



**BANK OF PAPUA NEW GUINEA**  
**SUPERANNUATION PRUDENTIAL STANDARD 8/2014**  
**RISK MANAGEMENT**

**ARRANGEMENT OF SECTIONS**

**PART I—PRELIMINARY**

1. Title
2. Authorization
3. Application
4. Definitions/Interpretations
5. Commentary

**PART II—STATEMENT OF POLICY**

6. Purpose
7. Scope
8. Responsibility

**PART III—IMPLEMENTATION AND SPECIFIC REQUIREMENTS**

9. Risk Management Framework
10. Responsibility for Risk Management
11. Risk Appetite
12. Material Risk
13. Material Contagion Risk
14. Risk Management Strategy
15. Review of the Risk Management Framework
16. Risk Management Framework Audit Procedures and Arrangements
17. Risk Management Function
18. External service provider of risk management function
19. Licence Holder that is part of a Corporate Group
20. Risk Management Declaration
21. Notification requirements

**PART IV—CORRECTIVE MEASURES**

22. Remedial Measures and Sanctions

**PART V—EFFECTIVE DATE**

23. Effective Date
24. Questions and enquiries

**PART I      PRELIMINARY**

- 1) **Title:** This Prudential Standard (“Standard”) may be cited as *Superannuation Prudential Standard 8/2014 Risk Management*.
- 2) **Authorization:** The Bank of Papua New Guinea (“Bank”), acting under Section 43 of the *Superannuation (General Provisions) Act 2000* (“Act”) and all other powers enabling it, determines this Standard.
- 3) **Application:**
  - a) This Standard applies to all Licence Holders licensed under the Act unless the context indicates otherwise.
  - b) Where provisions of this Standard apply specifically to a Licensed Fund Administrator and Licensed Investment Manager, these Licence Holders shall be referred to collectively as ‘*Licensed Service Providers*’.
  - c) This Standard applies to all Officers as defined under Section 3 of the Act unless the context indicates otherwise, the term director, chief executive or a manager is specifically used.
- 4) **Definitions/Interpretations:** In this Standard, unless the contrary intention appears, capitalised terms that are defined in the Act, have the same meaning when appearing in this Standard. The following definitions also apply:
  - a) ‘a corporate group’ is a reference to a group comprising the Licence Holder and all connected entities and all related bodies corporate to the Licence Holder.
  - b) “Material risk” refers to all internal and external sources of inherent risk that could have a material impact on the Licence Holder’s business operations or the interests of members to the test of whether a relationship or business is “material”, which will be based on the nature, circumstances and activities of a director, having regard to his/her independence. Materiality will be considered from the perspective of the Licence Holder, the persons or organisations with which the director has an affiliation and from the perspective of the director.
  - c) “Risk Management Framework” (RMF) refers to the totality of systems, structures, policies, processes and people within a Licence Holder’s business operations that identify, assess, manage, mitigate and monitor all internal and external sources of inherent risk that could have a material impact on the Licence Holder’s business operations or the interests of members.

- d) Risk Management Strategy (RMS) means the strategic document that describes the Licence Holder's strategy for managing risk and the key elements of the RMF that give effect to this strategy.
- 5) **Commentary:** Commentary in this Standard is included for guidance.

## **PART II STATEMENT OF POLICY**

### 6) **Purpose:**

- a) This Standard prescribes requirements for all Licence Holders to have systems for identifying, assessing, managing, mitigating and monitoring material risks that may affect its ability to meet its obligations to members.
  - b) These systems, together with the structures, policies, processes and people supporting them, comprise the Licence Holder's RMF.
  - c) The ultimate responsibility for the sound and prudent management of risk rests with the Board of Directors of the Licence Holder (Board), which is ultimately responsible for having a RMF that is appropriate to the size, business mix and complexity of the Licence Holder's business operations. This enables the Licence Holder to implement risk management approaches that appropriately manage different types of risk.
- 7) **Scope:** All Licence Holders must comply with this Standard.
- 8) **Responsibility:** It is the responsibility of the Board of Directors of all Licence Holders to comply with this Standard.

### **PART III IMPLEMENTATION AND SPECIFIC REQUIREMENTS**

#### **9) *Risk Management Framework***

- a) The Board must develop, document and maintain a RMF.
- b) In developing the RMF, the Board must take into account the size, complexity and risk profile of the business.
- c) The Board must also develop a RMS that describes the key elements of the RMF and give effect to its approach to managing risk.
- d) The Board must review the RMF on a regular basis (at least annually).
- e) The RMF must include, as a minimum, the requirements in paragraph 10 to 21 of this standard.

