Page Title	Unit Launch	Type	Text and Static Image / Graphic	Number	1

Screen Layout

Please note: All PowerPoint slides used in the storyboard are for concept design only. i.e. Look and feel plus indication as to the treatment to be applied with the content contained in the storyboard.

Event	Audio	On-Screen Text (OST)		
1.		Professional Banking Fundamentals		

Chapter 7 – Risk Management in Banking

The Nature of Risk and Regulators

Let's Get Started

Page Title	Overview	Type	Text and Static Image / Graphic	Number	2

Screen Layout

Event	Audio	On-Screen Text (OST)		
		This unit will take approximately 20 minutes to complete. To navigate through this unit, there are arrows to continue next and go back. This unit is one of several in the Risk Management in Banking chapter. A Knowledge Check will be provided at the conclusion of the chapter to assist in reinforcing your learning. This does not count towards your final exam.		

Page Title	Learning Introduction and Objectives	Type	Animated Text and Static Image / Graphic	Number	3

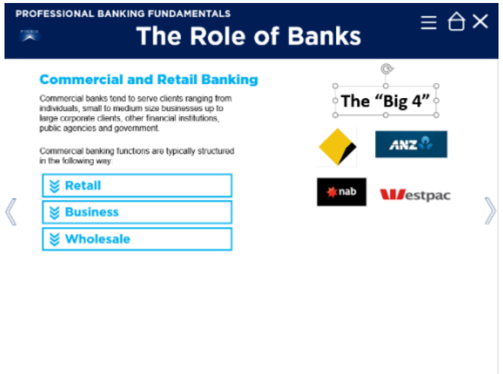
Screen Layout

Event	Video/Audio	On-Screen Text (OST)		
		Introduction Welcome to the Nature of Risk unit, the first unit in the Risk Management in Banking chapter. This unit looks at the key financial regulators operating in the Australian banking industry and discusses their focus on risk culture and risk conduct. This unit also introduces the various types of risk facing the modern banking organisation. By the end of this unit you will be able to: • Evaluate the role of key financial services regulators • Identify absolute and speculative risk • Discuss the various types of risks facing banks and ADIs.		

		Click here to begin		

Page Title	Meet the Regulators	Type	Animated text/ timed icons with bullet points	Number	4

Screen Layout

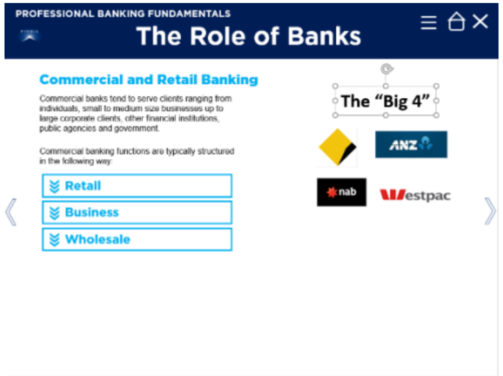


Event	Audio	On-Screen Text (OST)		
		The Council of Financial Regulators (CFR) is a non-statutory body whose role is to contribute to the efficiency and effectiveness of financial regulation and promote stability of the Australian financial system The members council are the: • Australian Prudential Regulation Authority (APRA) • Australian Securities and Investments Commission (ASIC) • Reserve Bank of Australia (RBA)		

		• Department of the Treasury. **“DID YOU KNOW?** The CFR is a non-statutory body without regulatory or policy decision making powers. Those powers rest with its members. Click next to proceed		

Page Title	Key role of regulators	Type	Animated text/ interactive clickable headings	Number	5

Screen Layout



Event	Audio	On-Screen Text (OST)		
		These regulators and central authorities, amongst others, have responsibility for ensuring stability and consumer protection in the financial system in the wider economy – the macro-economy. The regulators also have responsibility for managing macro-prudential risk and regulatory risk. • **Macro prudential risk** • The extent that the fragility of a bank or other financial institution could affect the market and the economy as a whole. • **Regulatory risk** Complex regulation exists, and prudential		

		measures change over time to ensure the behaviour, culture and conduct of the industry are held to high order. Changes in regulation have a significant impact on the activities of financial institutions, potentially causing disruption that may also lead to increased compliance and operational costs.		

