

Considerations for the COO – CPS 230

The Australian Prudential Regulation Authority (APRA) has released a draft of Cross-industry Prudential Standard CPS 230 Operational Risk Management which has been designed to strengthen the management of operational risk by all APRA-regulated entities. The proposed standard underpins CPS 220 Risk Management and replaces several existing standards including CPS/SPS 232 Business Continuity Management and CPS/SPS 231 Outsourcing. CPS 230 sets out revised requirements across operational risk management, business continuity and service provider management. KPMG’s [CPS 230 Operational Risk Management Update](#) provides further information.

With complex operational landscapes, rapid change and new product lines, we suggest that COOs of APRA-regulated entities start considering the key components of the proposed standard now, with a view to mobilising an implementation program during Q1 of 2023. There are a number of organisational changes that the COO will need to consider. Some changes will potentially be significant including redefining and maintaining critical processes and related technology architecture, through to service provider renegotiation activities aligning with new definitions of risk tolerances. There is an opportunity for the COO to maximise benefits from their implementation of CPS 230 by exploring broader strategies to strengthen operational risk and resilience, operational performance, and customer experience.

In addition to the tactical considerations required to meet requirements by 2024, COOs can also embark on a longer-term journey to significantly shift the organisational mindset in relation to operational resilience. Adopting “resilience by design”, as it relates to product development, end-to-end processes and service providers, will future-proof the organisation, building readiness for the growing regulatory pressures we expect to continue. A genuine, rather than paper-based, shift towards value chain management of the business with stakeholders that cut across functional siloes presents a challenge and an opportunity.

Key Considerations for the COO

Understanding your critical processes

- Identify the critical processes for your business aligned with the CPS 230 definition, considering processes that are critical for the organisation’s external customers, internal customers / employees and stability of financial markets.
- Analyse the value chain of critical end-to-end processes, that cut across functions and map people, processes, technology, controls and service provider dependencies.
- Consider future acceptable tolerances for these critical processes and uplift processes, technology, controls and service provider SLAs as required to meet minimum standards agreed by the Board.

Building transparency and capability across critical processes

- Build partnerships and eliminate siloes across the organisation to improve efficiency/effectiveness of critical processes.
- Build transparency with clearly defined roles, responsibilities and hand-off points across critical processes – for internal processes as well as those delivered by 3rd and 4th parties – with a clear three lines of accountability for risk management.
- Empower operational staff through training and development, reflecting new capabilities required to align with evolving operational risks that arise with shifting business models.
- Strengthen capabilities to partner with and manage material service providers across the lifecycle.

<p>Leveraging digital technology and automation</p>	<ul style="list-style-type: none"> – Technology is going to be key to storing all required documentation around critical processes in a single repository. – COOs will need to work with technology to shift BCP and DR plans to operate at an end-to-end critical process level. – Board tolerances may mean an upgrade to the current technology stack. Explore opportunities to apply technology solutions, such as machine learning, natural language processing, and business process automation, to support: <ul style="list-style-type: none"> – Automation of controls and testing (improving scalability and reducing reliance on human intervention) – Monitoring and reporting of operational risk and business continuity against defined tolerance levels. – Program execution including end-to-end value chain mapping.
<p>Integrated analytics-driven monitoring & reporting</p>	<ul style="list-style-type: none"> – Explore opportunities to leverage big data, predictive analytics and automation to better manage and monitor operational risk, for example, to transition to real-time risk monitoring. CPS230 will see much stricter monitoring of outages and reporting to the Board. – Integrate operational risk and material service provider reporting into overall operational performance reporting for holistic insights and benefits.
<p>Setting the ‘tone from the top’ and embedding across the organisation</p>	<ul style="list-style-type: none"> – Organisational culture is a fundamental driver of operational risk. Establishing operational leadership sponsorship for CPS 230 implementation and the transition to business-as-usual will be critical for lasting change. – CPS 230 principles and outcomes should be embedded into operational strategies, plans and processes, with responsibilities cascading across the organisation through to performance management and incentives structures.
<p>Program to deliver short-term and long-term change</p>	<ul style="list-style-type: none"> – Establish a tiered program to deliver CPS230 requirements by 2024, as well as establishing a foundation for longer-term strategic priorities including embedding “resilience by design” to future-proof operational resilience. – Build a flexible framework, with clearly defined performance metrics, that supports adaptation with changing market conditions, new products and evolving operating models. – Change processes across the organisation must be strengthened to incorporate operational resilience implications.

Benefits

<p>Clear understanding of ‘critical processes’ and tolerances</p>	<p>Enhanced operational resilience</p>	<p>Opportunity to improve CX and EX</p>	<p>Improved transparency across critical processes</p>	<p>Enhanced value from operations and service providers</p>	<p>Board confidence</p>
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Please contact us if you would like to discuss how you can start preparing your business for CPS230.

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