



APRA insights on risk culture

Actuaries Institute - Insights Session

7 March 2017 - Sydney

Fahmi Hosain - Head of Governance, Culture & Remuneration

AGENDA



APRA

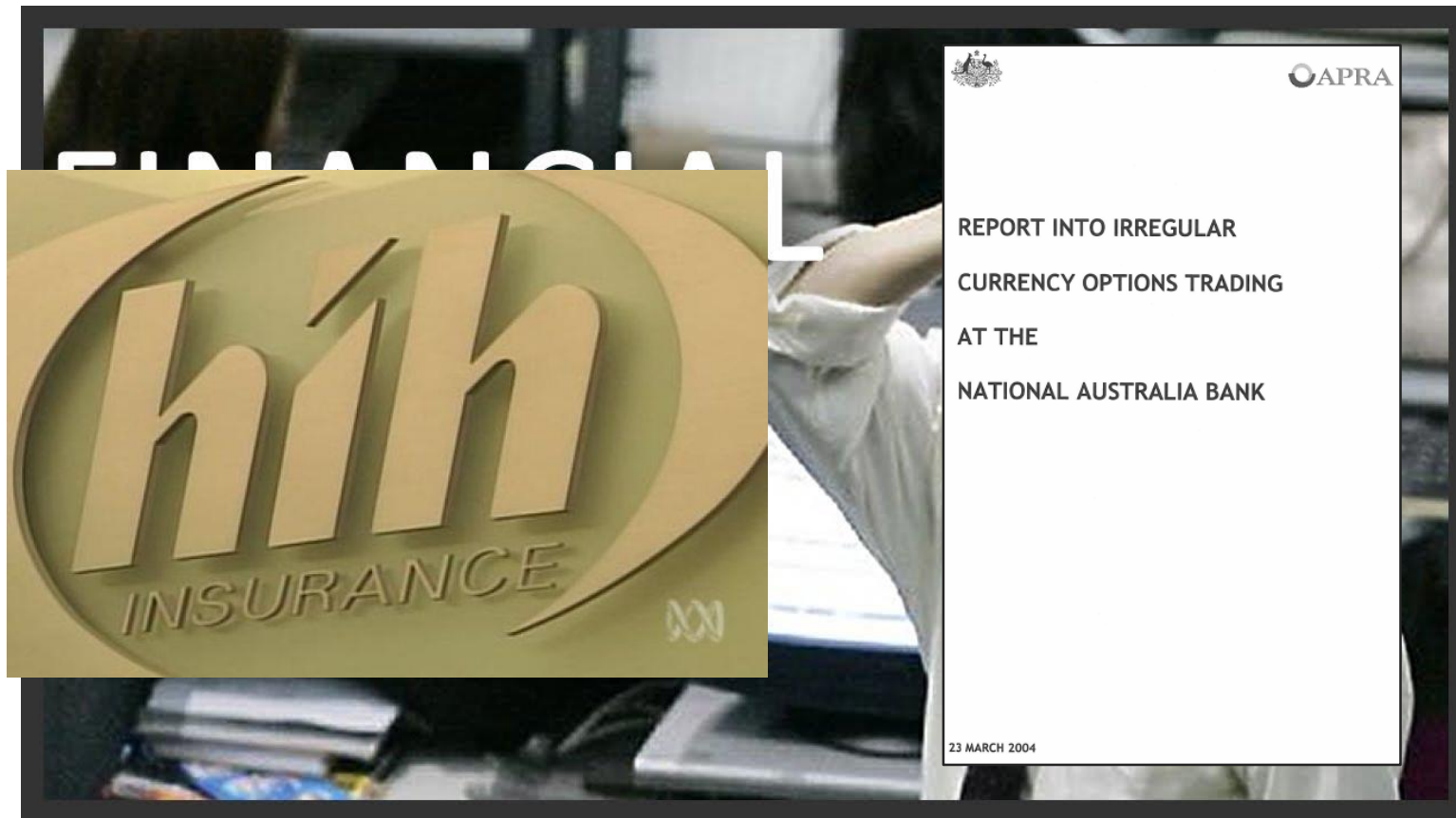
Context

Observations
on industry

What's next



Context



REPORT INTO IRREGULAR
CURRENCY OPTIONS TRADING
AT THE
NATIONAL AUSTRALIA BANK

23 MARCH 2004

REGULATORY RESPONSE



APRA



FSB Principles for Sound Compensation Practices Implementation Standards

25 September 2009



Guidance on Supervisory Interaction with Financial Institutions on Risk Culture

A Framework for Assessing Risk Culture

7 April 2014

REGULATORY RESPONSE



APRA

January 2015



Prudential Standard CPS 510 Governance

Objectives and key requirements of this Prudential Standard

This Prudential Standard sets out minimum foundations for good governance of an APRA-regulated institution in the deposit-taking, general insurance and life insurance industries or of a Head of a group. Its objective is to ensure that an institution is managed soundly and prudently by a competent Board (or equivalent), which can make reasonable and impartial business judgements in the best interests of the institution and which duly considers the impact of its decisions on depositors and/or policyholders.

The ultimate responsibility for the sound and prudent management of an APRA-regulated institution rests with its Board of directors (or equivalent).

