



Prudential Practice Guide

SPG 221 – Adequacy of Resources

November 2013

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About this guide

Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs frequently discuss legal requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

Prudential Standard SPS 220 Risk Management (SPS 220) sets out APRA's requirements for an RSE licensee to maintain adequate resources to undertake the activities for which it holds an RSE licence. This PPG aims to assist an RSE licensee in complying with those requirements and, more generally, to outline prudent practices in relation to the adequacy of resources.

This PPG is to be read with other PPGs related to risk management, including: *Prudential Practice Guide SPG 220 Risk Management, Prudential Practice Guide SPG 114 Operational Risk Financial Requirement (SPG 114), Prudential Practice Guide SPG 222 Management of Reserves, Prudential Practice Guide SPG 231 Outsourcing (SPG 231)* and *Prudential Practice Guide SPG 232 Business Continuity Management (SPG 232)*.

For the purposes of this guide, and consistent with the application of SPS 220, 'RSE licensee' and registrable superannuation entity (RSE) have the meaning given in the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*.

Subject to the requirements of SPS 220, an RSE licensee has the flexibility to structure its business operations in the way most suited to achieving its business objectives. Not all practices outlined in this PPG will be relevant for every RSE licensee and some aspects may vary depending upon the size, business mix and complexity of the RSE licensee's business operations.

Introduction

1. Under the SIS Act, an RSE licensee is solely responsible and directly accountable for the prudent management of members' benefits. Inadequate resources available to the RSE licensee, whether financial, human or technical, may interfere with the capacity of an RSE licensee to properly carry out those duties.
2. The SIS Act also requires an RSE licensee to maintain and manage financial resources (whether capital of the RSE licensee, a reserve of an RSE or both) to cover the operational risks of the RSE licensee's business operations.¹ *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114) sets out requirements in relation to the financial resources that must be maintained to meet the operational risk financial requirement (ORFR).²

Financial resources

3. SPS 220 requires an RSE licensee to have, or have available to it under an enforceable agreement:
 - (a) adequate financial resources to ensure the ongoing solvency of the RSE licensee; and
 - (b) adequate liquidity to support the business operations of the RSE licensee.
4. The requirement to have adequate financial resources does not operate as a de facto capital requirement. It is also distinct from the ORFR, the purpose of which is to provide financial resources to address operational risk events that may affect an RSE licensee's business operations and cause a beneficiary to sustain a loss or be deprived of a gain due to the event.
5. APRA expects that an RSE licensee would consider the size, business mix and complexity of its business operations when determining the adequacy of its financial resources. This would ordinarily include, but not be limited to, consideration of:
 - (a) whether its operations are conducted under legislation administered by a regulator other than APRA;
 - (b) the availability of alternative sources of working capital, including fees charged over time or an arrangement with an employer-sponsor;
 - (c) the extent to which material business activities are performed in-house rather than outsourced to a service provider or performed by staff of an employer-sponsor;
 - (d) forecasts of the net flow of members and also the impact of changes to the external operating environment;
 - (e) the extent to which an RSE licensee's business operations are carried out or underwritten by government agencies, statutory authorities or government-controlled corporations; and
 - (f) whether an RSE licensee maintains adequate levels of insurance against liabilities incurred as a result of a breach of its professional duty as an RSE licensee and adequate levels of business insurance in respect of its operations more generally. APRA would expect an RSE licensee of a public offer RSE to have an adequate level of professional indemnity insurance.

¹ Refer to s. 52(8)(b) of the SIS Act.

² Refer to SPS 114 and SPG 114.

