OPENING STATEMENT

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Chair
Australian Prudential Regulation Authority

Senate Economics Legislation Committee
27 October 2020

Thank you for the opportunity to appear today. The last time we were before this Committee to discuss APRA's activities was in March. It would be no understatement to say the world has changed a great deal since then.

As it did for all societies, businesses and governments, the COVID-19 pandemic significantly and suddenly changed APRA's operating environment. The health crisis brought with it an economic crisis and subsequent economic contraction that has been more severe than anything seen since the Great Depression. This had, and will continue to have, a material and ongoing impact on all of the industries that APRA oversees.

As I've said on every available occasion, Australia went into this crisis with a financial system in a strong, stable position. That has been a critical factor in allowing the financial sector to play its natural role in absorbing risk and acting as a shock absorber for the rest of the economy.

Nevertheless, the onset of COVID-19 required APRA to quickly reset and reshape its priorities. APRA had a wide-ranging and ambitious agenda for 2019/20 and beyond, responding to the many reviews and inquiries into the financial system in earlier years. COVID-19 meant that there had to be a rapid reassessment of those priorities, and a redeployment of resources to focus on the core operational and financial resilience of the sector.

To recap on the past seven months, the COVID-19 response measures APRA has undertaken include:

- providing timely and targeted regulatory concessions designed to enable financial institutions to support their customers in a period of crisis (such as through the substantial program of loan deferrals);
- reducing regulatory burden (for example, by suspending major policy and supervisory initiatives) at a time when industry participants needed to devote all of their time and attention to maintaining their operations and helping the Australian community;
- supporting broader Government stimulus measures and policy responses, such as the early release of superannuation;
- collecting and publishing additional data to enable a transparent and objective view of the impact and success of various measures (including comprehensive weekly data on superannuation early release, and monthly bank-by-bank data on loan deferrals); and
- stressing the importance of the continued flow of credit, and making clear that the capital strength that has been built up in good times is available to be used in times such as these.

In providing regulatory relief and reducing burden, I do want to stress that we have sought to do this in a way that did not materially weaken the fundamental strength of the financial system. A stable and resilient financial system remains a critical foundation for Australia's economic recovery, and we have been careful to make sure that our measures do not undermine this. It is with that in mind that we also issued two rounds of guidance to industry on dividend payments at a time of heightened uncertainty.

As we said at our appearance at the Senate Select Committee on COVID-19 in May, on the whole, the Australian financial system has responded well to the impact of the virus. Investments in financial resilience, risk management, cyber security and contingency planning, while never perfect, have stood up well thus far. However, we know there are still many challenges to come.

APRA's updated priorities

Looking ahead, the immediate challenge of maintaining financial and operational resilience during a period of considerable stress and disruption remains front and centre for APRA. In particular, APRA's priority over the next 12-18 months is to maintain financial system resilience by: protecting the safety and soundness of APRA-regulated institutions; fostering their operational resilience during a period of significant disruption and risk; and enhancing contingency plans for adverse events.

But we have not lost sight of the four key community outcomes that we set out to achieve in a 2019-2023 Corporate Plan. Those outcomes were:

- maintaining financial system resilience;
- improving outcomes for superannuation members;
- transforming governance, culture, remuneration and accountability across all regulated institutions; and
- improving cyber resilience across the financial system.

These outcomes were reaffirmed as our longer-term objectives in APRA's 2020-2024 Corporate Plan, which we published in August.

We have also not lost sight of the need to address the recommendations arising from the various reviews and inquiries that took place during 2018-19, including those of the Royal Commission and APRA's Capability Review. We expect many of these to be completed during the current financial year.

For the Committee's information I have included with this statement three attachments:

- a list of regulatory measures taken by APRA over the past year in response to COVID-19;
- summary data on the outcome of the superannuation early release initiative, and the volume of loan subject to repayment deferral; and
- a summary of our strategy and plans for each of the industries we regulate, as well as our cross-industry strategy.

I hope you will find that information useful.

My colleagues and I would now be happy to take your questions.

