

Are You CPS230 Ready?



September 2024

BEVINGTON GROUP

PERFORMANCE OUTCOMES DELIVERED

What is CPS230?



The Australian Prudential Regulation Authority (APRA) is an independent statutory authority that supervises institutions across banking, insurance, and superannuation, to protect the interests of depositors, policy-holders, and fund members



APRA has published CPS230, a Prudential Standard that aims to ensure APRA-regulated entities are resilient to operational risks and disruptions

The key requirements of CPS230 are that an APRA-regulated entity must:

- Identify, assess, and **manage its operational risks**, with effective internal controls, monitoring, and remediation
- Be able to **continue to deliver its critical operations** within tolerance levels through severe disruptions, following a credible business continuity plan (BCP)
- Effectively **manage the risks associated with service providers**, with a comprehensive service provider management policy, formal agreements, and robust monitoring

...and why is it important?

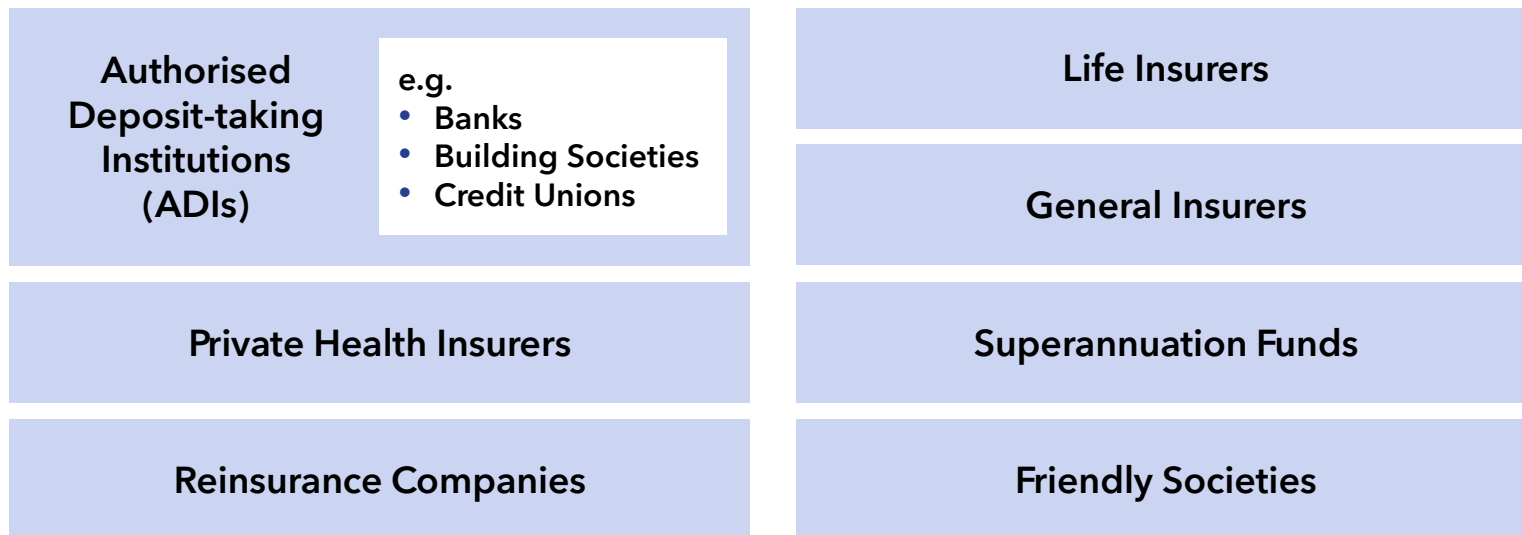
“Disruptions to financial services can have a major impact on people who rely on them to save, spend, recover from financial loss or support themselves in retirement.”

“The need for APRA’s new standard has been demonstrated by a number of recent operational risk control failures and disruptions, including material cyber breaches. This new standard will ensure that regulated entities set and test controls and maintain robust business continuity plans to respond if disruptions do occur”

- John Lonsdale, APRA Chair

Who is impacted?