Page Title	Our role in managing risk	Type	Static text. Whole page Imagery	Number	6

Event	Audio	On-Screen Text (OST)		
2.	None	The phenomenon of risk is not new but is so much more demonstrably powerful today. Consequently, everyone within a bank – not just senior management - must contribute to the overall duty to protect the bank against any downside risks and take advantage of any opportunities. Senior managers must have a firm grasp of the businesses for which they are responsible and set in place a structure of control processes which allows		

		risk sources to be examined critically and addressed effectively. Click next to discover the two categories of risk.		

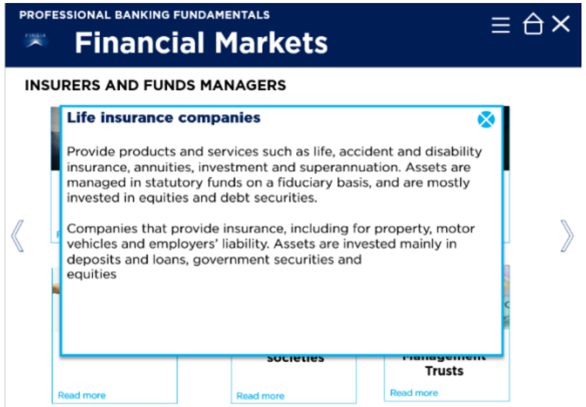
Page Title	Risk Categories	Type	Static text and dynamic interaction on each icon	Number	7
Screen Layout					

Event	Audio	On-Screen Text (OST)		
		As risk can arise in various ways, one of the first steps in risk management is to understand the nature of different types of risks, their sources, the events which can occur, and potential impacts. Risk can be classified into two categories, absolute risk and speculative risk. **ABSOLUTE RISK** refers to the situation where there is either a chance of loss, or no loss. But there is no chance of gain. For example, the driver of a motor vehicle may be involved in an accident, resulting in their car being damaged – they have suffered a loss, but if they are not involved in an accident, they will not suffer a loss. **SPECULATIVE RISK** is the possibility of a loss or a gain based on a decision to accept or decline a risk. For example, an		

		individual places a $50 bet on a horse to win the Melbourne Cup. If it wins, they win $200. The horse that they bet on will either win or lose the race, and, by taking this speculative risk, they can either lose $50 or win $200. In the context of banking, different persons or entities encounter different types of risk at different levels. Click next to learn the six types of risk.		

Page Title	Types of Risk	Type	Static text with slide layers for each heading	Number	8

Screen Layout



Event	Audio	On-Screen Text (OST)		
	None	**TYPES OF RISK** Banks in Australia are typically exposed to six main types of risk. **Credit risk** The fundamental business of banking is taking deposits from customers and lending money to other customers. In the lending process, there is a risk that the loan will not be repaid, either in full or in part. This is **credit or default risk**, although such risk can be wider than this simple explanation may suggest.		

		For example, if we take shares as security (collateral) from a customer and they default on their repayments, there can still be credit risk if the value of the shares falls and the bank does not obtain full repayment of the loan. **Liquidity risk** Liquidity risk is the risk that a bank or financial institution does not have a sufficient level of liquid assets (assets that are easily converted to cash) to meet current and future payment obligations. For example, being able to meet interest payments to depositors or repaying depositors' funds. Liquidity is critical as a vital part of the services offered by banks to ensure that customers can access funds on demand. Funding risk is the risk that a bank or financial institution cannot attract a sufficient level of deposits or raise wholesale debts to fund asset growth or replenish liquid assets. **Market risk** Market risk refers to the risk of an adverse impact on a bank's valuations and profits resulting from changes in market factors, such as foreign exchange rates, interest rates, and commodity or equity prices. For example, a significant movement in foreign exchange rates may adversely affect the bank's net security position on foreign currency loans and expose it to potential loss.		