It is essential that an APRA-regulated institution has a sound governance framework and conducts its affairs with a high degree of integrity. A culture that promotes good governance benefits all stakeholders of an institution and helps to maintain public confidence in the institution.

The governance of an APRA-regulated institution builds on these foundations in ways that take account of the size, complexity and risk profile of the institution or group.

The key requirements of this Prudential Standard for locally incorporated APRA-regulated institutions are that:

- specific requirements with respect to Board size and composition are met;
- the chairperson of the Board of directors must be an independent director;
- the Board must have a policy on Board renewal and procedures for assessing Board performance;
- a Board Remuneration Committee must be established and the institution must have a Remuneration Policy that aligns remuneration and risk management; and
- a Board Audit Committee and a Board Risk Committee must be established.

A number of the requirements in this Prudential Standard apply to foreign authorised deposit-taking institutions, Category C insurers and eligible foreign life insurance companies.

January 2015



Prudential Standard CPS 220 Risk Management

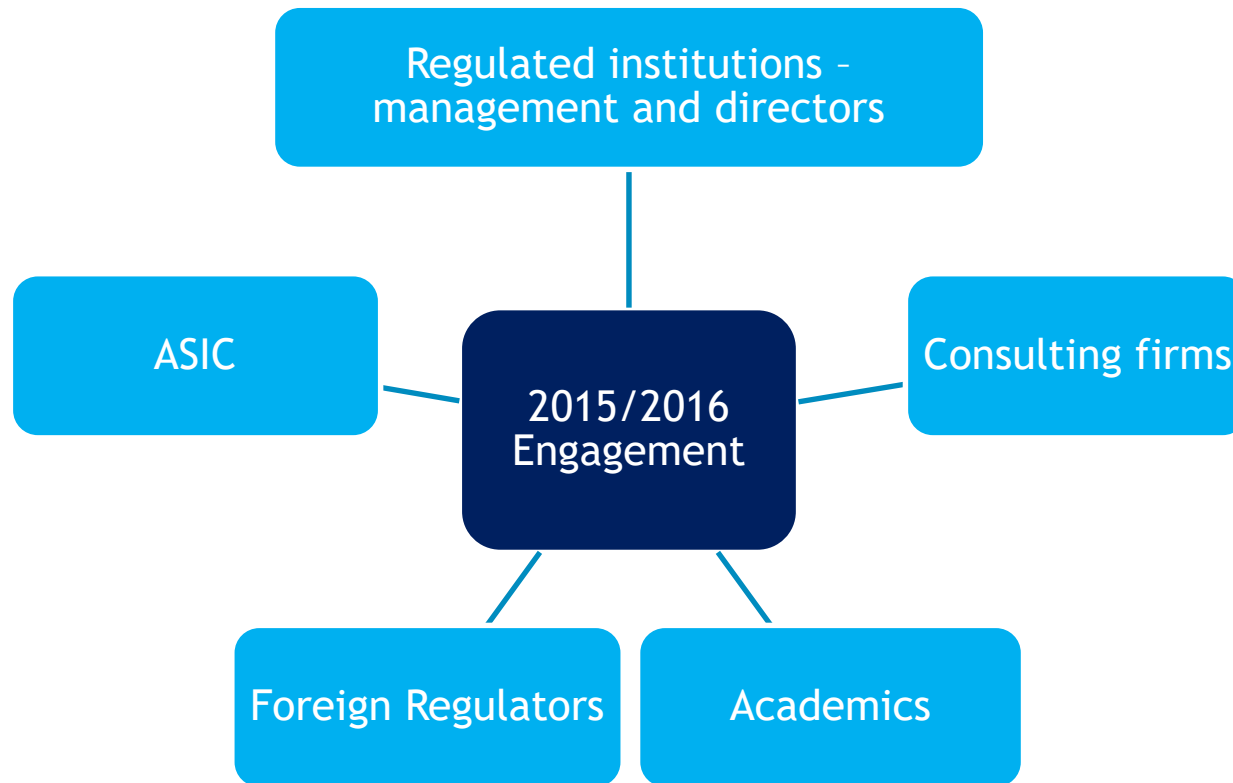
Objectives and key requirements of this Prudential Standard

