



The role of the CRO in a Regulatory Authority

Ben Gully

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Agenda

- Background of the CRO
- APRA's business model & the context for risk management
- CRO capabilities and link to risk management effectiveness
- Trends that could shape the CRO Role
- Summing up
- Appendix: Note on APRA Policy Agenda



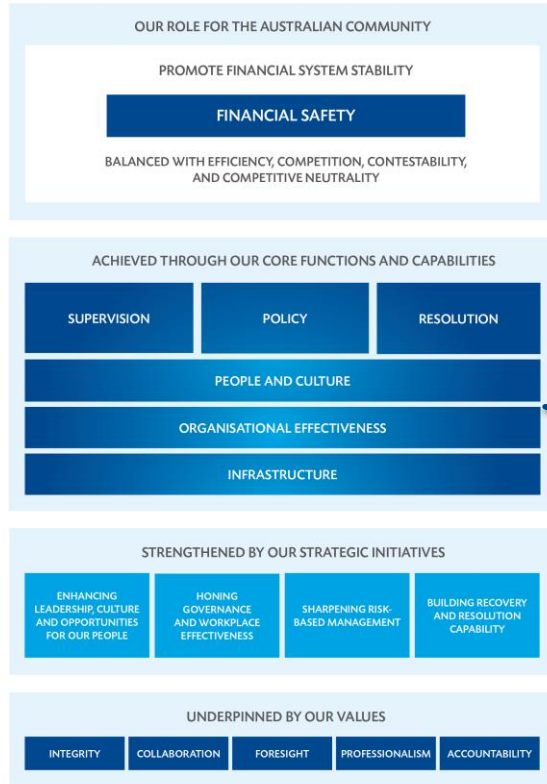
Background

- Professional experience of CRO:
 - Academic background in economics & risk analysis
 - International experience in prudential supervision
 - Responsible for regulatory change initiatives
 - Member of international regulatory bodies



APRA'S STRATEGY 2016-2020

APRA's Business Model

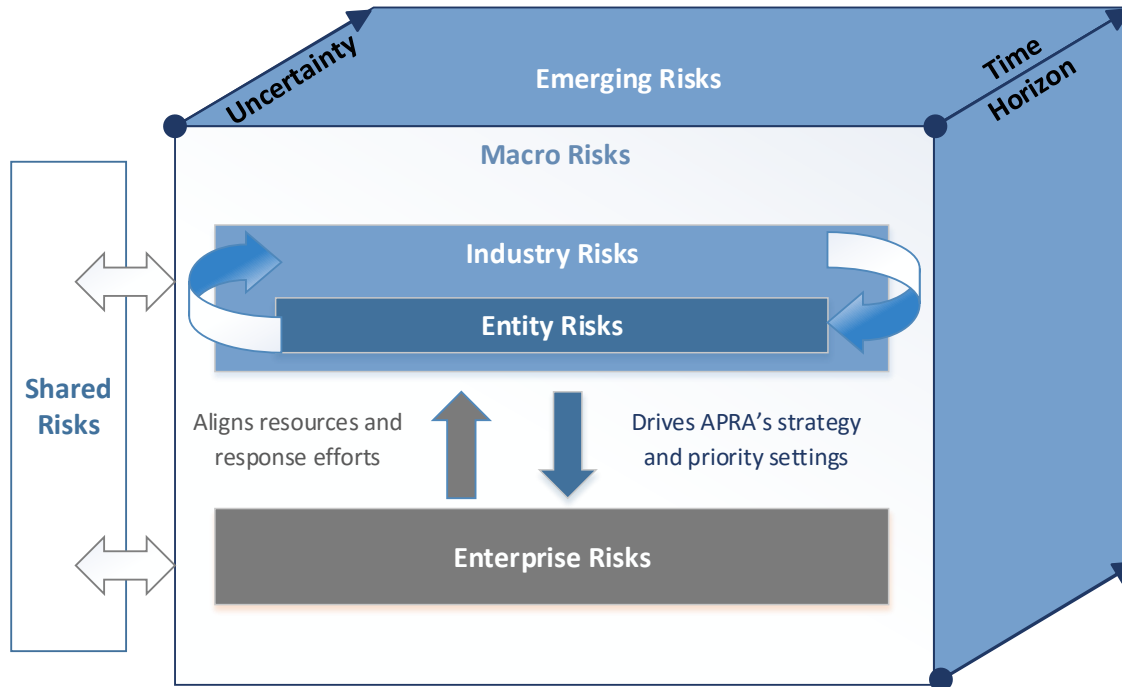


Functions	Supervision	Protect beneficiary interests and promote financial stability by identifying and responding to significant risks in a timely and effective manner.
	Policy	Protect beneficiary interests by maintaining a robust prudential framework that minimises the risk of loss to beneficiaries and promotes financial stability.
	Resolution	Protect beneficiary interests by minimising disruption to the financial system and losses in the event of a failure or crisis.