ATTACHMENT

APRA COVID-19 INITIATIVES

Date (2020)	**Industries Affected**	**Action**
19 March	ADI	**Regulatory concessions**: 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	**Regulatory concessions**: 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	**Reduce burden**: 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	**Reduce burden**: 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	**Regulatory concessions**: APRA postponed an upward capital adjustment in relation to Individual Disability Income Insurance (IDII), which applied to many LI entities.
30 March	ADI	**Facilitate public sector support:** 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	**Reduce burden**: 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	**Reduce burden**: APRA postponed implementation of reporting standard on private health insurance reforms data collection.
1 April	ADI (and RFCs)	**Reduce burden:** APRA, along with ABS and RBA, announced a range of adjusted reporting requirements.
1 April	Super	**Regulatory guidance:** 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	**Regulatory guidance:** 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 decision for the next couple of months.

Date (2020)	Industries Affected	Action
8 April	ADI, LI, GI, PHI, Super	**Regulatory guidance:** APRA wrote to applicants for new banking or insurance and superannuation licences to advise that it is temporarily suspending issuing new licenses for at least six months in response to the economic uncertainty created by COVID-19.
16 April	Super	**Facilitate public sector support:** 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	**Reduce burden:** 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	**Facilitate public sector support:** APRA released new reporting standard to enable data collection in relation to the Government's SME Guarantee Scheme.
21 April	Super	**Facilitate public sector support:** APRA launched new data collection to assess progress and impact of the Government's temporary early release of superannuation scheme.
4 May	Super	**Transparency:** APRA publishes data on amount, value and timeliness of aggregate payments under the Government's temporary early release of superannuation scheme.
7 May	ADI	**Regulatory concessions:** 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	**Transparency:** 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	**Regulatory guidance:** APRA published additional guidance to assist ADIs in relation to their market risk capital requirements.
17 June	ADI	**Regulatory concessions:** APRA published frequently asked questions (FAQs) on expectations in relation to residential property valuations.
24 June	Super	**Transparency:** 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	**Regulatory guidance:** APRA published additional guidance to assist ADIs in relation to the capital treatment of securitisation schemes.

Date (2020)	Industries Affected	Action
8 July	ADI	**Regulatory concessions:** 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	**Transparency:** APRA released the aggregate industry data on the amount, type and risk profile of loan repayment deferrals.
22 July	Super	**Regulatory guidance:** APRA published frequently asked questions (FAQs) providing guidance to superannuation trustees on the COVID-19 Pandemic Data Collection requirements.
24 July	ADI	**Regulatory concessions:** APRA published frequently asked questions (FAQs) on expectations in relation to commercial property valuations.
29 July	ADI, LI, GI, PHI	**Regulatory guidance:** APRA updates its guidance on capital management for banks and insurers, emphasising the importance of keeping dividend payments to moderate levels (ADIs encouraging to retain at least half their earnings).
10 August	ADI, LI, GI, PHI, Super	**Resumption of activities:** APRA announced recommencement of its prudential policy program and a phased resumption of the issuing of new licences.
13 August	ADI	**Regulatory consultation:** APRA issued a letter to ADIs regarding consultation on treatment of loans impacted by COVID-19.
9 September	ADI	**Regulatory concessions:** APRA formalised the temporary concessions in relation to the regulatory treatment of loans subject to repayment deferrals, and the concessional treatment for loans being restructured.
22 September	ADI	**Regulatory guidance:** APRA issued a letter to ADIs in relation to the outcomes from its review of ADIs' plans for the assessment and management of loans with repayment deferrals.
1 October	Super	**Regulatory guidance:** APRA published guidance on the interaction between JobKeeper payments and 'work test' contributions.
21 October	Super	**Reduce burden:** APRA announces updates to the Early Release Initiative (ERI) data collection and COVID-19 Pandemic Data Collection (PDC), with some data items to be discontinued.