#### **10) *Responsibility for Risk Management***

- a) The RMF must provide that the Board is ultimately responsible for the RMF of the Licence Holder.
- b) The Board may delegate functions to a Committee or to management, but the Board cannot delegate ultimate responsibility for the RMF.
- c) All delegations of authority must be documented and approved by the Board.
- d) The Board must ensure that it receives regular reports on the exercise of delegated authority.
- e) The Board must put in place mechanisms to monitor the exercise of delegated authority.
- f) The Board cannot abrogate its responsibility for functions delegated Committee or to management.

#### **11) *Risk Appetite***

- a) The Board must consider and approve a Risk Appetite Statement (RAS) that covers the Licence Holder's business operations and each category of material risk.
- b) The RAS must, at a minimum, articulate:
  - i) the degree of risk that the Licence Holder is prepared to accept in pursuit of its strategic objectives, giving consideration to the interests of the members (risk appetite);
  - ii) for each material risk, the maximum level of risk that the Licence Holder is willing to operate within; expressed as a risk limit that, where possible,

is based on a measurable limit of the risk remaining, after taking into account the mitigants for the risk where appropriate (risk tolerance);

- iii) the process for ensuring that risk tolerances are set at an appropriate level, based on an estimation of the impact on the interests of members in the event that a risk tolerance is breached and the likelihood that each material risk is realised;
- iv) the process for monitoring compliance with each risk tolerance and taking appropriate action in the event of a breach of the risk tolerance; and
- v) the timing and process for review of the risk appetite and risk tolerances and the triggers which would result in a more frequent or immediate review of the risk appetite.

**12) *Material Risk***

- a) The Board must, at a minimum, ensure that its RMF covers all material risks, both financial and non-financial, of the Licence Holder's operations, having regard to the size and complexity of those operations.
- b) The Board must assess the materiality of each risk with reference to its operations as a whole and the impact of the risk on the obligations of the Licence Holder to the members.
- c) The RMF must, at a minimum, cover where applicable:
  - i) governance risk;
  - ii) investment risk including:
    - (1) currency risk;
    - (2) asset concentration risk;
    - (3) counter-party risk;
  - iii) liquidity risk;
  - iv) operational risk;
  - v) strategic risks that arise out of the Licence Holder's strategic and business plans;
  - vi) business continuity risk; and
  - vii) any other risks that may have a material impact on the Licence Holder's business operations.
- d) The Board must ensure that the outsourcing risks and controls are taken into account as part of its overall RMF.

13) *Material Contagion Risk*

- a) Where a Licence Holder is engaged in other business activities in addition to superannuation, its RMF must cover all material contagion risks that any non-superannuation business might have on the superannuation business.

14) *Risk Management Strategy*

- a) The Board must ensure that the RMF requires the Board to develop and maintain a Risk Management Strategy (RMS).
- b) At a minimum, the RMS must describe:
  - i) each material risk identified under paragraphs 12 and 13 and the Licence Holder's approach to managing these risks;
  - ii) the policies and procedures dealing with the following risk management matters, including the date when each policy or procedure was last revised, the next date that it is due for review and who is responsible for the review:
    - (1) processes for identifying and assessing material risks and controls;
    - (2) processes for establishing, implementing and testing mitigation strategies and control mechanisms for material risks;
    - (3) processes for monitoring, communicating and reporting risk issues, including escalation procedures for the reporting of material events and incidents;
    - (4) mechanisms in place for monitoring and ensuring on-going compliance with all prudential requirements;
    - (5) processes for ensuring continued alignment between the RMF and the Business Plan;
    - (6) roles and responsibilities of the risk management function;
    - (7) relationships between the Board, Board Committees and Senior Management with respect to the RMF;
    - (8) those with managerial responsibility for the RMF, and their roles and responsibilities; and
    - (9) approaches to ensuring all persons within the Licence Holder's business operations have awareness of the RMF and for instilling an appropriate risk culture across the Licence Holder's business operations;

- c) The RMS should be communicated to all employees of the Licence Holder and made available on the ASF's website.

