

# In Focus: APRA's evolving approach to transforming risk culture in Australia

By MARK ROE



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The supervision of risk culture has been an elevated area of strategic focus for APRA (Australian Prudential Regulation Authority) in recent years and is a key part of APRA's 'transforming governance, risk culture, remuneration and accountability' community outcome outlined in its Corporate Plan.



As supervising risk culture requires different skill-sets and approaches compared to traditional areas of prudential regulatory focus, APRA has established a specialist Risk Culture team which has enabled APRA to enhance its focus on risk culture through a broad range of activities. These activities include: the development of a risk culture framework, the roll-out of a risk culture benchmarking survey, the completion of a number of deep dive reviews of entities, and the up-skilling of supervisors in how to assess an entity's

risk culture. The team has also harnessed a range of innovative tools such as natural language processing and developed a risk culture transformation toolkit to help embed risk culture change in the long-term.

## APRA's risk culture focus

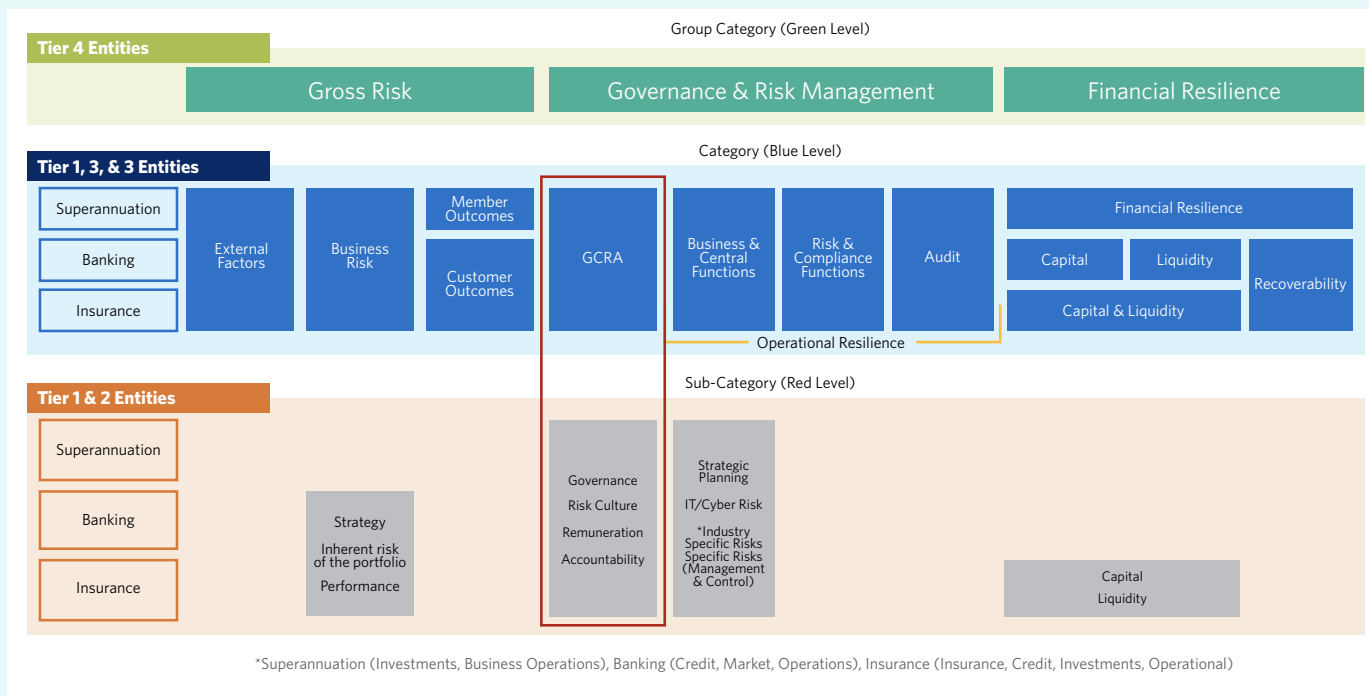
Focusing on an entity's attitude to risk management enables APRA, as a regulator, to assess the influence of culture on how risks are managed. Risk culture, more broadly, refers to the norms of behaviour for individuals and groups that shape the ability to identify, understand, openly discuss, escalate and act on an entity's current and future challenges and risks.

## APRA's new Supervision Risk and Intensity (SRI) model

In 2020, APRA introduced a new model to assess risk and determine supervisory intensity, called the Supervision Risk and Intensity (SRI) model. The SRI Model is the new common platform by which all APRA-regulated entities are assessed, and their level of supervision intensity determined. Risk culture is included as part of the SRI model, making APRA one of the first regulators to embed this area in our supervisory framework.

## Risk Culture 10 Dimensions (RC10D)

To support APRA's supervisors form a view of risk culture of the entities they supervise, APRA's Risk Culture team developed the Risk Culture 10 Dimensions (RC10D) in late 2019. Over 150 (around two-thirds) of APRA's supervisors have now been trained in how to use the framework.