This Prudential Standard requires an APRA-regulated institution to have systems for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks that may affect its ability, or the ability of the group it heads, to meet its obligations to depositors and/or policyholders. These systems, together with the structures, policies, processes and people supporting them, comprise an institution's risk management framework.

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 it heads. The risk management framework must also be consistent with the institution's strategic objectives and business plan.

The key requirements of this Prudential Standard are that an APRA-regulated institution must:

- have a risk management framework that is appropriate to its size, business mix and complexity;
- maintain a Board-approved risk appetite statement;
- maintain a Board-approved risk management strategy that describes the key elements of the risk management framework that give effect to its approach to managing risk;
- have a Board-approved business plan that sets out its approach for the implementation of its strategic objectives;
- maintain adequate resources to ensure compliance with this Prudential Standard; and
- notify APRA when it becomes aware of a significant breach of, or material deviation from, the risk management framework, or that the risk management framework does not adequately address a material risk.





Industry Observations

KEY OBSERVATIONS



A great deal of activity taking place

Clarity of purpose and values seen as critical to balancing competing tensions

Senior leadership (and Board) seen as key driver of culture

Often, CRO is driving culture-related work (for now)

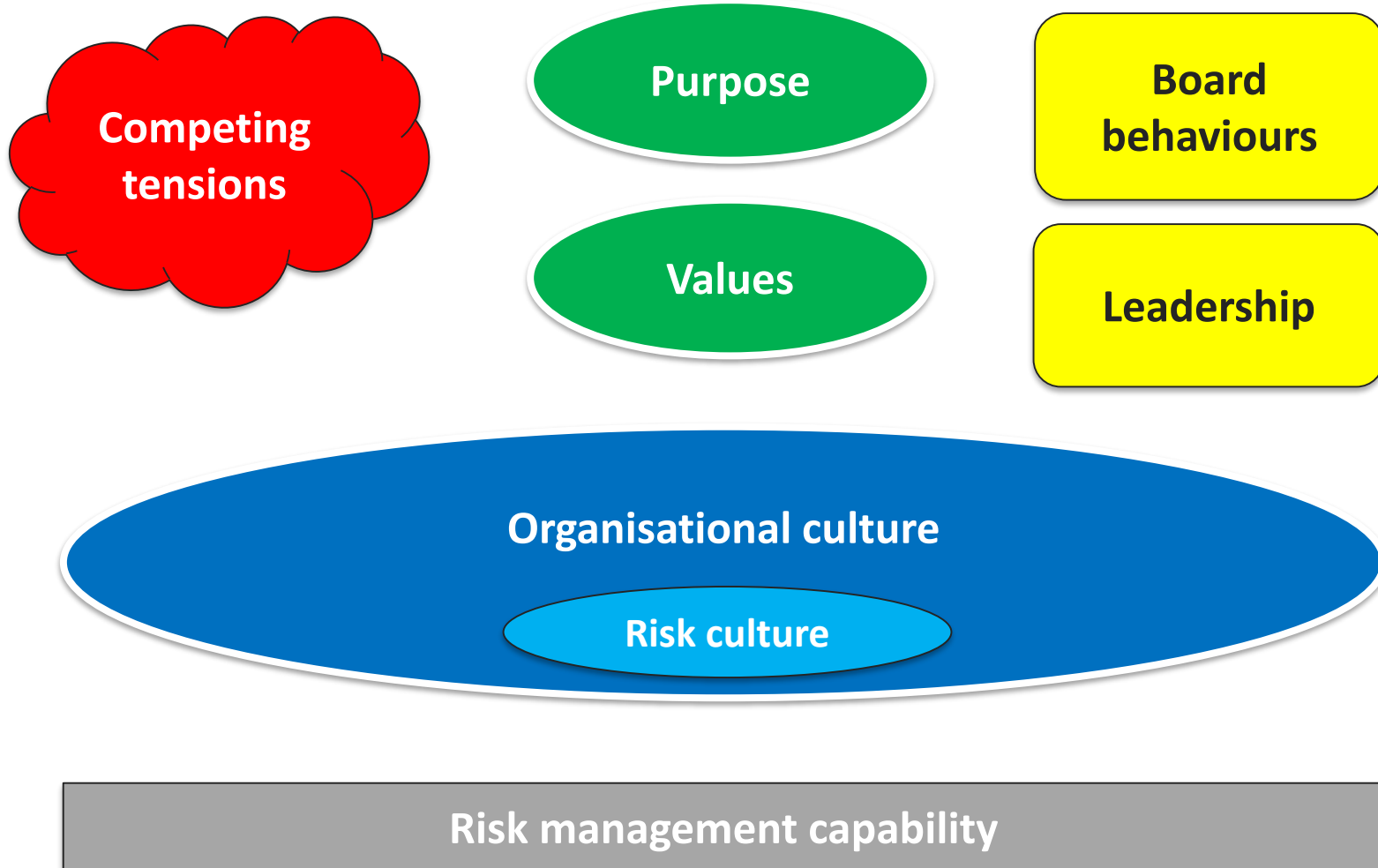
Recognition that greater use of HR resources, insight and data would be beneficial