COVID-19 Superannuation Early Release Scheme

CURRENT STATUS OF PAYMENTS

$34.3bn
Payments Made

3.3
Average Business Days to Payment*

$7,665
Average Payment

95%
Apps Paid within Five Business Days

INITIAL APPLICATION

3.3M
Applications Received#

$7,401
Average Application Amount

REPEAT APPLICATION

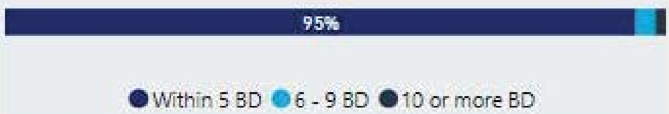
1.3M
Applications Received

$8,363
Average Application Amount

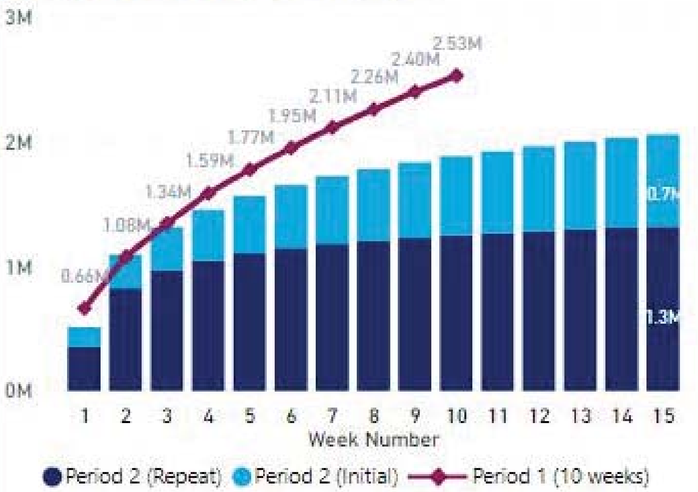
VALUE OF APPLICATIONS (CUMULATIVE)

PAYMENT STATUS

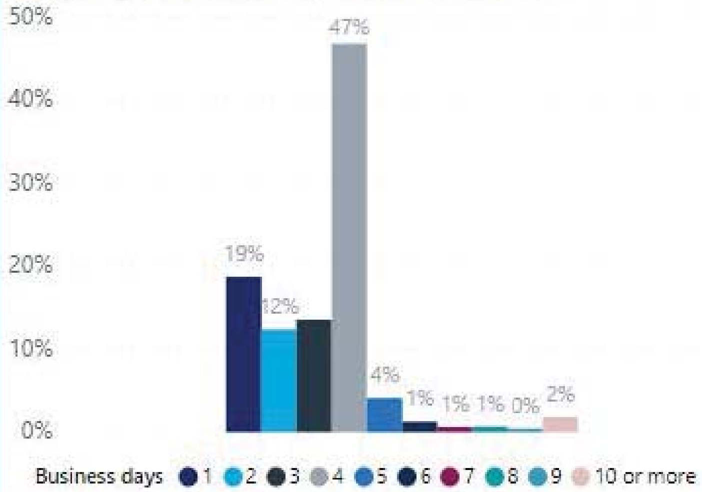
PROCESSING TIMES FOR PAYMENTS



NUMBER OF APPLICATIONS^



DISTRIBUTION OF PROCESSING TIMES



** Payment processing period measured from date super fund receives application from ATO.*

 # The number of initial applications exceeds the number of individuals that have applied since some have applied from more than one account. Initial applications are first applications made since the inception of the Scheme and repeat applications are additional applications made for those same accounts.

^This dashboard defines Period 1 as 20 April to 28 June 2020 and Period 2 as 29 June to 11 October 2020.

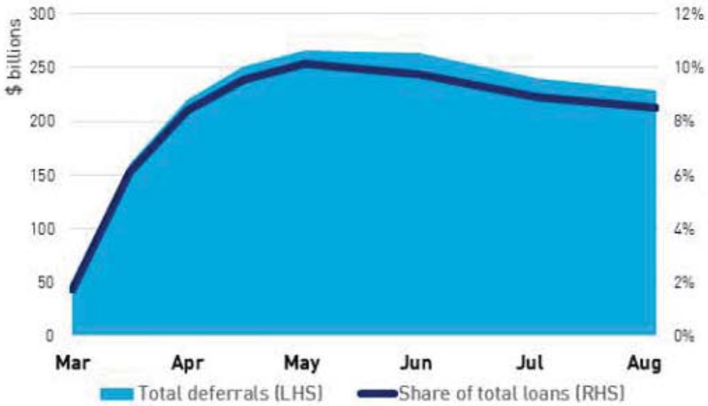
This dashboard covers payments from inception of the Scheme to 11 October 2020.