		Conduct risk Conduct risk may arise because of inappropriate, unethical or unlawful behaviour on the part of bank employees. Such conduct can be caused by deliberate actions or inadequacies in bank practices, frameworks or education programs. There can be significant ramifications for the bank, the shareholders, customers, counterparties and the entire financial services industry. For example, a failure to meet AML/CTF obligations could lead to accusations of funding terrorism activities and result in significant financial and reputational damage. **Operational risk** The Basel Committee defines operational risk as the "risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events". This definition, when applied to banking, covers a broad range of factors, including human error, fraud, failure of information systems, problems related to personnel management, commercial disputes, accidents, fire and flood. For example, systems risk in banking is a core area of focus, mainly relating to the technology employed in bank operations. With technology come the risks of systems failure, poor data quality, inadequate security of the data held and cybersecurity		

		more broadly. The bank's duty of confidentiality makes this an area of vital importance. **Compliance risk** Compliance risk refers to that of legal or regulatory sanction, and of financial or reputational loss, arising from a bank's or financial institution's failure to abide by the compliance obligations required by legislation, regulation, rules, standards or codes of conduct. For example, providing documentation which fails to meet internal business rules and/or legislative obligations. Click next to discover the additional risks facing banks.		

Page Title	Additional Risks	Type	Drag and Drop Activity	Number	9

Screen Layout

Event	Audio	On-Screen Text (OST)		
		Drag and drop the definition to match each type of additional risks facing banks. Additional risks banks have to deal with are: **Business risk** The risk associated with the vulnerability of a line of business to changes in the business environment. **Sustainability risk** The risk of reputational or financial loss due to failure to recognise or address significant (existing or emerging) sustainability-related environmental, social or governance issues. **Equity/asset risk**		

		Potential financial loss arising from movements in equity/asset values. **Insurance risk** The risk of inaccuracies in the expected cost of insured events and the resulting claims and volatility in the number or severity of insured events. **Related entity (contagion) risk** The risk that problems arising in other internal business channels compromise the financial and operational position of the wider ADI. **Reputation risk** The risk of loss of reputation, stakeholder confidence, or public trust and standing. **Interest rate risk** The risk of potential loss in value of investments due to adverse interest rates movement. Movement of interest rates will also reflect on revenues and cost of funding. While some interest rate variations can be forecast and factored into pricing, future interest rates movements are unknown. While interest rate risk is often covered in the market risk portfolio, given the potential impact, many banks treat this as a separate risk.		

Page Title	APRA and Risk Culture	Type	Text only / Blank screen	Number	10

Screen Layout

Event	Audio	On-Screen Text (OST)		
		We met APRA, one of the key regulators of the banking industry, at the start of the unit. Let's look now at the role of APRA in creating an effective risk culture. Building on the lessons of the Global Financial Crisis, APRA's focus on risk culture intensified in 2013 when a review was initiated of how the prudential framework established the roles and responsibilities for risk management in banks and other financial institutions. This has resulted in an increased focus on risk culture that requires banks to review their risk culture and take steps to address any areas for improvement. Click next to learn about the APRA's BEAR initiative…		

Page Title	BEAR Legislation	Type	Animated text and icons	Number	11

Screen Layout

Event	Audio	On-Screen Text (OST)		
3.		The Banking Accountability Executive Regime commenced in 2018 (for large ADIs and 2019 for small ADIs). The intent of the legislation is to improve executive accountability in ADIs, recognising that leadership is key to driving cultural change. Some of the current measures include: • **Executive registration with APRA** Senior executives and directors of ADIs (BEAR legislation refers to them as 'accountable persons') will be required to be registered with APRA, and APRA will need to be advised prior to any future appointments. APRA will have the power to deregister and disqualify accountable persons who fail to meet expectations. • **APRA powers over remuneration policy**		

		APRA will be given stronger powers to require ADIs to review and adjust their remuneration policies when APRA believes these policies are not appropriate. • **Remuneration deferral** Depending on the size of the ADI, and the role, accountable persons will be required to between 40% and 60% of variable remuneration for a period of four years. This is intended to ensure that accountable persons make decisions that are in the long-term interests of banks and their customers. If an accountable person breaches their BEAR obligations, the ADI is obligated to withhold all or part of their variable remuneration as a penalty. • **Penalties for ADIs** APRA will impose civil penalties of up to $200 million on ADIs that do not appropriately monitor the suitability of their executives to hold senior positions. **DID YOU KNOW?** **The BEAR regime became effective for all ADIs from 1 July 2019.**		

