



By **Daniel Frank**

with expert commentary by Jane Byrne, Jules Gribble, and Madeleine Mattera



OPERATIONAL RISK MANAGEMENT TOP TIPS ON CPS230

KEY TAKEAWAYS

- APRA is driving a heightened focus on operational risk with its recently published CPS230.
- Regulated entities have an opportunity to sustainably enhance their value by proactively embracing the requirements of CPS230.
- PFS has the experience, knowledge, and methodologies to support you realising this value.

BACKGROUND

In July 2023 APRA finalised its new [Operational Risk Management Prudential Standard, CPS230](#). CPS230 applies to banks, insurers, and superannuation funds, so its relevance is universal across the financial services. PFS Consulting discussed [CPS230](#), in its draft form, in September 2022. We emphasised the opportunity for organisations to gain sustainable value from the process of implementing CPS230 and the importance of risk culture.

Now that CPS230 is finalised, regulated entities should be thinking about its implications, how to prepare for it, the opportunities it presents and how to extract value from it.

In this article which continues our ongoing series on CPS230, we share some insights from our Principals and Consultants on the approaches and actions regulated entities can take.



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TIME CAN BE DECEIVING, BEST TO START NOW

Before we break CPS230 down, it is noteworthy that the commencement date of CPS230 has been pushed out by 18 months. This is a significant extension that holds a simple, but crucial, message: it is going to take a lot of work to get ready for CPS230, especially if you want to see real benefits. CPS230 comes into force on 1 July 2025 and while this may seem a long way off, comparable overseas experience suggests the opposite is the case – a lot of work is required in what is in reality, quite a short time frame. For those who have started, it may be a tough ask, and for those who have not started, it is not too late but we suggest 'now' is the time to start.

WHAT IS IN THE FINAL STANDARD?

CPS230 is broken down into three sections, tied together with a common theme which we expand on later.

1. Operational Risk – this requires regulated entities to consider and manage operational risk in ways that, depending on the entity, perhaps they haven't in the past. Whether your organisation has well developed operational risk management frameworks or not, APRA is clearly elevating the position of operational risk. The new requirements include:

- Making the Board explicitly accountable for the oversight of operational risk and setting out the roles and responsibilities for senior managers when it comes to operational risk
- Ensuring you have governance arrangements for operational risk
- Assessing the impact of business and strategic decisions on operational risk profile and operational resilience
- Maintain a comprehensive operational risk management profile
- Ensuring that operational risk controls are working effectively, including designing, implementing and embedding internal controls to mitigate operational risks in line with risk appetite and to meet compliance obligations
- Ensuring appropriate monitoring, analysis and reporting of operational risks and escalation processes for operational incidents and events

- Explicitly stating, but without limiting, what falls under operational risk
- Requires entities to maintain IT capability to meet business requirements and support critical operations

2. Business Continuity – this is being brought under the umbrella of operational risk where previously it was the subject of separate prudential standards. There can now be no doubt that business continuity must be thought of as integral to the overall risk management framework, let alone operational risk. CPS230 brings across some of the requirements from the free-standing business continuity standards with a few important call outs:

- a. Introduces the concepts of tolerance levels for critical operations – this is something that many entities have been doing because it makes practical sense but now it is a minimum requirement
- b. Requiring certain business operations to be classified as critical operations unless the entity can justify otherwise





3) Management of service provider arrangements – brought to you from the prudential standard formerly known as outsourcing. But don't be mistaken, it's not just a name change. The concept of a service provider is distinct from outsourcing. The concept of a material business activity and whether an entity can undertake the activity or not, are both no longer relevant. Simply engaging a service provider even if you can't perform the activity is enough. And although the threshold of materiality still applies, gone is the emphasis on justifying why the activity should be undertaken by a third party in the first place. Instead, the focus is on managing the risks associated with using material service providers as well as the service providers of service providers (no, that's not a typo). Some of the notable requirements include:

- a. The requirement to outline the way an entity will manage the risks associated with any fourth parties that material service providers rely on to deliver a critical operation to the entity
- b. The requirement to maintain a register of material service providers and provide this to APRA annually

Where you have pre-existing contractual arrangements in place with a service provider, the requirements in CPS230 apply to those arrangements from the earlier of the next renewal date of the contract with the service provider or 1 July 2026.

A NEW GAME HAS NOW BEEN STARTED

PFS Principal Jules Gribble believes that CPS230 is “a new game.”

Underpinning this Jules suggests it is the concept of resilience, mentioned but not defined in the new standard, that drives this new game and opportunity. He points out that the concept of resilience has its genesis in work done by the Bank for International Settlements in a banking context and that it has been taken up (under that moniker) by other regulators around the globe, including the PRA in the UK. Jules says that through the lens of resilience the “the ultimate focus is the quality of consumer/client outcomes when the organisation is operating under stress.”



Jules Gribble
PFS Principal



START AT THE TOP

PFS Principal Madeleine Mattera, agrees. “CS230 underwrites a new way of thinking about your organisations and in order to manage operational risk, you need to actually understand your operations and you need to understand your end-to-end customer journey. You need to understand your ecosystem of people, process and technology and all the things that sustain your business's ability to deliver the suite of products and services to your customers. And the ecosystem means third parties as well.”

Looking at your business in this way, Madeleine believes, “might actually bring new things into your thinking that you hadn't previously considered, and you may find new sensitivities and vulnerabilities that you might not have fully appreciated in the past. And this can be this can be very challenging because it really will challenge the way that you think and it'll probably require additional resources and redeployment of your existing resources and abilities to manage what you find in your business.”



Madeleine Mattera
PFS Principal

PFS Director and Governance Practice Leader, Jane Byrne, says “the elevation of operational risk within the organisation will naturally require a greater focus on its operations. But it may be that the board table is where the biggest change will need to take place. The mechanics of the business, the products, the processes, the systems are often left to executives and management to consider while the broader strategic issues are considered by the Board. CPS230 changes that.”

From a practical implementation point of view, she also suggests “setting up a project to deal with this, and it wouldn't necessarily have to be new headcount, with experienced people from different areas in line with your major areas of risk.”

Jules agrees with a governance first approach, “the first thing to do is get the board engaged.” This needs to include a strong understanding of the new requirements and specific implications for your organisation.

Service provider arrangements, included the challenging fourth party providers, is an area that will take time to identify but also requires people experienced with both the business and the service provider capabilities to assess and then effectively manage.



DON'T WAIT UNTIL IT'S TOO LATE

Madeleine cautions against complacency, “a lot of organisations have found that the runway to CPS230 is a lot bigger and more complex and time consuming than perhaps they would have otherwise thought. Don't wait until six months before. Most organisations are doing something about it now, some more advanced than others”. Advice from advisors with operational risk expertise can support your project resources and provide a lens to challenge their thinking.

“I think it would be good for organisations to ask themselves questions about how ready they are. To have a discussion with APRA about the understanding they have of their operations. Interdependencies, criticalities, sensitivities and contingency planning, and do that from the lens of the customer.”

PFS CAN HELP YOU ALONG THIS JOURNEY

We can support your organisation to realise a sustained increase in value and improved process robustness by:

- Helping you review your current status
- Helping you determine your desired status and identify gaps
- Providing methodologies and management tools that support your governance and bridging those gaps
- Helping you develop your risk maturity to support entrenching your value gains.

We would be pleased to discuss your continuing operational risk management journey with you.

OUR TEAM



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