may include the use of external providers.
20. RAAI submits that where a regulated institution is part of a corporate group, the Board of the regulated institution may while maintaining accountability in the regulated entity use a

group Risk and Compliance function, in order to meet the requirements of paragraphs 42 of CPS 510.

21. RAAI submits that the use of the CRO terminology be defined to enable the Senior Manager of a Group Risk and Compliance function to also assume the role of CRO.

Direct reporting Line to The CEO Insurance

22. Paragraph 40 states *“The CRO must have a direct reporting line to the CEO, and have regular and unfettered access to the Board and the Board Risk Committee.”*
23. The objectives and key requirements of the draft CPS 220: Risk Management states that *“The Board of an APRA regulated institution is ultimately responsible for having a risk management framework that is appropriate to the size, business mix and complexity of the institution or group.”*
24. The utilisation of group resources from this perspective is recognised in a number of existing APRA standards, for example *CPS 510: Governance* at paragraph 34 which expressly states that where a regulated institution is part of a corporate group (not just a Level 2 or Level 3 group) and utilises group policies and functions, the Board is to approve the use of those group policies and functions. In addition, *CPS 520: Fit and Proper* at paragraph 15 expressly provides that a person need not be an employee of a regulated institution to be a responsible person
25. Given the ownership structure between RAA and RAA Insurance and the existing provision of group services, each has an impact on the risk profiles of the other organisation which necessitates a consolidated, group-wide approach to effectively identify and manage contagion risk. Where a regulated institution is part of a corporate group, a group risk management function will provide greater clarity and visibility of risk across the group. The importance of having the ability to implement this where considered appropriate is highlighted in the draft standard *CPS 220* at paragraph 17, which requires the head of a regulated group to develop and maintain processes to coordinate the identification, measurement, evaluation, reporting and control or mitigation of all material risks across the regulated group.
26. RAAI submits that the key enhancements contained in CPS 220 for a regulated institution to have a Risk Committee, a Chief Risk Officer and a designated risk and compliance function could be able to be met on a corporate group perspective where the Board of the regulated institution approves the use from a group perspective
27. On this basis RAAI further submits that Paragraph 40 be amended to ensure that the CRO (being defined as the Head/ Senior Manager of the Risk Department) has unfettered access to the CE Insurance as opposed to a direct reporting line on the basis that the CE Insurance has direct access to the role in return.

Risk Management Framework

28. Group risk management: Paragraph 15 states

“Where an APRA-regulated institution is part of a group and any element of the risk management framework is controlled or influenced by another entity in the group, 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.”

29. RAAI complies with this paragraph and operates two risk management frameworks, one for RAAI and the other for the RAA Group. Whilst risks may differ between the two entities, the frameworks are mirrored, with the Insurance Risk Framework containing additional clauses that address APRA requirements.

30. Under a group model utilising Risk and Compliance as a shared service there is benefit to be had in operating under a single Risk Framework for the group as a whole.

31. This would enable full Board overview of the risks that each entity presents to the other and to the group as a whole.

32. RAAI submits that a single Group Risk Framework endorsed and approved by the Group and APRA regulated institution Boards meet the needs and principles of Paragraph 15.

Compliance Function

33. RAAI raises concern with paragraph 42 and the lack of detail that accompanies this when compared to the specific definitions for Risk Management in CPS 220 and Assurance in CPS 510.

34. It remains unclear to what extent the compliance function may be incorporated within the Risk Management function and whether, like risk, this can be managed through the use of a shared agreement and Group Risk and Compliance function.