Page Title	Introducing FAR Legislation	Type	Animated text and icons	Number	12

Screen Layout

Event	Audio	On-Screen Text (OST)		
		In August 2019 the Government released their "Financial Services Royal Commission Implementation Roadmap" that outlined how they would deliver on their response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Included within this roadmap was the extension of BEAR. In January 2020, the Treasury released a paper (Implementing Royal Commission Recommendations 3.9,4.12,66,6.7 and 6.8, Financial Accountability Regime Proposal Paper, 22 January 2020) outlining the proposed extension of BEAR across all entities regulated by APRA. The regime will be renamed the Financial Accountability Regime (FAR). Whilst they did not announce a date for the implementation of the FAR the draft legislation was proposed to be introduced to parliament by the end of 2020. However due to changing Government priorities as a result of COVID-19 the introduction of this legislation may be postponed. There is also an intent to further extend the FAR beyond all APRA regulated entities, to include those		

		regulated by ASIC. According to the Treasury Proposal paper there are some key similarities between the BEAR and FAR such as the following obligations: • Accountability obligations • Key personnel obligations • Accountability map and accountability statement obligations • Notification obligations and • Deferred remunerations obligations. Although there will be many similarities with the current regime there are some key differences including: • Both APRA and ASIC will administer the FAR • There will be different definitions of entities that will determine the obligations and financial penalties that apply. This is to ensure the new regime recognises the broader range and number of industries (for example superannuation, life and general insurance) that will be subject to FAR. • The framework for determining penalties will be strengthened.		

Page Title	ASIC and Risk Conduct	Type	Transitional text/ animated quote	Number	13

Screen Layout

Event	Audio	On-Screen Text (OST)		
4.	None	We met ASIC, one of the key regulators of the banking industry, at the start of the unit. Let's look now at the key role of ASIC in regulating the conduct of financial services companies. **DID YOU KNOW?** ASIC's primary responsibility is to regulate the conduct of financial services companies to ensure they meet their obligations to maintain adequate risk management systems to mitigate exposure to relevant risks. Like APRA, ASIC also has an interest in conduct risk; that is		

“the risk of inappropriate, unethical or unlawful behaviour on the part of an organisation’s management or employees”

This conduct is generally caused by deliberate actions or because of inadequacies in an organisation’s practices, frameworks or education programs.

Click next to learn more.

Page Title	ASIC and Conduct Risk	Type	Transitional text/ animated bullet points	Number	14

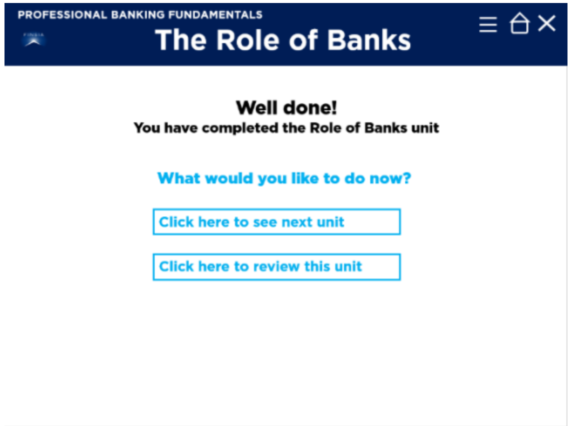
Screen Layout

Event	Audio	On-Screen Text (OST)		
		While APRA's interest in conduct is often focused on how it may impact a risk within a bank and the potential weaknesses and vulnerabilities that may result, including the risk to financial stability, ASIC focuses on conduct risk and the impact on customers including: • Ensuring all customers are treated fairly. • Financial products perform in the way that customers have been led to believe they will. • Banks are aware of any behavioural biases with customers or information imbalances. Click to learn more about the relationship between conduct and culture.		

Page Title	Risk Conduct and Risk Culture	Type	Static text. Whole page Imagery	Number	15
Screen Layout					

Event	Audio	On-Screen Text (OST)		
		ASIC has adopted an active position in discussing the relationship between conduct and culture, mainly because culture is seen to be a key driver, along with incentives and deterrence, that influences why people act in a certain way. A positive culture, both within a bank and throughout the industry, can be a driver of good conduct, and this is central to investor and consumer trust and confidence, as well as market integrity.		

Page Title	Completion/next steps	Type	Static text/ Clickable buttons	Number	16
Screen Layout					



Event	Audio	On-Screen Text (OST)		
		Well done. You have now completed the Nature of Risks and Regulators unit. What would you like to do now? Click here to see next unit. Click here to review this unit.		