

# APRA Supervision Risk and Intensity Model

By 30 June 2021, APRA will have transitioned away from the PAIRS and SOARS supervisory model implemented in 2002 to a new Supervision Risk and Intensity (SRI) model<sup>1</sup>, which signals APRA's first proportionate approach to supervision.

**Step 1:** APRA assesses systemic importance and assigns your business a tier.

- ① High systemic importance
- ② Likely systemic importance
- ③ Unlikely systemic importance
- ④ No systemic importance



**Step 3:** APRA assigns your business with a level of supervisory intensity.

- ① Routine Supervision
- ② Heightened Supervision
- ③ Escalated Supervision
- ④ Formal Remediation
- ⑤ Resolution

**Step 2.** APRA have changed their risk assessment approach to elevate non-financial risks and include a number of new risk areas including:

- Cyber-risk
- Resilience
- Governance & culture
- Remuneration & accountability

## What does this mean for your supervision levels?








- The SRI model is likely to change the intensity of your APRA supervision
- Tier 1 and Tier 2 entities will be subject to the broadest and deepest risk assessments as part of their routine supervision and may experience similar or higher levels of routine supervision
- Smaller financial institutions who are allocated as a Tier 3 or Tier 4 entity may benefit from lower levels of routine supervision
- Entities allocated to Stage 2, 3,4 or 5 (regardless of Tier) can expect heightened supervision.

# APRA Supervision Risk and Intensity Model

## How will this impact your business?

- Your current PAIRS and SOARS rating may not align to your new level of supervision.
- If your current SOARS rating is not "Normal" this may impact on APRA's initial risk assessment and assigned staging. The aim under the SRI model is be staged as "Routine Supervision".
  - Being proactive and addressing the areas of existing risk contributing to your existing PAIRS and SOARS rating will be vital for the business to obtain and maintain an SRI Stage of "Routine Supervision" now or in the future.
- APRA's Supervision will have heightened focus on non-financial risks such as Governance, Culture, Remuneration and Accountability (GRCA).
- A tick-the-box approach to compliance and management of non-financial risks will not be sufficient.

## What can you do to prepare?

-  Review remuneration structures for alignment with the risk management framework
-  Review your organization's approach to risk management and governance: Are your policies and procedures embedded throughout the organization? How can you demonstrate this? Have you assessed your risk culture?
-  Ensure comprehensive, unbiased performance reviews of the Board and Management are performed regularly.
-  Review your recovery plans – Are your recovery plans integrated with your risk management framework? Have you considered a broad range of risks and scenarios?
-  Address all of APRA's previous supervision recommendations
-  Have you embedded all new prudential standards (Member Outcomes, Information Security) throughout the organization?
-  Superannuation entities – have you performed a rigorous annual business performance review and member outcomes assessment? If yes - have you developed a specific action plan and given consideration to APRA's heatmap?

## What can we do to help?

Grant Thornton provides the following services that can assist you in preparing for the upcoming transition:

- Risk workshops
- Risk culture reviews
- Comprehensive governance and risk management reviews
- Remuneration framework reviews
- Assistance in implementation of APRA recommendations
- Industry benchmarking
- AML/CTF Reviews
- Cyber Security health checks and CPS 234 reviews
- Capital raising assistance

## Contact Us

**Madeleine Mattera**

+61 2 8297 2773

[madeleine.mattera@au.gt.com](mailto:madeleine.mattera@au.gt.com)

**Darren Scammell**

+61 3 8663 6135

[darren.scammell@au.gt.com](mailto:darren.scammell@au.gt.com)

**Kelsey Johnson**

+61 3 8663 6241

[kelsey.johnson@au.gt.com](mailto:kelsey.johnson@au.gt.com)