CPS 510 – GOVERNANCE

Risk and Audit Committee

35. Within the Discussion Paper it is stated that “APRA is proposing that this [Risk] Committee must operate under a different charter than the Board Audit Committee, although APRA’s composition requirements will not prohibit the same people sitting on both committees. This requirement will be located in the amended CPS 510”
36. Given the same people may sit on both committees it is unclear to what purpose segregation of the two committees will ultimately achieve.
37. In a group model for small entities there is a benefit in retaining a combined Audit, Risk & Compliance Committee. The consolidated Committee allows for greater oversight and transparency of the organisational assurance model. This allows for an overlap of risk and compliance monitoring activity, the internal assurance program and ultimately external audit. A consolidated committee allows for complete risk transparency at all operational levels of defence.
38. This is supported by Prudential Practice Guide GPG 510 Governance, at paragraph 11, where it states that where a regulated institution is part of a corporate group, APRA expects that the board of the regulated institution will consider the potential impact of the operations of other entities in the group on the regulated institution
39. Within CPS 220: Risk Management it states that “The Board of an APRA regulated *institution is ultimately responsible for having a risk management framework that is appropriate to the size, business mix and complexity of the institution or group*”
40. In the spirit of this requirement the Board of a regulated entity and the group retain responsibility for the consideration of the structure of the risk and audit committees to ensure that they are commensurate to the size, business mix and complexity of the group.
41. In the event that the Insurance entity Board assesses that the use of a combined Group Committee is of benefit RAAI submits that the Board be entitled to make this decision on condition appropriate governance structures are retained.
42. RAAI submits that the Board Risk Committee (incorporating Compliance) and Board Audit Committee be entitled to operate as a single Audit, Risk & Compliance Committee with oversight of the risk and assurance program as a whole.

Group Audit and Risk Committee

43. Paragraph 70, states “Where a locally incorporated APRA-regulated institution is part of a Level 2 group, Level 3 group or other corporate group, the Board of the regulated institution may use a group Board Remuneration Committee...”
44. CPS 510 allows for the consolidation of a Group Remuneration Committee. However, no such clarity is provided in relation to the Risk Committee.
45. Prudential Practice Guide GPG 510 Governance, at paragraph 11, states that “where a regulated institution is part of a corporate group, APRA expects that the board of the regulated institution will consider the potential impact of the operations of other entities in the group on the regulated institution.”

46. A Group Risk Committee would substantially assist the Board of a regulated institution to view risk from a whole of group perspective. This can assist effective risk management where a regulated institution is part of a broader corporate group, particularly for strategic planning and budgeting which often occur at a group level particularly as risk appetite is also normally driven from a group perspective.
47. RAAI still maintains that a Group Audit and Risk Committee would require a minimum number of independent Insurance Board members in its Charter and retain reporting accountability to both the Group and Insurance Boards.
48. RAAI submits that CPS 510 be amended to explicitly recognise that where a regulated institution is part of a corporate group, the Board of the regulated institution has the flexibility to use a Group Audit, Risk & Compliance Committee to satisfy the requirements of the prudential standard.

Summary

49. RAAI submits that where a regulated institution is part of a corporate group, the Board of the regulated institution may while maintaining accountability in the regulated entity use a group Risk and Compliance function, in order to meet the requirements of paragraphs 42 of CPS 510.
50. RAAI submits that the key enhancements contained in CPS 220 for a regulated institution to have a Risk Committee, a Chief Risk Officer and a designated risk and compliance function could be met on a corporate group perspective where the Board of the regulated institution approves the use from a group perspective
51. RAAI submits that Paragraph 40 be amended to ensure that the CRO (being defined as the Head/ Senior Manager of the Risk Department) has unfettered access to the CE Insurance as opposed to a direct reporting line on the basis that the CE Insurance has direct access to the role in return.
52. RAAI submits that a single Group Risk Framework endorsed and approved by the Group and APRA regulated institution Boards meet the needs and principles of Paragraph 15.
53. RAAI submits that the Board Risk Committee (incorporating Compliance) and Board Audit Committee be entitled to operate as a single Audit, Risk & Compliance Committee with oversight of the risk and assurance program as a whole.
54. RAAI submits that CPS 510 be amended to explicitly recognise that where a regulated institution is part of a corporate group, the Board of the regulated institution has the flexibility to use a Group Audit, Risk & Compliance Committee to satisfy the requirements of the prudential standard.

Exclusions

55. As a smaller entity RAA acknowledges that exclusions may be permitted with APRA consent. It would be preferable from an RAA perspective that further consideration of the mechanics and practicalities of a smaller entity such as our own be considered in the overall proposed amendments and where possible flexibility be embedded into the requirements and guidelines.