Date: June 6, 2025

General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
PolicyDevelopment@apra.gov.au

Re: Submission in Response to APRA's 2025 Governance Review Discussion Paper

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Dear General Manager,

Starling Insights, Inc. ("Starling Insights"), a US-based public benefit corporation, curates and hosts a membership-based platform to serve as a resource for and by the community of leaders, experts, and practitioners working to bring new ideas and tools to the governance and supervision of cultural, behavioral, and other nonfinancial risks and performance outcomes in the banking sector. In this, we collaborate with a number of global organizations, among them, the Financial Markets Standards Board, the Institute of International Finance, the Chartered Banker Institute, and the Association of Chartered Certified Accountants. (The comments offered here are our own)

Starling Insights has written extensively on the need for more robust approaches to culture risk governance, outlining relevant responsibilities implied for boards and management, and arguing for public-private partnership aimed at developing real-time tools that would allow us to anticipate risk governance failures so that these may be mitigated proactively.[1]

This is the central theme behind the Starling *Compendium* on "Culture and Conduct Risk in the Financial Sector," our flagship annual publication. Now in its 8th year, the *Compendium* summarizes global trends in the governance and supervision of culture and conduct related risks across the financial sector. The report is highly regarded and widely read by policymakers, regulators/supervisors, investors, boards, executives, international standard setters, industry associations, legal scholars and practicing lawyers, academics, and the media, worldwide. We are humbled to have been entrusted with the curation of deep thinking from the remarkable group of over 200 leaders who have contributed to our various publications since 2018.

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[1] Gary Cohn, Keith Noreika & Barbara Novick, An Interview for the 2022 *Compendium*, Starling Insights, May 15, 2022. https://insights.starlingtrust.com/content/compendium/an-interview-with-gary-cohn-keith-noreika-and-barbara-novick

We are grateful for the opportunity to share our views on APRA's March 2025 Governance Review Discussion Paper ("Review").

Governance's critical role in organizational resilience is undisputed and we are supportive of APRA's efforts to update and strengthen its supervisory approach. As APRA's Chris Gower observed in an article for our 2024 *Compendium*, "Deficiencies in governance and risk culture can be early indicators of potential financial risks."

The Review underscores this point with the observation that governance failures are an underlying factor in over three quarters of situations where firms face heightened risk-based supervision and have been core drivers of multiple Court-Enforcement Undertakings. Such findings suggest that the weaknesses observed are not isolated or superficial, but may indeed reflect more fundamental issues. Commensurate with the scale of the problem, reforms must be comprehensive and responsive in scope.

But if these reforms are not also carefully implemented and deeply embedded, they risk becoming merely performative exercises. It is imperative, therefore, that any new framework inspires confidence, not just in its articulated guidance, but in its practical ability to foster genuine, lasting improvements in governance effectiveness and institutional conduct.

We believe that the Review as drafted could go farther in this direction.

First, while each of the eight proposals ("Proposals") offered are sensible practices and supportive of good governance, we observe that they narrowly address only those aspects that make up the visible structure of governance. Attending to the formal scaffolding of governance is likely to have little impact if reforms do not concurrently and explicitly engage with the invisible, yet equally structural, foundation of organizational culture.

The most resilient governance frameworks are those where formal structures are deeply interwoven with, and reinforced by, culture. Importantly, we are not referring to what is often defined as "Risk Culture" – a term which is typically meant to describes behaviors and norms associated specifically with risk management processes. Rather, one must look at culture as it engages and interacts with policies and processes across the whole of an organization — working either to underscore management objectives or, far too often, to undermine them.

Second, while the Review describes how to implement the Proposals, it is silent as to the standard by which successful governance reform should be judged. Rather, Proposals are put forward with only the justification that other well-governed institutions have adopted such. Furthermore, absent ties to root causes, it is not clear how and to what degree each Proposal contributes to meeting to such a standard.

Without an understanding of the root causes of governance effectiveness (or the reverse), it is not possible to distinguish between activities that support true transformation versus those that deliver superficial remediation, those with are effect-neutral, and those which may in fact seem wholly sensible but which, in practice, work at cross-purpose to stated intent.

This has implications for both governance and supervisory oversight alike.

For boards, it poses challenge in operationalizing proposed reforms. The Review acknowledges, and seeks feedback on, the expected burden, associated costs, and the need for proportionality in application of these Proposals. However, without an objective standard for what 'good' looks like, it leaves boards and supervisors without clarity as to whether reforms have been implemented correctly, whether they are successfully contributing to good outcomes, or how boards are to manage the inevitable tradeoffs that drive requisite investment decisions.

When seeking to minimize cost and disruption in pursuit of uncertain benefits we should expect firms will invest in these updates only so far as they achieve a minimum justifiable standard. Around questions of culture, such standards are largely inchoate.

Supervision faces related challenges. The Proposals, while targeting structural improvements, still leave wide latitude in assessing whether implementations represent real reform or are merely minimally specified window dressing. Absent clarity on what standard 'good' governance should be judged against, these determinations inevitably default to reliance on supervisory judgement. And while such judgements may be well supported by experience, knowledge, and skill, without an evidentiary base to support them, regulators may find it challenging to induce firms to go beyond the letter of the requirement.