Risk culture assessments primarily focussed on business units and below

TYPICAL VIEW OF RISK CULTURE



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TOOLS UTILISED



Surveys

Focus groups /
interviews

Reports that
aggregate a variety
of data as a proxy

Internal audit

Congruency of
strategy/ risk
appetite/ policies/
procedures/ training
with values and
purpose

Diagnostic reviews
by consultants

Tools reflect
focus on
identification
& assessment

BUT...



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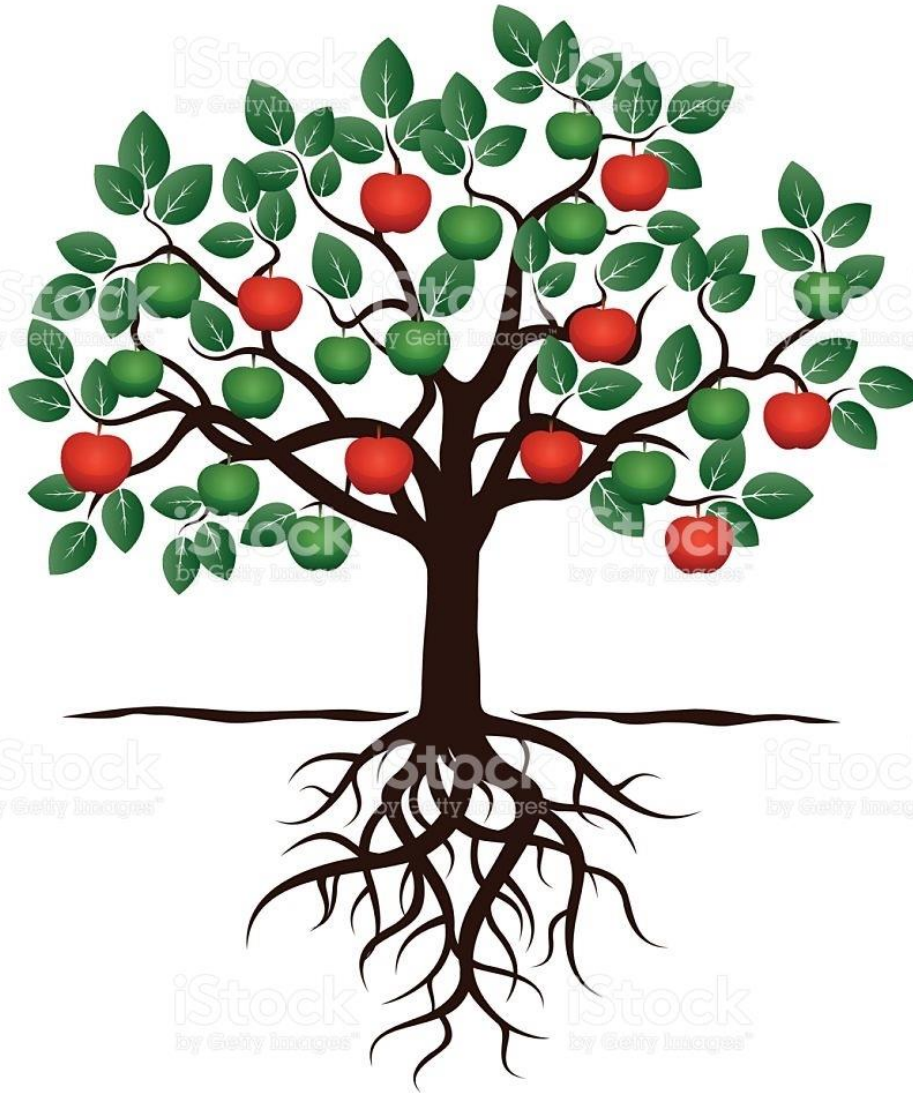
“...institutions consistently asserted to APRA that their risk cultures were broadly good or strong. Institutions did, however, acknowledge that risk culture was an issue within their industry.”