**15) *Review of the Risk Management Framework***

- a) The Board must ensure that the appropriateness, effectiveness and adequacy of its RMF are subject to a comprehensive independent review by appropriately trained and competent persons at least every 3 years at a minimum.
- b) The scope of the comprehensive independent review of the RMF must have regard to the size and complexity of the operations, the extent of any change to those operations or its risk appetite and any changes to the external environment in which the Licence Holder operates.
- c) The review of the RMF must, at a minimum, include a review of:
  - i) whether the RMF remains appropriate for the Licence Holder's business operations;
  - ii) the minimum specific resources utilised to undertake the risk management activities required by this Standard;
  - iii) the RAS;
  - iv) the RMS, to ensure that it accurately documents the Licence Holder's RMF and the Licence Holder's strategy for managing risk;
  - v) all risk management policies and procedures; and
  - vi) all risk management and internal control systems.
- d) The Board must review the RMF at least annually for each year during which a comprehensive independent review does not take place, and the scope of the Board review must, at a minimum, be to assess the appropriateness, effectiveness and adequacy of the RMF.
- e) The RMF should also document the triggers which would result in a more frequent or immediate review of the RMF.
- f) A copy of the Board's approved RMF must be submitted to the Bank including approved revised versions.

**16) *Risk Management Framework Audit Procedures and Arrangements***

- a) The Board must implement satisfactory internal audit procedures and external audit arrangements to ensure compliance with the RMF and enable the Board to attest that the risk management and internal control systems are in place and are operating effectively and adequately.

**17) *Risk Management Function***

- a) A Licence Holder must have a designated risk management function that, at a minimum:
  - i) is responsible for assisting the Board, Board Committees and Senior Management to develop and maintain the RMF;
  - ii) is appropriate for the size, business mix and complexity of the Licence Holder's business operations and is operationally independent from all the business units of the Licence Holder;
  - iii) is resourced with staff who have clearly defined roles and responsibilities and who possess appropriate experience and qualifications to exercise those responsibilities;
  - iv) has access to all aspects of the Licence Holder's business operations that have the potential to generate material risk;
  - v) has the necessary authority and reporting structure to the Board, Board Committees and Senior Management to conduct its risk management activities in an effective and independent manner; and
  - vi) is required to notify the Board immediately when it becomes aware of any material deviation from, or material breach of, the RMF.

**18) *External Service Provider of Risk Management Function***

- a) A Licence Holder may engage the services of an external service provider to perform all or part of the risk management function where the Licence Holder can demonstrate to the Bank that the external risk management function meets the requirements in paragraph 17 of this standard.

**19) *Licence Holder that is part of a corporate group***

- a) Where a Licence Holder is part of a corporate group and utilises the RMF of the group, the Board must approve the use of the RMF of the group and must ensure that the RMF of the group gives appropriate regard to the Licence Holder's operations and its specific requirements.
- b) A Licence Holder that is part of a corporate group may rely on a risk management function located in another entity in the group where the risk management function satisfies the criteria set out in paragraph 17 of this standard in respect of the Licence Holder's business operations.



**20) Risk Management Declaration**

- a) The Board must, on an annual basis, provide to the Bank with a declaration on risk management referred to as Risk Management Declaration (RMD) signed by the Chairman and two Directors that satisfies the requirements prescribed by the Bank.
- b) The Board must ensure that the outsourcing risks and controls are taken into account as part of its overall RMF when completing the RMD, which the Board is required to provide to the Bank.
- c) If the Board qualifies the RMD, the qualified declaration must include a description of any material deviation from the Licence Holder's RMF and the steps taken, or proposed to be taken, to remedy those deviations.

**21) Notification Requirements**

- a) The Board must notify the Bank within 5 working days when it:
  - i) becomes aware of a significant breach of, or material deviation from, the RMF; or
  - ii) discovers that the RMF did not adequately address a material risk.

**PART IV CORRECTIVE MEASURES**

**22) Remedial Measures and Sanction:**

- a) A Licence Holder which experiences difficulty in complying with sections of this Standard should advise the Bank forthwith in writing where it considers special circumstances exist where it will enforce to undertake to the Bank in order to fully comply by no later than 31 December 2015.
- b) If a Licence Holder fails to comply with this Standard, the Bank may impose or vary conditions on the licence to ensure compliance or, if necessary, suspend or revoke the licence.

**PART V      EFFECTIVE DATE**

23) *Effective Date*: The effective date of this Standard shall be 1 January 2015 with full compliance required by 31 December 2015.

24) *Questions and enquiries*: Questions and enquiries relating to this Standard should be addressed to:

The Manager

Superannuation and Life Insurance Supervision Department

Bank of Papua New Guinea

Tel: 322 7370.



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**Loi M Bakani**

**GOVERNOR**