



OPENING STATEMENT

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APRA's mandate is to ensure a safe, sound and stable financial system for the benefit of the Australian community. While most of the discussion during appearances such as these tends to be dominated by distinctly financial concepts, our work in recent months has been very much focussed on the resilience of the financial system in the face of several natural disasters that occurred over the summer, and more recently the emergence of COVID-19. Before reverting to more familiar terrain, I would like to say a few words about each of these.

Since November, extreme weather events in the form of bushfires, storms, hail and floods have severely impacted homes, businesses and communities across the country. Insurance is critical to the recovery effort, and one important role played by APRA is making sure that the insurance sector has the financial wherewithal to cover insured losses. In doing so, we have been particularly focussed on the adequacy of insurers' own reinsurance arrangements, given international reinsurance provides critical insurance capacity for the Australian market.

Current estimates for total insured losses as a result of these disasters across Australia are projected to be in the order of \$5 billion – a significant sum, and crucial to affected policyholders and regions being able to get back on their feet quickly. Pleasingly, the financial position of the insurance sector means it is well-placed to cover these claims. The insurance industry's ability to respond to the recent disasters highlights the importance of the work APRA undertakes in relatively benign times to build and maintain strength in the financial system. Insurers have the capital strength and liquidity to meet their claims and, very importantly, remain well capitalised to respond to further events that may occur – especially as, for example, we are not yet through the Australian cyclone season. Nonetheless, the summer's events will undoubtedly have an impact on the price and, in some cases, availability of insurance into the future.

Another challenge for APRA has been understanding the potential impact of COVID-19 on the financial system. We have been actively monitoring the situation across three dimensions:

- over a month ago, we initiated our own crisis management arrangements, and began to take steps to protect our own operations and staff;
- we have been engaging with regulated institutions to understand how the virus might affect their operational ability, using our Pandemic Planning guidance as a benchmark to assess their readiness to cope with disruption, and are now undertaking some targeted testing of those plans; and
- we have been assessing the potential for any specific or broader economic impacts to affect the Australian financial system, particularly given recent volatility and stress in global financial markets.

In all these activities, we have been in regular contact with our domestic and international peers. At this point, our judgement is that:

- the regulated institutions at the core of the financial system are very alert to the risks to their businesses – both financial and operational – and initiating contingency planning to deal with a range of scenarios; and
- the financial system is positioned to handle short-term volatility in financial markets, but navigating any period of extended stress is inevitably something that will warrant considerable vigilance.

Recent activities

Before moving to questions, let me quickly update the Committee on a few of APRA's recent activities and initiatives.

First, APRA has made significant progress in responding to the 10 recommendations of the Royal Commission directed to us – having addressed three recommendations in full and on track to finalise the remaining seven. All will be complete this year. APRA has also been undertaking detailed reviews of the 12 case referrals involving nine APRA-regulated entities that it received from the Royal Commission. Again, we are working to finalise our response to all cases by the end of the year.

In December, APRA published its first heatmap providing data on the performance of every MySuper superannuation product. The heatmap was a major step forward for industry transparency and accountability, and has been designed with a view to lifting industry practices and, ultimately, enhancing member outcomes. We are now consulting on a significant revamp of our data collections for superannuation to, amongst other things, support the extension of the heatmap concept to choice products and options.

On the theme of transparency, APRA has also released a number of important publications designed to provide more insight to our own activities and actions:

- in November, we released a paper setting out APRA's enhanced approach to regulating and supervising governance, culture, remuneration and accountability (GCRA) risks;
- also in November, we updated the memorandum of understanding between ASIC and APRA, committing both agencies to stronger engagement, deeper cooperation and improved information sharing. In December, we published APRA's governance arrangements and accountability statements for senior executives. Both of these publications fulfilled recommendations of the Royal Commission; and
- in January, we released three important publications. The first was our *Year in Review*, which provided an account of our actions and activities in 2019. Looking forward, we also published our policy and supervision priorities for the next year or so, designed to deliver on our Corporate Plan.

Our Corporate Plan is a good place to finish. In it, we set out four key community outcomes we are seeking to deliver for the Australian community:

- maintaining financial system resilience;
- improving outcomes for superannuation members;
- improving cyber-resilience in the financial sector; and
- transforming GCRA across all APRA-regulated institutions.

While we are currently redirecting significant resources towards understanding and responding to the impact on the financial system of natural disasters and COVID-19, we are not losing sight of these longer-term goals. They are also all areas on which I expect the Committee is likely to have questions.