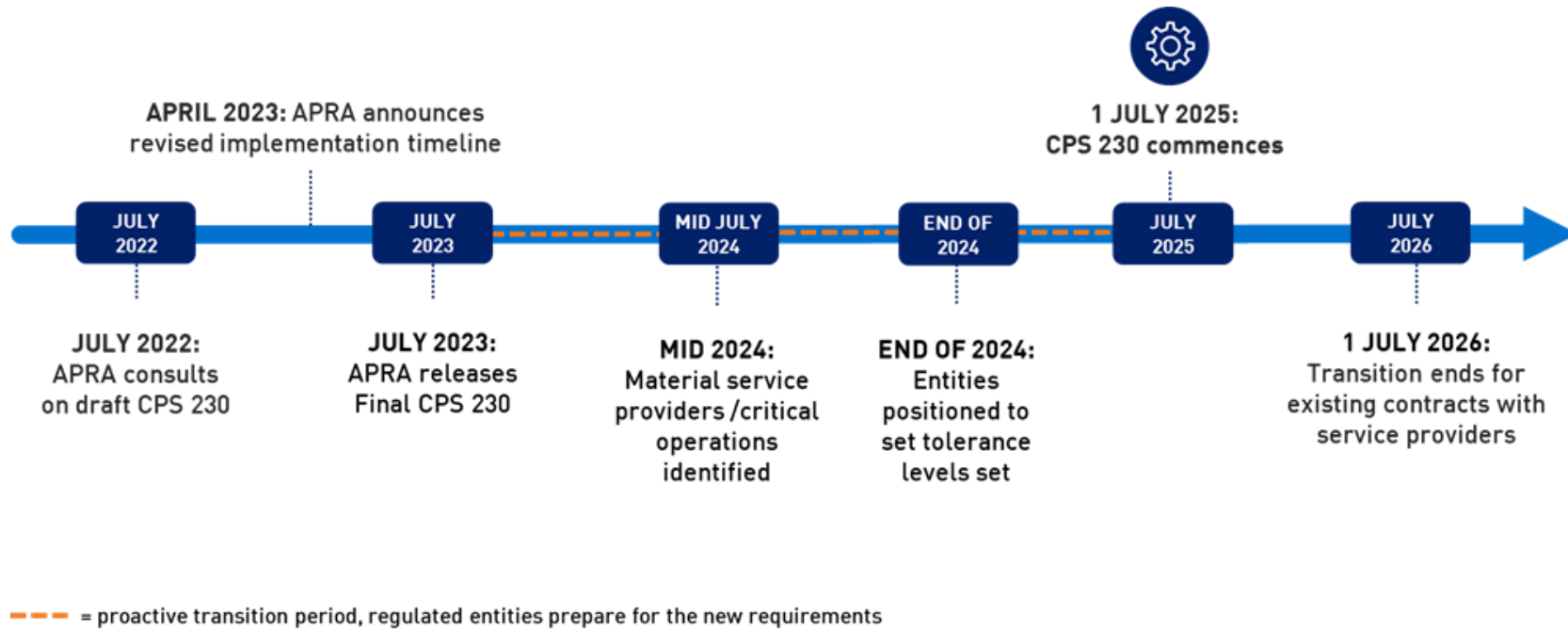
CPS230 applies to all APRA-regulated entities, including:



Additional considerations

- Where an APRA-regulated entity is the **head of a group**, it must ensure CPS230 is applied correctly within the group
- Non-operating holding companies in APRA-regulated industries are also subject to the standard
- Organisations that provide services (directly or indirectly) to APRA-regulated entities may also be impacted

CPS230 Timeline



Expected Response

“APRA expects that senior management would have identified their critical operations and material service providers by mid-2024 and be well positioned to set tolerance levels by the end of 2024.”

- APRA, Response Paper - Operational Risk Management

Is your roadmap aligned to APRA’s expectations?

How can organisations respond to CPS230?

