



## OPENING STATEMENT

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**Chair**

**Australian Prudential Regulation Authority**

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I thank the Committee for the opportunity to appear today.

The last occasion we were before this Committee to discuss APRA activities was in December 2019. At that time, we took the Committee through our 2019-2023 Corporate Plan, which detailed our commitment to deliver on four key community outcomes – maintaining financial system safety and resilience, improving superannuation outcomes, transforming governance, culture, remuneration and accountability within the finance sector, and improving cyber resilience across the financial system.

Also around that time, amongst many other important APRA initiatives, we were in the process of launching the first superannuation heatmap of MySuper performance and had launched a multi-year project to update the breadth, depth and quality of our superannuation data collection.

It's no understatement to say that the world has fundamentally shifted for all of us since our last appearance.

As a result, APRA has had to completely overhaul its plans. We have significantly adjusted our operations to give primacy to managing the impact of the economic and social crisis created by COVID-19. Financial safety and resilience have become our primary focus, as we pivoted from the broad and ambitious agenda that we outlined in December to one that is focused on ensuring the financial system remains financially and operationally sound in very trying circumstances.

Broadly speaking, since the onset of COVID-19, we have:

- reduced operational burden on the industry by postponing a range of activities – most notably, suspending all policy initiatives until 30 September this year – and granting additional time to satisfy some supervisory requirements;
- provided targeted and temporary concessions to assist in facilitating the broader package of economic and financial support being offered by the government, the RBA and the industry itself. The most important of these has been the capital treatment of the loan repayment deferrals being offered by banks to household and small business borrowers; and
- made clear that the financial strength we have required the industry to build up over the past four to five years is now available to be used to absorb losses and support customers.

For reference, I have included as an attachment to this statement a summary of all the actions taken in response to COVID-19. (A second attachment includes an update on the status of the Royal Commission recommendations.)

In summary, we have pivoted the organisation and its resources to focus on our core function of supervision at a time of heightened risk to the financial system. In doing so, our aim has been to help steer the industry through an unprecedented period, seeking a balance between regulatory flexibility and maintaining a prudent level of resilience.

In banking, this has involved intensifying our focus on capital, liquidity and credit quality.

In insurance, we have examined the impact on investment portfolios, as well as on a number of specific types of business, including private health insurance, disability income insurance, business interruption insurance, and trade credit insurance.

In superannuation, we have redeployed significant resources to ensure we understood the impact of the sharp downturn in investment markets and the expansion of the early release scheme on funds' ongoing viability and delivery of appropriate member outcomes.

And across all sectors, we have intensified our focus on operational resilience to ensure, to the greatest extent possible, the continuing provision of essential financial services to the community.

I am keen to emphasise that the Australian financial system went into this crisis in a fundamentally solid position, after a decade of building resilience in the banking, insurance and superannuation industries we regulate. Operationally, the industry has also weathered the severe disruptions well. This has ensured that, so far, the finance sector has been able to act as an important shock absorber to the broader economy, and able to support households and businesses navigate a period of severe stress.

But I also need to emphasise that diligence will be needed to ensure it remains that way, given the extremely difficult times ahead. Experience in Australia and elsewhere tells us that when the broader economy encounters severe stress, so does the financial system. We have therefore deployed resources to increase the intensity of our stress testing, and have been refining and improving our contingency planning. We need to be prepared, and agile, to manage pressure points as they inevitably arise.

We are currently finalising a refreshed Corporate Plan for 2020-2024, which will be published at the end of this month. Over the medium term, our commitment to delivering the four key community outcomes we identified in last year's Plan remains, but our first priority in the short term will be maintaining the safety and soundness of the Australian financial system through incredibly challenging conditions.

That is because a safe, stable and resilient financial system is an absolutely critical foundation for fostering an economic recovery from COVID-19.

## APRA COVID-19 INITIATIVES

Date	Industries Affected	Action
19 March	ADI	<b>Regulatory concessions:</b> APRA advised temporary changes to its expectations regarding bank capital ratios, to ensure banks are well positioned to continue to provide credit to the economy in the current challenging environment
23 March	ADI	<b>Regulatory concessions:</b> APRA advised temporary concessions to facilitate the COVID-19 support packages being offered by banks and other lenders to their borrowers in the current environment.
23 March	ADI, LI, GI, PHI, Super	<b>Reduce burden:</b> APRA suspended the majority of its planned policy and supervision initiatives in response to the impact of COVID-19.
24 March	ADI, LI, GI, PHI, Super	<b>Reduce burden:</b> APRA announced the temporary suspension of its program to replace APRA's Direct to APRA (D2A) data collection tool with APRA Connect.
25 March	LI	<b>Regulatory concessions:</b> APRA postponed an upward capital adjustment in relation to Individual Disability Income Insurance (IDII), which applied to many LI entities.
30 March	ADI	<b>Facilitate public sector support:</b> APRA confirmed its regulatory approach to the Term Funding Facility (TFF) announced by the Reserve Bank of Australia (RBA) on 19 March 2020.
30 March	ADI	<b>Reduce burden:</b> APRA announced it would defer its scheduled implementation of the Basel III reforms in Australia by one year, from 2022 to 2023.
31 March	PHI	<b>Reduce burden:</b> APRA postponed implementation of reporting standard on private health insurance reforms data collection.
1 April	ADI (and RFCs)	<b>Reduce burden:</b> APRA, along with ABS and RBA, announced a range of adjusted reporting requirements.
1 April	Super	<b>Regulatory guidance:</b> APRA and ASIC issued guidance to help trustees manage the financial and operational challenges associated with COVID-19, while continuing to meet their obligations to look after members' best interests.
7 April	ADI, LI, GI, PHI	<b>Regulatory guidance:</b> APRA wrote to all ADIs and insurers to provide guidance on capital management during the period of significant disruption caused by COVID-19. Amongst other things, the guidance recommended deferring dividend decisions for the next couple of months.
8 April	ADI, LI, GI, PHI, Super	<b>Regulatory guidance:</b> APRA wrote to applicants for new banking or insurance and superannuation licences to advise that it is temporarily suspending issuing new licences for at

