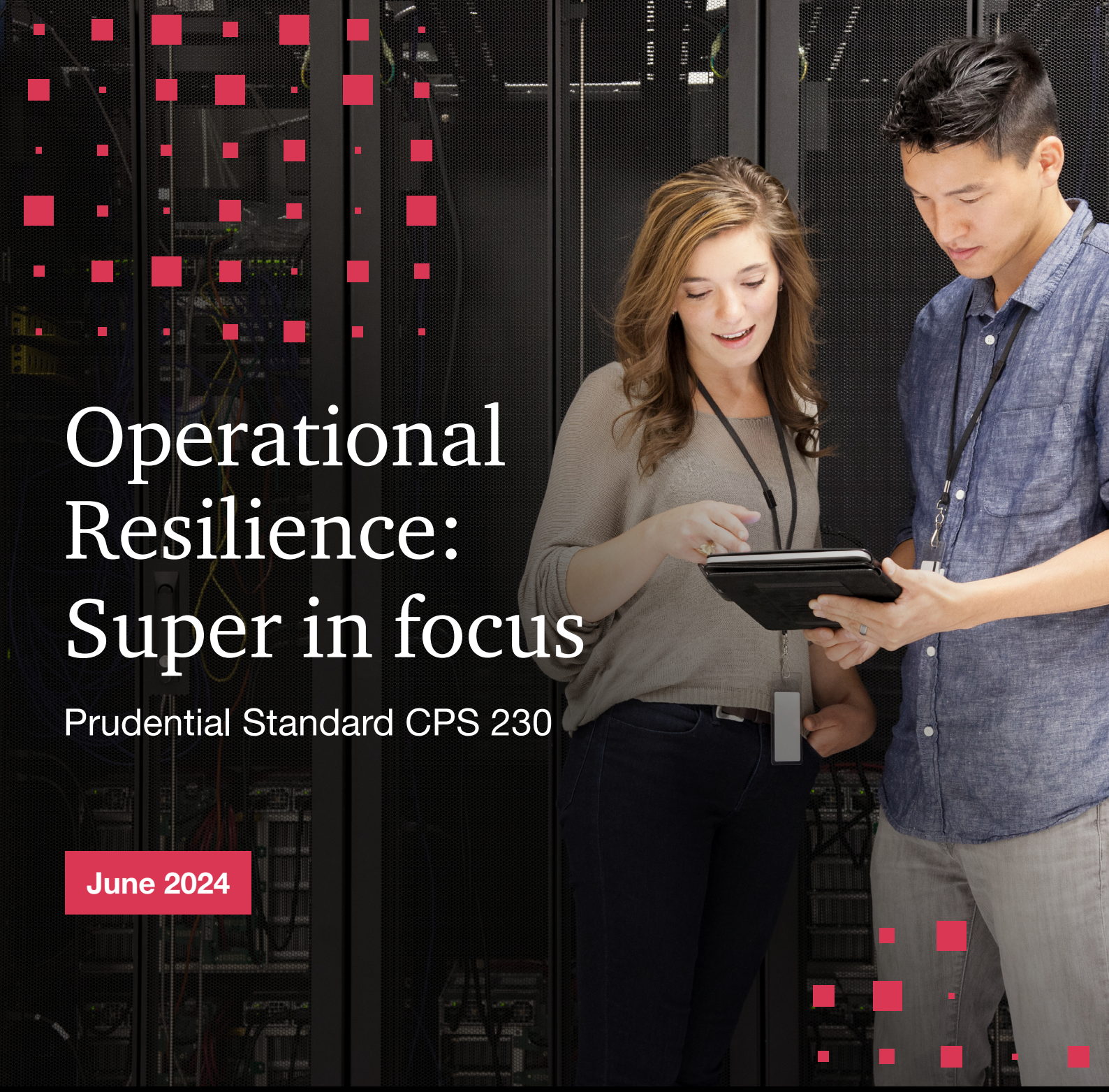


Operational Resilience: Super in focus

Prudential Standard CPS 230

June 2024

pwc

www.pwc.com

Operational Resilience

APRA's take on Operational Resilience

In an environment where change is constant, risk management and broader resilience capabilities need to quickly adapt to support business agility. APRA's Prudential Standard CPS 230 Operational Risk Management (CPS 230), is designed to enable this, setting out key requirements for managing operational risk, including replacing the business continuity and service provider management standards (CPS 232 Business Continuity Management and CPS 231 Outsourcing) with updated requirements.

