

Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics (the committee) is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee in accordance with the Speaker's Schedule.
- 1.2 The Australian Prudential Regulatory Authority (APRA) annual reports stand referred to the committee in accordance with this schedule. The committee resolved to conduct an inquiry into APRA's 2018 Annual Report on 24 July 2019, and extended the inquiry to cover the 2019 Annual Report on 23 October 2019.
- 1.3 APRA is Australia's prudential regulator. It is an independent statutory authority that supervises institutions across banking, insurance, and superannuation and promotes financial system stability in Australia. APRA oversees authorised deposit-taking institutions (ADIs), such as banks, building societies, and credit unions; general insurers, life insurers, and reinsurance companies; private health insurers; friendly societies; and superannuation funds (excluding self-managed funds).¹

1 APRA, 'About APRA', <<https://www.apra.gov.au/about-apra>>, accessed 19 February 2020.

- 1.4 APRA is tasked with protecting the interests of depositors, policyholders, and superannuation members by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions it supervises are met within a stable, efficient and competitive financial system.²
- 1.5 APRA's vision is to 'deliver a sound and resilient financial system, founded on excellence in prudential supervision'. Its *Corporate Plan 2019-2023* sets identifies four areas of strategic focus 'aimed at strengthening outcomes for the Australian community':
- maintaining financial system resilience;
 - improving outcomes for superannuation members;
 - improving cyber-resilience across the financial system; and
 - transforming governance, culture, remuneration and accountability across all regulated financial institutions.³
- 1.6 It also identified key areas where it will focus on uplifting its own capabilities, including:
- improving and broadening its risk-based supervision;
 - improving its resolution capability;
 - improving its external engagement and collaboration;
 - transforming its data-enabled decision making; and
 - transforming its leadership, people, and culture.⁴

Organisational change

- 1.7 APRA is currently undergoing a period of organisational change, following the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), and the APRA Capability Review.
- 1.8 The Royal Commission examined financial services entities and found serious instances of misconduct and conduct falling below community

2 APRA, *Annual Report 2018-19*, p. 18.

3 APRA, *Corporate Plan 2019-23*, August 2019, p. 5.

4 APRA, *Corporate Plan 2019-23*, August 2019, p. 5.

expectations.⁵ It also scrutinised the effectiveness of Australia's financial regulators, including APRA, and raised questions regarding regulators' ability to anticipate and deal forcefully with the widespread misconduct uncovered.

- 1.9 The Royal Commission recommended strengthening APRA's prudential and supervisory framework in a number of areas. APRA has indicated it will implement the recommendations as quickly as possible. There are 10 recommendations requiring APRA's direct attention. Of the 10, it is expected that nine will be completed by the end of 2020; of those, four are expected to be completed in 2019.⁶
- 1.10 In February 2019, the Treasurer, the Hon Josh Frydenberg MP, commissioned a capability review of APRA. The review was conducted by a three member panel led by former Chair of the ACCC, Professor Graeme Samuel AC. The Capability Review made 24 recommendations, with 19 directed to APRA and five to the Government.⁷
- 1.11 Appendix B provides a summary of the Government and APRA responses to the Capability Review recommendations.

Scope and conduct of the review

- 1.12 This review covers both the APRA Annual Report 2018 and the APRA Annual Report 2019.
- 1.13 The committee held three public hearings. APRA appeared before the committee on 9 August 2019 in Canberra. The Chair of the Capability Review panel, Professor Graeme Samuel AC, appeared at a public hearing on 11 September 2019. APRA then appeared before the committee for a second hearing on 2 December 2019. Details are provided at Appendix A.

5 Commissioner Kenneth Hayne, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, *Final Report*, February 2019.

6 APRA, 'APRA's response to Royal Commission recommendations', <<https://www.apra.gov.au/apras-response-to-royal-commission-recommendations>>, accessed 19 February 2020.

7 APRA, 'APRA's response to the Capability Review report', <<https://www.apra.gov.au/apras-response-to-capability-review-report>>, accessed 19 February 2020.

- 1.14 The proceedings were webcast through the Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. The transcripts of the hearings are available on the committee's website.⁸
- 1.15 APRA's responses to the committee's questions on notice and in writing are provided on the committee's website.⁹
- 1.16 This report focuses on matters raised at the public hearings.

8 House of Representatives Standing Committee on Economics, <https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/APRA_Review2018/Public_Hearings>.

9 House of Representatives Standing Committee on Economics, <https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/APRA_Review2018/Documents>.