OPENING STATEMENT

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Thank you for the invitation to appear this morning.

At our last appearance before this committee in October 2020, we detailed the measures APRA undertook to respond to the effects of the COVID-19 pandemic and ensure the Australian financial system remained stable and strong. As we noted in our recently published Year in Review for 2020, most of APRA's resources and effort over the year were devoted to ensuring the continuing operational and financial resilience of the institutions APRA supervises, to ensure they could in turn continue to support Australian households and businesses.

In late 2020, however, we began to move beyond the crisis phase, and restarted some of the important supervision and policy activities we had put on hold when the pandemic first hit.

There are three areas that I would particularly like to highlight up-front.

The first area is superannuation, where we have a busy agenda to improve member outcomes through four key channels: enhanced data, greater transparency, a stronger prudential framework, and more intense supervision. We are making good progress on all four fronts, and this is producing significant improvements across the industry, including improved governance, lower fees, poor performing funds exiting the industry and consolidation to achieve economies of scale.

There has been continuing momentum on fund mergers – since 30 June 2020, there have been six mergers completed and we expect this momentum to continue. There are now 164 APRA-regulated funds, well down on the 279 funds that existed when the Stronger Super reforms were introduced in 2013. This consolidation has helped drive better governance, stronger performance and lower costs, although we still see plenty of scope for further consolidation and efficiency within the industry.

There is also still more to do in relation to fund underperformance.

In December 2020, APRA published its third MySuper heatmap. The good news was that the latest Heatmap showed that 71 per cent of MySuper members received a reduction in fees and costs since the publication of the first Heatmap in December 2019, translating to 10 million member accounts benefiting from an aggregate saving of $408 million a year.

Instances of persistent underperformance remain, however. As a result, APRA issued formal notices to eight trustees in relation to the continuing underperformance of 10 MySuper products, seeking explanations as to the actions being taken by the trustees to address our concerns. We are currently reviewing the responses to determine the most appropriate next steps in each case.

The Heatmaps have demonstrated the power of data. APRA is therefore seeking to expand its superannuation data collection, with new reporting standards being released this week that will provide APRA with much more granular information on performance, costs and expenditure. This will allow APRA to scrutinise these aspects of trustee performance much more deeply.

We will also expand the Heatmaps beyond MySuper products in the second half of this year: another important step in shining the light on the outcomes being delivered to superannuation fund members.

The second area I wanted to mention is cyber security. Late last year, we released our new cyber security strategy, designed to substantially lift standards of cyber security within the financial sector in the face of rapidly increasing risks. The financial sector is a piece of core economic infrastructure for the country, and its cyber defences are therefore of great importance. However, the Australian financial system is an ecosystem of an estimated 17,000 interconnected financial entities, markets and infrastructure providers – not to mention all of the related service providers. APRA only directly supervises around 680 of these. Our new strategy therefore recognises the need to work closely with other arms of government, including our peers within the Council of Financial Regulators (CFR) as well as the national security agencies and the Department of Home Affairs, if we are to achieve our objectives.

In that regard, we have a number of important pieces of work underway. We have commenced a program of independent reviews of compliance with our new Information Security standard (CPS234), and have kicked off a data collection exercise on technology and cyber risks. In conjunction with CFR agencies, we are also undertaking a pilot exercise involving penetration testing of selected regulated entities. And we are working to ensure we have a robust cross-agency cyber incident response protocol in place for when major cyber incidents happen.

The third area I wanted to mention is matters directed to us from the Royal Commission. These have not been forgotten. We are on track to complete the 10 recommendations directed to APRA this calendar year – the major outstanding issue being the finalisation of our new standard on remuneration. As for the 12 enforcement referrals directed our way (relating to 10 entities), we have completed and taken necessary action, or are close to doing so, on 11 of the 12 matters. We expect to finalise our approach on the remaining matter by the end of the year. In cases where we have issued directions or imposed licence conditions, or entered into a Court Enforceable Undertaking, these have been published.

Beyond those three issues, let me conclude by emphasising that Australia's financial system remains fundamentally sound despite the considerable strains that come from a once-in-a-century pandemic.

It is welcome that the economic recovery is underway, but APRA is certainly well aware that there is some way to go, and that the recovery will be uneven across industries and regions. While we continue to pursue reforms to strengthen the industry's ability to deliver for the community over the longer term, our primary focus in the immediate future remains on maintaining financial and operational resilience during the uncertain period ahead.