

Australian Unity Limited
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

21 October 2022

General Manager, Policy
Australian Prudential Regulation Authority (APRA)
Australian Government

By email: [REDACTED]

Australian Unity submission—Strengthening operational risk management consultation

Thank you for the opportunity to comment on the draft Prudential Standard CPS230 Operational Risk Management. We appreciate APRA's approach to ongoing engagement and collaboration with Australian Unity and across our industries.

With a history of over 180 years, Australian Unity delivers health, wealth and care products and services to over 700,000 customers each year. Our range includes private health and general insurance; banking and financial services; wealth and investment products; aged and disability care; and dental and allied health services. Established in 1840, we were Australia's first member-owned wellbeing company and continue our mutuality to this day—providing us with the freedom to invest back into services and solutions that matter most to our members, customers, and the Australian community.

The Australian Unity Group contains multiple entities – four entities of which are directly regulated by APRA:

- Australian Unity Limited (a Non-Operating Holding Company),
- Australian Unity Health Limited (private health insurer),
- Australian Unity Bank Limited (a local Authorised deposit-taking Institution) and
- Lifeplan Australia Friendly Society (a friendly society registered under the *Life Insurance Act 1995*).

In addition to being regulated by APRA, the Australian Unity Group also contains multiple entities regulated by ASIC with Australian Financial Services Licences, the Aged Care Quality And Safety Commission (ACQSC), the National Disability Insurance Scheme – Quality and Safeguards Commission (NDISQSC), the Dental Board of Australia, various state based regulators of the respective retirement villages Acts and the Group employs a significant number of health professionals regulated by The Australian Health Practitioner Regulation Agency (AHPRA).

With our breadth of financial, healthcare and personal service offerings across an extensive and diverse customer cohort, Australian Unity is particularly cognisant of its obligations to continue

providing essential (including high care) services to its customers when faced with its own business disruption.

Australian Unity welcomes APRA's initiative to strengthen operational resilience across the financial services sector, improve business continuity planning and enhance third-party risk management—however we would welcome further clarification and guidance on the points below:

#	Australian Unity Response	References
Business Continuity		
1.	The entity notes the introduction of new timeframe thresholds in CPS230 such as tolerance levels. Can APRA clarify the relationship with the new thresholds and those used as part of CPS232? Will the metrics coexist or is the intent for the entity to replace metrics utilised in CPS232 with those introduced in CPS 230?	CPS230 Section 34
2.	Can APRA provide clarification or further guidance as to what it considers 'severe but plausible scenarios' for testing disruptions to service providers?	CPS230 Section 42
3.	The standard states that the entity must have a systemic testing program for its BCP that covers all critical operations and test effectiveness to meet tolerance levels against severe but plausible scenarios. As this is an increase in scope and coverage of the existing CPS232 requirements for testing, will APRA consider allowing entities to conduct risk-based testing against severe and plausible scenarios that it determines to be relevant?	CPS230 Section 42
Outsourcing		
4.	Can APRA provide examples or further guidance regarding the extent they expect the entity to manage fourth party risks? Would APRA consider confirming that each entity can develop an approach to managing fourth party risks based on their own operating environment, the criticality of the process and the size and scale of the fourth party?	CPS230 Section 47 (d)
5.	For existing service agreements and contracts with third parties considered material under CPS230, will APRA consider a transition period of 1 to 2 years to enable contractual amendments to be made to satisfy the requirements of the standard?	CPS230 Section 56
General Observations and Responses to APRA Discussion Paper Questions		
6.	Given the extent of compliance cost and effort required for CPS230 implementation by 1 January 2024, will APRA consider a grace period of 2 to 3 years for implementation of the Standards requirements for non-APRA regulated entities, that are part of a level 2 APRA regulated NOHC?	
7.	Will APRA provide clarification or further guidance on the criteria for determining materiality? This will be consistent with the existing CPS232 and CPS 231 standards.	

#	Australian Unity Response	References
---	---------------------------	------------

We propose that the criteria could include consideration of financial and operational impacts; impacts to reputation; difficulty sourcing alternate service providers; meeting regulatory requirements when there are issues with the service provider and impacts to customers and affiliated relationships.

Australian Unity has already implemented policies and frameworks for enterprise risk management, business continuity and outsourcing and welcomes APRA's approach to strengthening operational risk management and governance around resilience. It seeks further guidance as outlined above to ensure implementation of CPS230 is carried out in alignment with APRA's intentions.

Again, on behalf of Australian Unity, I thank you for the opportunity to provide comment. Should you wish to further discuss any aspect of our submission, please contact [REDACTED].

Yours sincerely

Melinda Honig
General Counsel, Company Secretary & Chief Risk Officer
Australian Unity