From Scaffolding to Substance

The way forward requires a fundamental rethink of governance and how it is to be supervised.

In addition to addressing culture as a fundamental component of governance, we must also seek to understand how culture and formal governance structures interact with one another and collectively drive outcomes. The opportunity, then, is to institutionalize root cause analysis, extending it into the cultural domain in a way that is both diagnostic and predictive.

Our concern is that, without a concerted focus on developing a common evidentiary basis for understanding and supervising culture as a fundamental component of governance, the financial system will continue to rely on the lagging indicators of breakdown, scandal, or the post-mortem logic of enforceable undertakings and capital overlays.

This has practical implications for the Proposals offered.

Requirements related to board member expertise, conflicts, and tenure presume that these factors are responsible for poor outcomes. However, the ultimate effectiveness of such measures will be significantly conditioned by the prevailing cultural dynamics within any given institution. A board might possess an impeccable skills matrix on paper, or adhere strictly to tenure limits, yet still fall short if the underlying culture inhibits open communication, constructive challenge, or the surfacing of uncomfortable truths — elements that are behavioral and cultural, rather than purely technical.

As Gower writes in the above-referenced piece, “Remediation plans that focus on frameworks, systems, and processes but neglect leadership and cultural change rarely succeed.”

In the pursuit of elevating governance, therefore, we believe APRA should be seeking to answer a different set of questions.

- What elements of governance and culture are actual drivers of institutional failures rather than merely coincident?
- How might boards and supervisors alike develop shared visibility into culture such that they may collectively evaluate the effectiveness of formal governance structures
- By what means can this visibility be extended into the organization to evaluate the degree to which management’s governance principles are operationally embedded?

These value to be gleaned by pursuing such questions is not speculative; they build directly on what APRA leadership has already observed. To quote Gower again, by exploring questions of this nature, to get to root causes of mishap, analysis must “pinpoint the underlying behavioural norms, cultural drivers and leadership mindset which shaped the environment and context for the observed failure of risk management.”

The Courage to Ask More Deeply

What we are offering here is not criticism — rather, it is meant to issue a challenge and to highlight an opportunity. We respectfully encourage APRA to expand its vision beyond the “formal” architecture of governance to incorporate the following recommendations.

- This governance framework may benefit by borrowing APRA’s approach to culture from its risk management standard (CPS 220) and expanding its scope. In that standard, APRA explicitly requires boards to form a view on the risk culture of the organization, and whether it is consistent with the organization’s business objectives and risk appetite. Where it sees gaps, the Board must oversee efforts to ensure those gaps are closed. Currently, APRA only mentions culture in its Proposal 6 and then only to require that boards should be responsible for articulating the desired culture. Mirroring CPS 220, we suggest that boards should also be expected to determine whether the desired culture is being properly implemented and to address any failures that may compromise the firm’s governance systems before they escalate into structural risks or material prudential concerns. This demands that boards look beyond the traditional governance structures described in this Review to incorporate more subtle, informal indicators of organizational health, such as early signs of breakdown in challenge functions, instances of voice suppression, or a gradual drift into a normalization of deviance. A focus here would enable boards of regulated entities to address nascent issues at their root, transforming reactive responses into a more pre-emptive and ultimately more effective governance approach that instills true confidence in resilience.

- To help firms meet this standard, the Review may consider encouraging boards to develop and deploy better metrics for measuring culture and its interactions with governance. Tools are available that can make sense of the digital exhaust of routine institutional activity. Such signals, derived from behavioral patterns, can provide a continuous, near real-time view into the informal dynamics that shape decision-making and risk-taking within a firm. The visibility such "ambient intelligence" affords would equip both boards and supervisors with a richer, more nuanced understanding of an institution's operational realities, moving beyond reliance on lagging indicators or self-reported compliance inputs to enable timely interventions and a more sophisticated assessment of inherent risk.
- To truly move beyond "tick-box" exercises and foster a culture of sustained improvement, we suggest that there needs to be a concerted effort to cultivate a common evidentiary basis by which to gauge the efficacy of culture risk governance, accessible to both regulated entities and their supervisors. This involves defining common metrics and developing tools to measure and monitor cultural factors related to trust, information flow, and behavioral propensities and establishing causal links with poor governance outcomes. By establishing such an evidence base, institutions would achieve visibility into how trust moves, how risk signals surface, and how governance genuinely functions when not under direct scrutiny, allowing for the identification of fragilities and the initiation of targeted remediation before formal enforcement measures become necessary.

We support the effort to reform governance, and we urge APRA to widen the lens. Culture must be treated as infrastructure on the same footing as more visible aspects of governance, risk, and compliance systems, and we must make a concerted effort to establish an evidentiary base for what good governance looks like in practice, and to diagnose the root causes of its failure.

Thank you for your consideration.

Sincerely,

[redacted], Founder & CEO

For questions or further commentary, please contact [redacted]