Updated on 19 October 2020

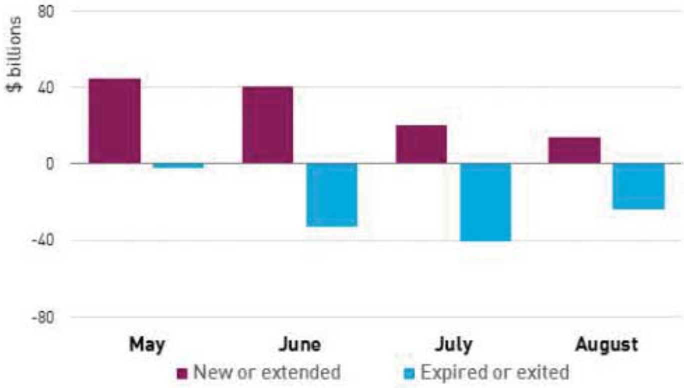
Temporary loan repayment deferrals due to COVID-19

Aggregate industry data on loans subject to repayment deferral

Loans subject to repayment deferral

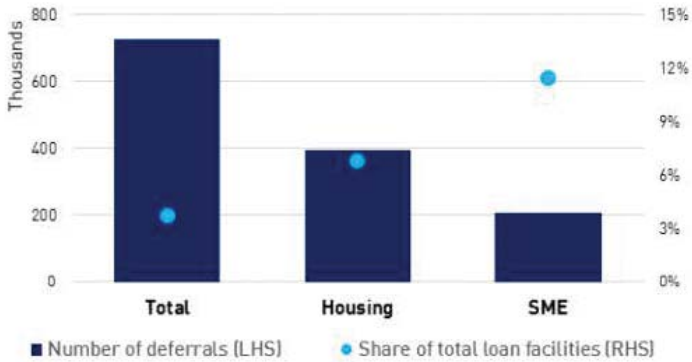


Monthly movements

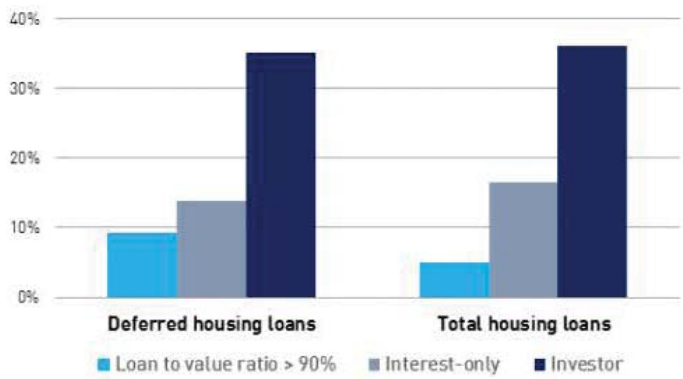


Share of total loans

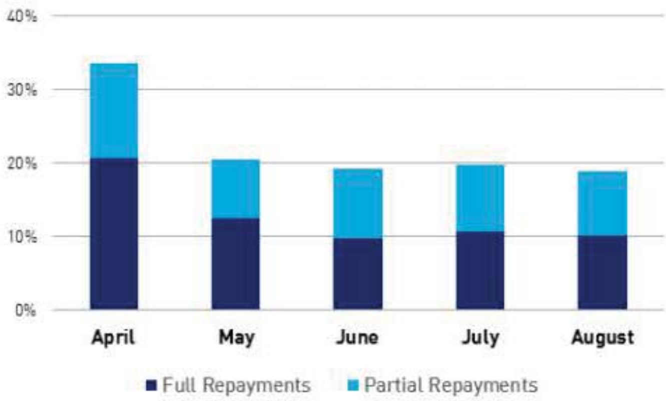
Number of loan facilities*



Housing loan risk profiles**



Borrowers continuing to make repayments



SME refers to small and medium businesses.
Data prior to June from the largest 20 ADIs by loan size.
Data from June from all ADIs excluding foreign branches.