There are two main strategies for meeting these new regulations:



“Tick-the-box”

- Deploying the minimum transformation required to be compliant with the new regulations



“Seize the opportunity”

- Viewing the required changes to meet the regulations as an opportunity to implement longer-lasting, higher-benefit improvements for the organisation



Response A: "Tick-the-box"

A minimal response would see an APRA-regulated organisation developing and maintaining the following:

Governance

- Governance arrangements for the oversight of operational risk

Risk Profile

- An assessment of its operational risk profile, with a defined risk appetite supported by indicators, limits, and tolerance levels

Business Continuity Plans

- Business continuity plan(s) (BCPs) that set out how the entity would identify, manage, and respond to a disruption within tolerance levels (with regular testing)

Policy & Process

- Policies and processes for the management of service provider arrangements

Controls

- Internal controls that are designed and operating effectively for the management of operational risks

Monitoring & Reporting

- Appropriate monitoring, analysis, and reporting of operational risks and escalation processes for operational incidents and events

- An important objective of CPS230 is the enhancement of third (and fourth) party risk management, **placing service provider arrangements and processes under greater scrutiny**

- It could be tempting to do minimal compliance now and earmark opportunities for future improvements later, but experience shows that future work often does not get done and even when it does, there is a duplication of effort
- **Regulators may also not be impressed with a minimalist approach**
- CPS 230 **sets baseline expectations** for all entities; APRA expects significant financial institutions (SFIs) to have stronger practices, commensurate with the size and complexity of their operations

We recommend a more holistic approach



Response B: "Seize the Opportunity"

Rather than taking a minimal compliance stance, organisations can choose to view the changes mandated in CPS230 as an opportunity to implement longer-lasting, higher-benefit improvements



Make the most of the disruption

- Any change can be disruptive
- Leading organisations don't waste disruption but take advantage of it to drive enduring change
- In the context of CPS230, this means going beyond minimal compliance to optimise the organisation's process and structures



Take an end-to-end view

- This approach may involve
 - Streamlining end-to-end processes
 - Tackling process debt
 - Re-assessing the structure of new or modified functions
 - Re-evaluating how work is performed across the organisation
 - etc.



Forward-invest for the best results

- Performing more work up-front may also prove to be more efficient in the longer term
- e.g., rather than aiming for a standard commensurate to current organisational maturity and complexity, aiming to be at the leading edge sets you up to continue to meet APRA expectations as you grow

Successful delivery of either option (A or B) requires organisations to be on top of process

- Whether the intention is to perform the minimum required to be compliant, or to use this as an opportunity for broader change – **strong organisational capability / practices in process are imperative**



Minimum CPS230 Compliance

- To meet the minimum requirements, processes should be mapped to sufficient detail (commensurate with the size and complexity of the entity) **for all critical operations**

Improved Controls & Safety

- **Encouraging greater detail in process efforts** (e.g. in documentation of process steps beyond critical operations, L5 processes / SOPs, clear role delineations etc) **is a safer approach**
- This will also provide a better view of your controls, and aid in meeting other areas of CPS230

Actions undertaken to prepare for CPS230 can also be used to uplift processes across the board



Linking process controls with GRC

- **Mapping processes in detail strengthens GRC (Governance, Risk, and Compliance) frameworks** by ensuring that governance is clear, risks are well-identified, and compliance requirements are met at every operational level
- Detailed processes allow for better monitoring, auditing, and risk management by creating clear visibility across all operations, ensuring that controls are applied consistently and effectively - **creating an improved control environment**
- This can then be integrated with **enterprise GRC software capabilities** to achieve additional benefits



Safety through detail

- **Detailed mapping provides a comprehensive view of interdependencies and critical operations**, helping to prevent risks from going unnoticed and improving response to disruptions
- Better documentation of roles and responsibilities ensures that everyone understands their part in managing operational risks, with **clearer accountabilities contributing to a more secure and compliant organisation**

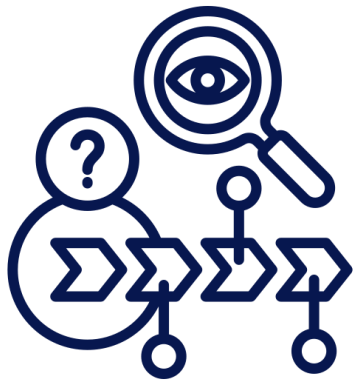


An opportunity to strengthen process

- As changes are introduced, organisations can use the opportunity **to reassess and optimise controls**, making them more robust and reducing risk exposure
- **Processes can be streamlined / re-engineered** to simplify workflows, reduce bottlenecks, and increase overall efficiency
- Reviewing / documenting processes for compliance can uncover inefficiencies and redundancies, **allowing for the elimination of process waste and debt**