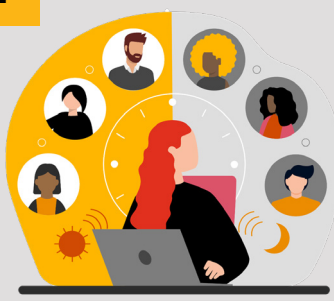
Operational risk management will be key, alongside the existing Prudential Standard CPS 234 (Information Security), in driving APRA's desired outcome to improve operational resilience and minimise the impact of disruption to members and the financial system.

Three CORE focus areas of CPS 230

1

Operational Risk Management

2



Business Continuity Management

3

Service Provider Management

Consolidation can create operational risk for super funds

Australian superannuation institutions are undergoing consolidation due to pressures on performance, fees and sustainability. This pressure is also felt by their service providers who themselves have also consolidated in key areas such as administration, custody and insurance as they seek to scale, reduce costs and to meet the needs of superannuation funds.

Consolidation can lead to concentration risk and transition risk as providers exit the market (e.g. in Custody, Insurance and Administration). If not appropriately understood and managed (especially for critical operations) this can cause a material adverse impact to members, the viability of the fund and/ or the stability of the superannuation sector.

To succeed on the CPS 230 journey, it is important that the requirements are not considered in silos and board accountabilities are supplemented with clearly delegated responsibilities to support a comprehensive end-to-end mapping of critical operations. With the interconnectedness of other future regulatory requirements such as the Financial Accountability Regime (FAR), Operational Risk Financial Requirement (consultation on SPS 114), Recovery and exit planning (CPS 190), member outcomes and transfer planning, superannuation funds should ensure the approach is consistent and integrated.

Getting this right requires mapping and implementing an effective enterprise wide controls framework to mitigate the suite of operational risks.

What do organisations need to do?

Increase Board and senior management accountability

- The Board is ultimately accountable for operational risk management and oversees management's implementation and maintenance of CPS 230.
- This includes internal controls and approving tolerance levels for critical operations.
- The Board must approve the service provider management policy and supervise the performance of service providers.

Identify critical operations

- To support a comprehensive Operational Risk Profile and Business Continuity Plan (BCP), Entities must understand their critical operations and minimise the likelihood and impact of disruption as part of their business continuity planning.
- This includes identifying the resources and interdependencies (linked to critical operations) that can be disrupted (e.g. people, technology, information, facilities and service providers), and associated risks, obligations and controls.

Operational Risk Management

New operational risk management requirements

- Entities must review and update (where applicable) its Operational Risk Profile. Organisations will be required to consider this with a critical operations lens.
- This includes the implementation of internal controls to mitigate any identified risks, ensuring that risks remain within appetite, ensuring that obligations are met, embedded and regularly tested.
- Entities must also maintain a strong data and information assets to meet business requirements and support critical operations.
- Incidents (including near misses) will need to be notified to APRA in a timely manner.

Business continuity management

Set impact tolerances and perform scenario testing

- Entities must establish Board-approved tolerances for the maximum level of disruption they are willing to accept, including around time, data loss and minimum service levels they will operate under disruption. Tolerance levels set need to be customer and outcomes-focused.
- Entities are expected to maintain critical operations within tolerance levels and conduct regular scenario testing to calibrate tolerance levels.

Service provider management

Determine Material Service Providers (MSPs)

- Entities must understand and manage the risks associated with the use of the service providers that support their critical operations or expose them to material operational risk, including downstream providers (fourth parties).
- A register of MSPs and associated risks must be reported to APRA annually, as well as changes to MSP agreements.

CPS 230 in practice: Benefits processing

To support a comprehensive **Operational Risk Profile** and an appropriate corresponding **Business Continuity Plan**, the Board must understand critical operations across the organisation. This is supported by a detailed end-to-end mapping of each critical operation including their enablers such as technology and material third party **Service Providers**. The identification and implementation of effective key controls which support the appropriate management of operational risk is key in this process. The below illustration summarises the key considerations for superannuation funds by using **'Benefits processing'** as an example.