As at 30 September 2020

APRA's Superannuation Strategy – Improving outcomes for superannuation members

Strengthening the prudential framework

We are enhancing our prudential framework for superannuation to ensure it is fit for purpose and facilitates a stable, resilient, efficient, transparent and innovative super system into the future.

- We have implemented SPS 515 *Strategic Planning and Member Outcomes* which requires funds to undertake a Business Performance Review as part of strategic and business planning, assess outcomes for members and identify opportunities for improvement as well as strengthening oversight of expenditure.
- Consultation on revised standards and guidance is recommencing following COVID-19 reprioritisation and inline with the Superannuation Reforms announced in the Federal Budget.

Enhancing superannuation data and insights

We have a three phased approach to uplifting APRA's superannuation data collection capability and reporting to address gaps in the coverage and quality of the superannuation reporting framework.

- Phase 1 of the Super Data Transformation project to expand the breadth, depth and consistency of its superannuation data collection has been released for consultation.
- We have expanded data collections throughout COVID-19.

Sharpening supervisory focus

We are targeting our supervisory approach through deeper analysis to ensure better understanding of underlying issues, with a strong focus on enhancing outcomes and strengthening governance practices.

- We have strengthened our supervisory approach particularly targeting underperforming funds and poor governance and oversight by trustees, using data and evidence to demonstrate areas of concern.
- We are recommencing work on the outsourcing/conflicts of interest thematic, reinforcing the need for entities to have robust policies and practices for management and oversight of related party arrangements.

Improving industry transparency and sustainability

We have expanded the publication of data to drive improved transparency and accountability for trustee's activities and outcomes, facilitating stakeholders to make informed decisions and actions.

- We have bolstered transparency with additional data publications and commentary on industry trends.
- More than 40% of MySuper members have seen a reduction in fees, which we expect to increase to 70% in the end-of-year update, reflecting changes to fees and costs since our Heatmap was published.
- Work is underway to further enhance the heatmap, including extending it to choice products and insurance.

APRA's Insurance Strategy
– Supporting viable, sustainable and accessible insurance industries

Breaking the cycle in Life Insurance

We are intervening to create a resilient and viable industry, following years of losses and issues around product design. We are prioritising work on sustainable products, with a secondary focus on uplifting data quality, and in the long-term, risk governance.

- We have intervened in Individual Disability Income Insurance (IDII) by imposing capital add-ons for IDII writers and have published measures for insurers to take to deliver a more sustainable product.
- We are conducting stress-testing on life insurers to test areas of vulnerability and determine the impact of COVID-19.
- We have gathered information from entities and are planning on how to approach emerging risks in group insurance in Super.

Access and affordability in General Insurance

We are focused on improving outcomes to consumers by ensuring a more resilient, stable, efficient and competitive general insurance market with a reduced protection gap.

- We are contributing to the debate on affordability, availability and adequacy of insurance across all classes of business through a number of external engagement mechanisms.
- We are building awareness and developing strategies to mitigate the reliance on overseas reinsurance. We have regular dialogue with international peer regulators in this respect and are considering pathways for alternate capital options.
- We are undertaking planning to improve and embed recovery plans and resolution options across the sector. The plan will be enacted in 2021.

Managing sustainability risk in PHI industry

We are ensuring that PHIs develop meaningful strategies to address affordability and sustainability concerns and that they establish robust recovery plans in the event that entity strategies prove unsuccessful and they face financial stress.

- We have issued industry guidance on the treatment of deferred claims and prudential reporting due to COVID-19.
- We are working with industry to ensure all PHIs have credible recovery plans that set out how they will respond to financial stress.
- We have strengthened our engagement with government, peer regulators and industry groups on affordability/sustainability concerns.