**Need for deeper
analysis and
understanding**

WHICH TAKES ME TO...



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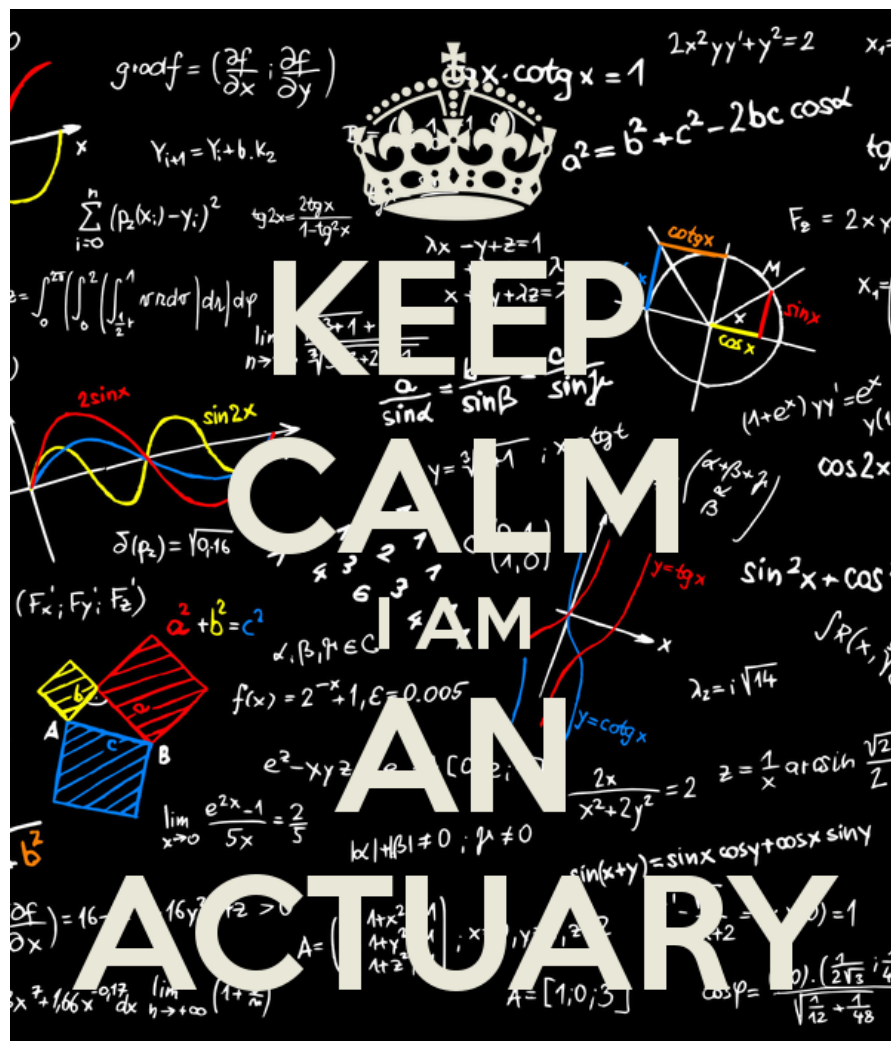