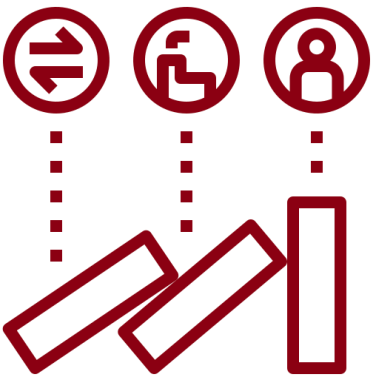
Process debt increases costs and risks, while reducing customer and staff satisfaction

Process debt refers to the *inefficiencies* and *lack of documentation* that accumulate in an organisation's processes over time, hampering performance



Causes of process debt:

- Lack of process documentation
- Failure to update processes as context changes
- Lack of process automation



Impacts of process debt:

- Frustrated customers and irritated staff
- Introduction of unnecessary risks
- Increased costs
- Revenue impacts

Tackling process debt is a significant opportunity, as it can help to:

- Improve customer experience
- Boost staff productivity
- Reduce risks
- Drive cost saving

Across all “deliverables” for CPS230, having a strong view of process will be extremely beneficial (1/2)

Governance

APRA Requirement

Governance arrangements for the oversight of operational risk

Benefits of strong process capability:

- Clearly defined roles and accountabilities, making it easier to set up and enforce governance structures
- Allows leaders to make more informed decisions by understanding how risks flow through operations

Risk Profile

APRA Requirement

An assessment of its operational risk profile, with a defined risk appetite supported by indicators, limits, and tolerance levels

Benefits of strong process capability:

- Detailed processes help identify all potential risk points, ensuring a more comprehensive risk profile assessment
- Processes mapped with clear indicators, limits, and tolerances enable better alignment of risk appetite with actual operational exposure

Controls

APRA Requirement

Internal controls that are designed and operating effectively for the management of operational risks

Benefits of strong process capability:

- A strong process view allows for the design of streamlined, effective internal controls that can be monitored easily (and applied in a targeted fashion reducing gaps and overlaps)
- Linking controls directly to documented processes enables accurate/reliable monitoring

Across all “deliverables” for CPS230, having a strong view of process will be extremely beneficial (2/2)

Monitoring & Reporting

APRA Requirement

Appropriate monitoring, analysis, and reporting of operational risks and escalation processes for operational incidents and events

Benefits of strong process capability:

- With a clear understanding of processes, data can be analysed more effectively to identify trends, anomalies, and root causes
- Well-documented processes ensure that operational risk reporting is consistent, thorough, and aligned with organisational needs

Business Continuity Plans

APRA Requirement

BCPs that set out how the entity would identify, manage, and respond to a disruption within tolerance levels (with regular testing)

Benefits of strong process capability:

- Strong process documentation allows for easy identification of critical operations that need to be prioritised in BCPs
- Detailed process view ensures that the organisation can respond to disruptions in a structured and efficient manner (and perform testing more reliably and readily)

Policy & Process

APRA Requirement

Policies and processes for the management of service provider arrangements

Benefits of strong process capability:

- Clear process maps show where and how external parties interact with critical operations, making it easier to manage associated risks (and implement more robust 3rd party controls)
- Understanding of process helps organisations develop more precise agreements and service level expectations with providers

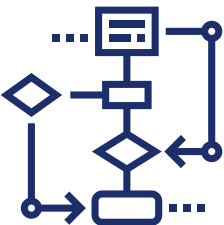
In conclusion...



For many, preparations for CPS 230 are well underway, with the standard commencing on 1 July 2025




The changes and work done for CPS230 compliance are an opportunity to make broader, more holistic improvements to your organisation



We recommend a focus on process, and strengthening of process capability, to both ensure CPS230 compliance and deliver longer-lasting value beyond the standard's requirements

Contact details and disclaimer

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- 
Operating Model Design and Restructuring
- 
Lean Process Reengineering
- 
Process Automation, Digitisation and AI
- 
Accelerated Implementation
- 
Change Management
- 
Risk Intelligence

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