Capabilities	People and culture	Have highly skilled and engaged people supported by strong leaders within a values-aligned culture.
	Organisational effectiveness	Have robust and efficient specialist and business support and transparent and accountable practices.
	Infrastructure	Have secure and reliable premises, information, technology and systems that support APRA's core operations.



APRA's Risk Universe



Five broad risk types:

Emerging risks – newly developing or changing risks that are difficult to quantify and could have a material impact on APRA and APRA-regulated industries.

Macro risks – 'macro-prudential' risks related to financial system stability which could have a material impact on APRA meeting its mandate.

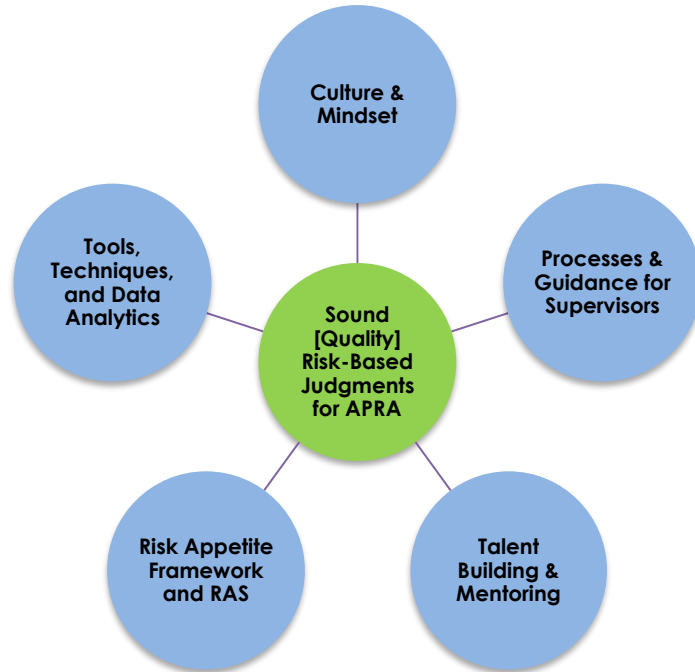
Industry risks – industry-wide prudential risks usually common to or affecting multiple institutions.

Entity risks – prudential risks including risk of loss to beneficiaries identified within APRA-regulated entities.

Enterprise risks – APRA's internal strategic and operational risks.



Judgement: key to success and risk



The foundation of APRA's success is strong judgement. It is also a source of business risk.

- Quality of prudential judgements drive overall performance
- Key risks threaten reputation:
 - Flawed judgment
 - Inappropriate response/action
- Risk appetite drives priorities, resource allocation, and response actions.
 - But, risk appetite is more difficult to articulate in a qualitative setting



Context for Risk Management Focus at APRA

- External environment continues to shift for prudential regulators
- For financial institutions, the GFC raised serious questions about the effectiveness of risk management and the visibility of 'risk'
 - CPS220 Risk Management Expectations refreshed expectations
 - Risk management function requires sufficient authority, stature, independence, resources and access to the board
- For APRA, a desire to reflect principles of CPS220
 - Creation of dedicated risk management function with CRO
 - Independent oversight of core business risks



CRO Capabilities and RM Effectiveness



- What does success look like?
 - Embedding risk management
 - Credibility with focus on what matters most ('so-what' test)
 - Knowledge of culture key (context for risk and language of the business drives linkages)
 - Effective oversight (talent, capacity, tools match those of business, 'thick-skinned')
 - Effective challenge (seat at table, bias against blind spots)
 - Expanding understanding and use of RAS [for 'failure']



Trends that could shape the CRO role

- Organisational culture & 'softer' aspects that drive effectiveness
 - Emotional intelligence and organisational 'EQ'
- Nurturing Risk Intelligence and 'big' data
 - New tools for established routine
- 'Newer risks' to consider and manage more
- Competition for talent is growing
 - Credibility and relevance of risk management
- Policy setting and regime change for regulation over time



Summing up

- Risk has necessarily risen in profile and credibility post-GFC; this needs to continue to support a sound financial system.
- Big data & technology and organisational psychology will present opportunities for risk management effectiveness, but there are risks that come with this.
- Harnessing new tools and skills capabilities will be critical for success; regulators will need to choose their focus carefully and innovatively given constraints and challenge the *status quo*.
- Working partnership and information sharing will be key to future successes in risk management given greater inter-dependencies across the system.



Appendix: Note on APRA Policy Agenda

Domestically

- Role of the Appointed Actuary
- Risk Culture & Implications for 'Social Licence'
- Private Health Insurance Roadmap

Globally

- IAIS' international insurance activities, including G-SII regime