

19 June 2013

Executive General Manager
Policy, Research and Statistics
Australian Prudential Regulation Authority
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Emailed to: riskmanagement@apra.gov.au

Dear Sir/Madam,

Submission on harmonising cross-industry risk management requirements

Thank you for the opportunity to comment on APRA's proposal to harmonise and enhance its current risk management prudential requirements in a consolidated cross-industry prudential standard, as outlined in the consultation package dated May 2013.

StateCover Mutual Limited recognises APRA's objectives in enhancing the existing prudential requirements to reflect its heightened expectations in the area of risk management. Further, StateCover acknowledges the progress APRA has made to date, and is in general agreement with the proposed further enhancements.

However, StateCover submits that the proposed requirement for the role of Chief Risk Officer (CRO) to be explicitly separated from the role of Chief Executive Officer (CEO) is unnecessarily prescriptive, with the same objective able to be achieved within the current regulatory requirements.

We note the purpose of the proposed requirement is to ensure that the CRO does not have other responsibilities that may conflict with his or her risk management role.

We believe potential conflicts can be effectively managed through a robust governance framework which is underpinned by the three lines of defence model. This model, explicit in APRA's existing regulatory framework, provides for:

1. Risk and control established as part of the day to day business operations;
2. Oversight structures with clear roles, responsibilities and accountability;
and

3. Independent challenge, audit of controls and reporting on assurance by internal and external audit, direct to the Board Audit Committee.

This model is clearly demonstrated through Board Risk Committee oversight of the risk management strategy, with responsibility for challenge of management's proposals and decisions arising from the organisation's activities. This oversight role remains the same, regardless of whether the individual reporting on risk matters is designated as a CRO or CEO.


In a small, non-complex organisation such as StateCover, we believe the CEO is best placed to understand the sources of risks facing the organisation, and having this accountability for risk management provides greater assurance to the Board that the risks are being actively managed.

A separate CRO role, reporting to the CEO, does not necessarily remove any potential conflicts and simply introduces another layer of administration within the risk management framework that may detract from its effectiveness.

StateCover is of the opinion that regulatory requirements should recognise the size, business mix and complexity of the organisation. For a large, complex institution, a CRO role independent of the CEO may be appropriate. However for a small insurer, operating on a mutual basis, we believe compliance with this requirement will be difficult and costly, due to limited availability of appropriately skilled resources, combined with demand-driven remuneration expectations.

We would be pleased to answer any questions you may have on our response. If you should require additional information, please contact our Company Secretary, Julie Lee, on 8270 6062.

Yours sincerely



Acting Chair

Allan Smith
Chairman

CC: Alex Gosman; Jeff Millard