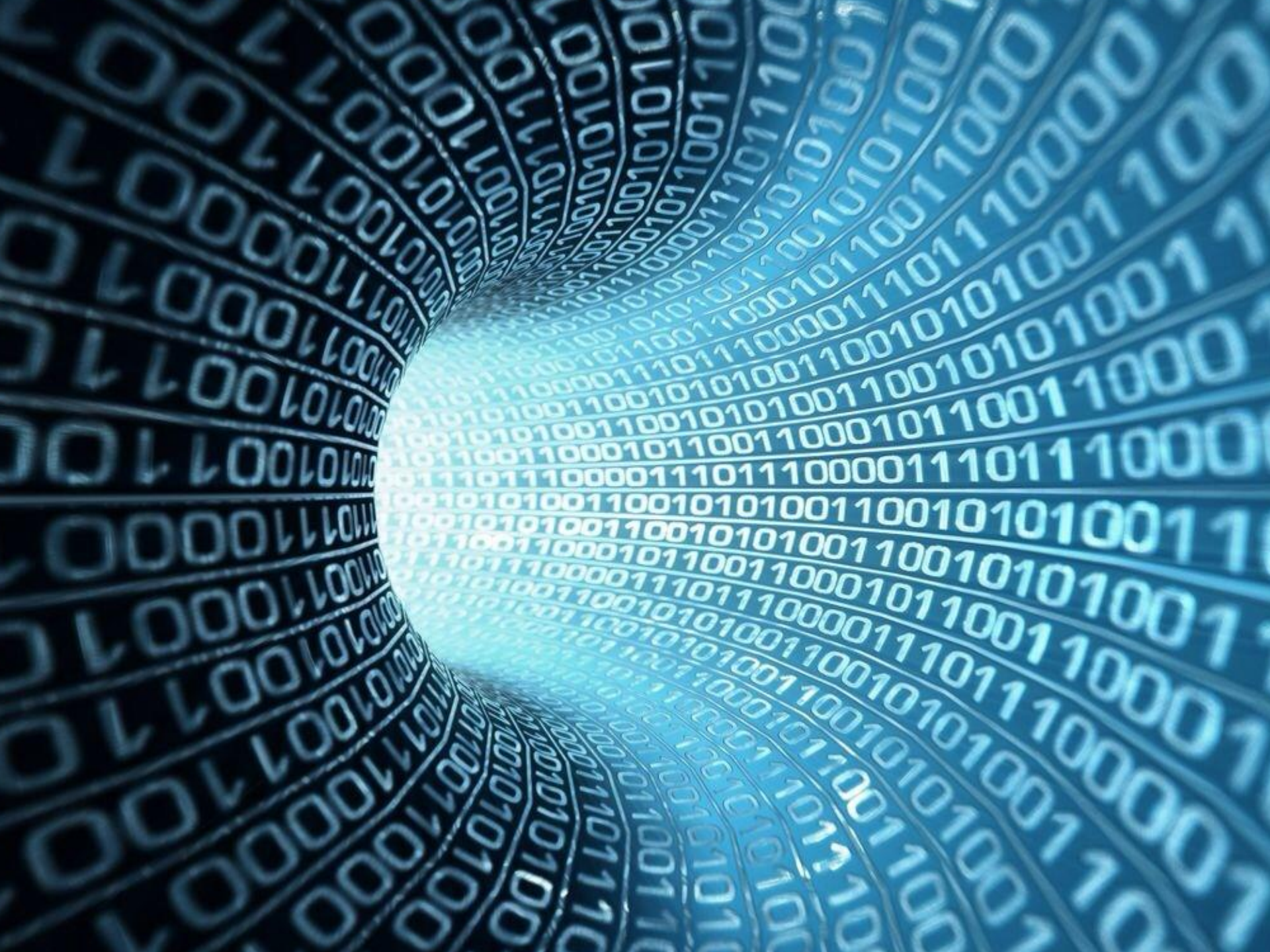
Root cause

QUESTIONS FOR ACTUARIES



APRA









What's next

Culture

- Pilot on-site reviews
- Enhanced framework for APRA's supervisors to assess the risk culture of regulated institutions

Remuneration

- Stocktake of industry remuneration practices against our requirements and global developments
- We will also be looking at how well risk cultures and remuneration structures align

Governance

- APRA's requirements seem reasonably well placed relative to global thinking
- Refinement/ clarification of obligations on Boards
 - sharpen Board/management distinction

Too early to say whether changes to prudential requirements or guidance might be needed - if so, would be 2018 at the earliest

APRA'S OBJECTIVES



APRA

Regulated institutions to establish and maintain sound risk cultures

Aligned to organisational objectives, values and risk appetite

Industry needs to lead the effort

Expertise on risk culture is not yet widespread

APRA will supervise, not regulate, risk culture

Doing so will reduce the potential for undesirable behaviours to jeopardise institutions' financial well-being