		least six months in response to the economic uncertainty created by COVID-19.
16 April	Super	<b>Facilitate public sector support:</b> APRA published expectations on the release of benefits under the COVID-19 temporary early access to superannuation provisions.
16 April	ADI, LI, GI, PHI, Super	<b>Reduce burden:</b> APRA announced delayed start dates for six prudential and reporting standards that have been finalised but are yet to come into effect.
17 April	ADI	<b>Facilitate public sector support:</b> APRA released new reporting standard to enable data collection in relation to the Government's SME Guarantee Scheme.
21 April	Super	<b>Facilitate public sector support:</b> APRA launched new data collection to assess progress and impact of the Government's temporary early release of superannuation scheme.
4 May	Super	<b>Transparency:</b> APRA publishes industry-level data on amount, value and timeliness of aggregate payments under the Government's temporary early release of superannuation scheme.
7 May	ADI	<b>Regulatory concessions:</b> APRA published additional guidance to assist ADIs in relation to the regulatory treatment of loan repayment deferrals and expectations in relation to mortgage serviceability assessments.
11 May (and weekly thereafter)	Super	<b>Transparency:</b> APRA published fund-level data on amount, value and timeliness of payments under the Government's temporary early release of superannuation scheme.
19 May	ADI	<b>Regulatory guidance:</b> APRA published additional guidance to assist ADIs in relation to their market risk capital requirements.
17 June	ADI	<b>Regulatory concessions:</b> APRA published frequently asked questions (FAQs) on expectations in relation to residential property valuations.
24 June	Super	<b>Transparency:</b> APRA launched a new COVID-19 Pandemic Data Collection to enable assessment of the impact of COVID-19 on the superannuation industry and the outcomes being delivered to members.
7 July	ADI	<b>Regulatory guidance:</b> APRA published additional guidance to assist ADIs in relation to the capital treatment of securitisation schemes.
8 July	ADI	<b>Regulatory concessions:</b> APRA announced an extension of its temporary capital treatment for bank loans with repayment deferrals, as well as temporarily adjusting the capital treatment of loans where terms are modified or renegotiated ('restructured').
9 July (and monthly thereafter)	ADI	<b>Transparency:</b> APRA released the aggregate industry data on the amount, type and risk profile of loan repayment deferrals.

22 July	Super	<b>Regulatory guidance:</b> APRA published frequently asked questions (FAQs) providing guidance to superannuation trustees on the COVID-19 Pandemic Data Collection requirements.
24 July	ADI	<b>Regulatory concessions:</b> APRA published frequently asked questions (FAQs) on expectations in relation to commercial property valuations.
29 July	ADI, LI, GI, PHI	<b>Regulatory guidance:</b> APRA updated its guidance on capital management for banks and insurers, emphasising the importance of keeping dividend payments to moderate levels (ADIs encouraged to retain at least half their earnings).

## ROYAL COMMISSION RECOMMENDATIONS

Of the 10 recommendations directed at APRA, three are complete, and a further six will be completed in 2020-21. As agreed with Treasury, one recommendation (BEAR product responsibility - recommendation 1.17) has been incorporated into the Financial Accountability Regime work under the Government's Royal Commission implementation roadmap (Recommendation 6.8).

Rec No.	Recommendation	Status
1.12	APRA should amend Prudential Standard APS 220 regarding land valuation, particularly with respect to rural property	<b>Completed.</b> Revised standard published 12 December 2019
6.10	APRA should update and enhance APRA-ASIC Co-operation Memorandum	<b>Completed.</b> Revised MoU published 29 November 2019
6.12	APRA should internally formulate and apply to its own management accountability principles of the kind established by the BEAR	<b>Completed.</b> Accountability statements published 19 December 2019
4.14 4.15	APRA should amend Prudential Standard SPS 250 to strengthen requirements in relation to related party life insurance arrangements, and the rules by which particular status is attributed to an insured member	<b>In progress.</b> Expected to be finalised in the first half of 2021 through amendments to Prudential Standard SPS 250 <i>Insurance in Superannuation</i>
5.1 5.2 5.3	APRA should strength its regulation and supervision of remuneration	<b>In progress.</b> APRA will recommence consultation on a revised standard in the latter part of 2020, with a view to finalising new requirements in mid-2021.
5.7	APRA should enhance its systems, frameworks, tools and skills to better supervision culture and governance, including in relation to misconduct	<b>In progress.</b> APRA's plans to implement this recommendation were published in its November 2019 Information Paper, <i>Transforming governance, culture, remuneration and accountability: APRA's approach</i> . Some aspects of APRA's program have had to be deferred or slowed as a result of COVID-19.