Critical Operations for RSE Licensees	The Standard has identified the following critical operations for RSE licensees (unless justified otherwise): Investment management, fund administration, customer enquiries, and the systems and infrastructure needed to support critical operations.

Define Critical Operation

Benefits processing

1. **Review forms received**
2. **Application review**
3. **Conduct assessment for eligibility**
4. **Process rollovers/ payments**
5. **Conduct reconciliation**

Operational Risk Management

- Define end-end processes for critical operations at a high level, including identifying and mapping resources and assets required to operate critical operations.
- Identify and map the associated obligations, risks and controls (e.g. regulatory risk, technology risk) in place to mitigate risks for business processes, including end-end processes for critical operations.
- Regularly assess and report the effectiveness of internal controls supporting operational risks and obligations including any remediation activities.
- Implement robust processes for identifying, monitoring, reporting and escalating operational risk incidents and near misses (to the Board and to APRA).
- Uplift Operational Risk Profile using a critical operations lens.
- Provide regular updates on the operational risk profile to the Board.

Business Continuity Management

- Once critical operations have been mapped, establish Board approved tolerance levels for critical operations to meet CPS 230 requirements. Consider the different intervals throughout the year for example, the criticality of processing contributions in March vs at 30 June, in terms of tax consequences for members will be different.
- Develop a library of severe but plausible' scenarios for the critical operations, to test ability to operate within tolerances e.g. failure of credit decisioning system.
- Conduct regular scenario testing to validate continuity plans and tolerance levels.
- Uplift Business Continuity Plans using a critical operations lens to incorporate key changes.
- Monitor and report non-compliance with tolerance levels.
- Business led periodic testing (at least annually) to ensure the 'severe but plausible' scenarios are current, and the BCP remains effective.

Service Provider Management

- Identify and record all material service providers, including any fourth/nth parties e.g. banking portals, these were not generally considered a material outsourced provider but they do facilitate money out (payments) which is a critical operation. Submit register annually to APRA.
- Conduct due diligence before entering into new arrangements, or renewing or fundamentally changing existing arrangements.
- Contractual agreements with material service providers need to be uplifted to meet minimum CPS 230 requirements.
- Identify the key financial and non-financial risks for each material service provider. Map associated obligations, risks and controls.
- Monitor the effectiveness of the controls to manage the associated risks, remediate and report any resilience weaknesses identified.

Governance and Oversight	• Establish clear Governance and Accountability, including defined roles and responsibilities. The Board is primarily responsible for operational risk management and must oversee senior management's implementation and maintenance of CPS 230. • Uplift Risk Management Framework including supporting policies and standards to include key changes.

How can we help?

Set up the right foundation

- CPS 230 readiness review, maturity and benchmarking assessment
- Operational resilience Target Operating Model (TOM) design
- Operational resilience program planning, scoping and delivery

Increase Board and senior management accountability

- Operational resilience governance (incl. framework development) and accountabilities identification
- Board and executive awareness sessions

Identify critical operations

- Critical operations definition and documentation, including resources
- Internal controls mapping, across the identified risks and obligations

New operational risk management requirements

- Operational risk profiling (incl. risk appetite update)
- Operational resilience review to identify potential resilience gaps in the environment
- Controls assurance (incl. gap identification and remediation action)

Set impact tolerances and perform scenario testing

- Impact tolerance identification
- Business Continuity and Disaster Recovery Planning
- Training and awareness
- Scenario testing

Determine Material Service Providers (MSPs)

- Material service provider (MSP) assessments
- Third Party Risk Management Framework
- Third party controls testing (for MSPs)