6. APRA expects that an RSE licensee would be able to demonstrate that it maintains an adequate level of financial resources. Information and documents that may assist an RSE licensee in demonstrating this include, but are not limited to:
 - (a) financial position and net flow of member forecasts that take into account cash flows to meet the RSE licensee's liquidity and general operational requirements;
 - (b) outlines of current business and professional indemnity insurance coverage, as well as an ongoing commitment to obtain and maintain cover;
 - (c) procedures for monitoring ongoing financial performance, including liquidity requirements and operating costs per member;
 - (d) agreements under which material business activities are outsourced to a service provider;
 - (e) evidence of appropriate due diligence to ensure that an outsourced service provider has, and maintains, adequate financial resources to perform the relevant activities in accordance with the service levels specified under the outsourcing agreement, and to remedy any deficiencies in the provision of contracted services³; and
 - (f) agreements under which an employer-sponsor or other party commits to providing ongoing material support to the RSE licensee.
7. Where an RSE licensee has multiple RSEs, APRA expects that an RSE licensee would at all times be mindful of its obligations as set out in the covenants in s. 52 of the SIS Act, particularly those covenants that relate to acting fairly in dealing with the beneficiaries of its business operations.⁴
8. Where an RSE licensee conducts no business other than the operation of one or more RSEs and performs material business activities in-house, a prudent RSE licensee may maintain a budget detailing resources and expected operating costs compared against RSE membership and asset size over time.

Human resources

9. SPS 220 requires an RSE licensee to maintain human resources at a level that is adequate for its business operations. APRA expects that an RSE licensee would assess adequacy on the basis of the overall staffing levels that it employs or has access to.
10. Where an RSE licensee outsources material business activities, APRA would expect it to conduct due diligence to ensure that the service provider has, and maintains, adequate human resources to perform the relevant activities in accordance with the service levels specified under the outsourcing agreement.
11. Information and documents that may assist an RSE licensee in demonstrating that it maintains an adequate level of human resources would ordinarily include, but are not limited to:
 - (a) appropriate policies and procedures for staff recruitment, training, remuneration and performance management;
 - (b) organisational structure diagrams;
 - (c) appropriate policies and procedures in place to address succession, key person risk, redundancy or retrenchment issues and their effect on the RSE licensee's ability to perform its duties;

³ Refer to *Prudential Standard SPS 231 Outsourcing* (SPS 231) and SPG 231.

⁴ Refer to s. 52(2)(e) and (f) of the SIS Act.

- (d) appropriate controls to address the risk of staff becoming unable to perform their duties, including appropriate business insurance cover;
 - (e) human resources policies that encourage proactive risk management and regulatory compliance;
 - (f) appropriate policies to ensure that adequate human resources are available to implement internal controls, including the segregation of duties where necessary; and
 - (g) review procedures that regularly assess future operational demands, including the RSE licensee's business plan, and ensure that there are sufficient resources to meet demands.
14. APRA expects that an RSE licensee would be able to demonstrate that it maintains an adequate level of technical resources. Information and documents that may assist an RSE licensee in demonstrating this would ordinarily include, but are not limited to:
- (a) for those RSE licensees using in-house technical resources, a description of existing systems and programs for systems development to cater for growth requirements and obsolescence of hardware and software, including, where relevant, a methodology to manage legacy systems and products;
 - (b) evidence of the inclusion of processes to ensure adequate protection of information in the risk management framework. Examples include processes to protect against loss and unauthorised alteration, to identify and reconcile for irregularities, inaccuracies and errors in information, and to ensure compliance with statutory privacy laws⁶;
 - (c) evidence of appropriate disaster recovery and business continuity arrangements in the risk management framework, and evidence of testing and review of those arrangements⁷;
 - (d) evidence of appropriate technical resources to manage data including the collection, storage, movement and management of data; and
 - (e) evidence of due diligence undertaken by the RSE licensee to satisfy itself that outsourced service providers have adequate technical resources available to them to fulfil their contractual obligations to the RSE licensee.

Technical resources

12. Adequate technical resources include technical systems to ensure the protection of confidential information and to handle necessary transaction processing, as well as any planned, forecast or likely significant changes in business size or capacity.
13. SPS 220 requires an RSE licensee to maintain technical resources at a level that is adequate for its business operations. In APRA's view, where material business activities are outsourced, a prudent RSE licensee would ensure that the service provider has adequate technical resources to perform its relevant functions, as well as appropriate systems maintenance and replacement policies.⁵

⁵ Refer to SPS 231, *Prudential Standard SPS 232 Business Continuity Management* (SPS 232) and SPG 232 in relation to the business continuity management arrangements of outsourced service providers.

⁶ Refer to *Prudential Practice Guide CPG 234 Management of Security Risk in Information and Information Technology*.

⁷ Refer to SPS 232 and SPG 232.



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