As well as supporting supervisors in their SRI assessments, the RC10D is used as part of all APRA's risk culture initiatives, giving APRA a structured approach to help assess the risk culture of entities as well as to track and benchmark their progress over time.

## Supervisory toolkit

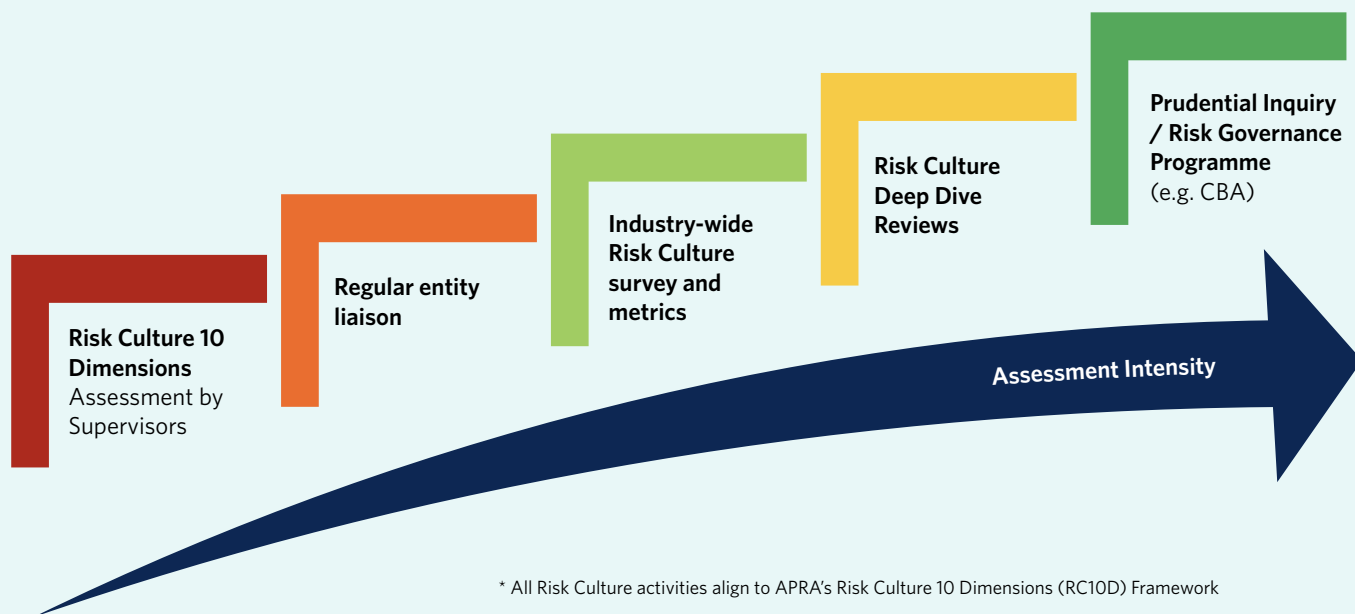
APRA's Risk Culture team has developed an enhanced supervisory toolkit through which to assess risk culture issues. The toolkit includes:

**Industry-wide risk culture survey:** APRA is piloting an online survey of staff at a number of entities in order to develop a risk culture benchmark which can be mapped across the Risk Culture 10 Dimensions. Following the pilot, the expectation is that the project will be expanded to a broader set of entities on a regular basis. The approach is similar to that undertaken by the Banking Standards Board in the UK but with a focus on risk culture.

**Risk culture deep dive reviews of entities:** The team is undertaking a number of risk culture deep dive reviews each year. Findings are made following a triangulation of data from interviews of members of the Board, senior management and staff, focus groups with staff, online surveys and document reviews. Following the reviews, actions undertaken by entities are tracked to ensure that appropriate changes are being made.

**Risk culture transformation toolkit:** A toolkit has been developed that outlines the key drivers for embedding strong risk culture outcomes in the long-term. The toolkit has been tested as part of recent deep dive reviews and is included as part of our feedback to entities outlining the areas they need to focus on to enable long-term improvements to risk culture, rather than short-term fixes. It is planned that the toolkit will be rolled out more broadly during 2021.

**RegTech and innovative approaches:** As the available methods and technologies used to assess risk culture are rapidly evolving, APRA is trialling a number of approaches including the use of natural language processing which is used as part of risk culture reviews.



Issues such as psychological safety, role-modelling of leaders, how managers 'listen up and act', incentives and remuneration, accountability, governance effectiveness and how Covid-19 has impacted entities are some of the many factors the team has recently examined.

## Transforming risk culture – next steps

To achieve its goal of transforming risk culture practices, APRA will continue to effect change across the industry from multiple angles. APRA intends to achieve this through ongoing engagement with individual entities, consultants, peer regulators and industry bodies and associations in order to further embed its approach to assessing risk culture.

Building on an Information Paper published in November 2019, which outlined a more intensive regulatory approach in these areas, APRA plans to publish an Information Paper on Risk Culture in 2021. Planned content includes the Risk Culture 10 Dimensions framework, what 'good' and 'ineffective' risk culture practices look like, examples of metrics that entities are using and findings from our activities so far.

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