Contacts

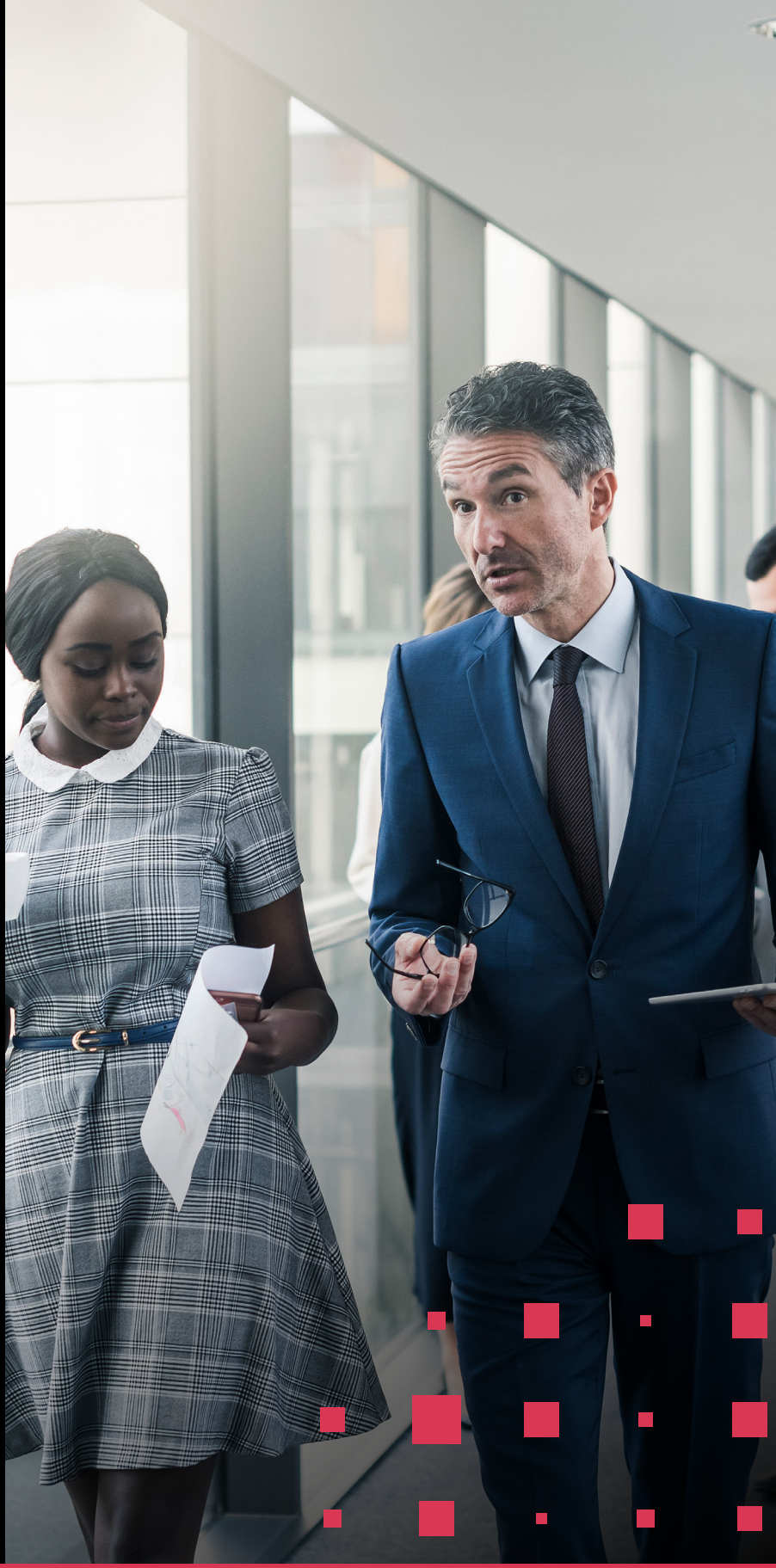
Please reach out to any of the following members of the operational resilience working group, should you wish to obtain further information.

Peter Malan
Partner
T: +61 413 745 343
E: peter.malan@au.pwc.com

Susanna Chan
Partner
T: +61 414 544 066
E: susanna.chan@au.pwc.com

Sara Afaghi
Partner
Tel: +61 433 760 969
E: sara.afaghi@au.pwc.com

Sam Hinchliffe
Partner
T: +61 434 182 665
E: sam.hinchliffe@au.pwc.com



PWC200918366