Fit for purpose capital and reporting frameworks

- We are ensuring that our capital and reporting frameworks remain adaptive to external changes, including the introduction of AASB 17 Insurance Contracts.

Driving sustainable Friendly Societies

- We are increasing our supervisory intensity, and challenging the viability of existing strategies and business models, to drive a more sustainable and viable Friendly Societies industry. This is intended to support appropriate consolidation in the industry to address viability.

APRA's ADI Strategy
– Maintaining financial system resilience

Strengthening capital resilience and recovery

We are ensuring that banks balance the need to retain capital to absorb losses whilst facilitating the flow of credit to the economy during the pandemic and recovery.

- We have conducted a series of economic stress tests across the industry to assess resilience and lending capacity.
- We have encouraged ADIs to use their capital buffers to maintain the flow of credit.
- We have issued guidance to restrict ADIs' dividend payments to no more than 50% of earnings, ensuring capital is available to absorb losses during the pandemic and to lend as the economy recovers.
- We have held roundtables with large ADIs to run macroeconomic downside scenario stress test and recovery fire-drills with the focus on maintaining credit availability as well as additional capital restoration.

Enhancing credit management

We are ensuring that problem loans are transparently identified, rated and provisioned to maintain confidence in bank capital adequacy and viable borrowers retain access to credit.

- We have granted temporary capital relief for mortgage and SME credit subject to repayment deferrals during COVID-19.
- We have reviewed ADIs' comprehensive plans for the assessment and management of loans with repayment deferrals to ensure integrity of loan performance classification.
- We have increased transparency by publishing industry and entity-level data on loans subject to repayment deferrals.
- We have confirmed the capital required for loans benefitting from the COVID-19 SME guarantee scheme.

Improving liquidity and funding

We are ensuring that ADIs have stable and reliable liquidity and funding in the face of uncertainty, reducing reliance on external support.

- We advised ADIs to prudently use liquidity buffers, if needed.
- Along with the RBA, we worked across the industry to improve the access to, and timeliness of, self securitisation.
- We have adjusted our liquidity requirements to include the Term Funding Facility.

Strengthening operational resilience

We are ensuring continuity of key banking functions to Australians through the crisis.

- We worked with the ADI industry to ensure they positioned business processes to respond to COVID-19 e.g. business continuity, service delivery impacts, cash availability.
- We are engaging in data driven IT Risk insights analysis as well as enhancing cyber capability through the Prudential Standard CPS 234 (Information Security) reviews.

APRA's Cross-Industry Strategy
- Mitigating risks in an evolving financial system

Improving cyber resilience

We have a range of workstreams in progress to ensure the financial system can stand firm against cyber attacks.

- In June 2019, we set information security obligations for all APRA-regulated entities to maintain sufficient cyber security capability to protect the interests of the Australian community.
- We are delivering against our four-year cyber strategy to ensure boards and management are able to oversee and mitigate cyber threats, that cyber controls are operating effectively, and that weak links in the financial system are rectified.
- We are acting in concert with peer regulators, other government agencies and Australia's Cyber Security Strategy.

Transforming data-enabled decision making

We are facilitating greater and more effective use and sharing of data in the oversight of the Australian financial system.

- We have initiated several new data collections to enhance understanding and response to the impacts of the COVID-19 pandemic, including loan deferrals and early release.
- Planning is well-progressed to restart the APRA Connect project in early 2021. APRA Connect will be a key enabler of future data collections.
- We have refocused our data strategy work on uplifting our own capabilities through our super data transformation program. Learnings will be applied across the entire organisation.

Transforming governance, culture, remuneration and accountability (GCRA)

We remain committed to transforming governance, risk culture, remuneration and accountability in regulated entities. In responding to COVID-19, timing is adjusting but the goal remains.

- We published an information paper in November 2019 outlining our approach for uplifting standards of GCRA.
- We will release a revised cross industry standard for remuneration which addresses Royal Commission recommendations 5.1 to 5.3 by the end of 2020.
- As part of our response to Royal Commission recommendation 5.7, we have started our program of deep dive risk culture reviews and continue to monitor CBA's progress on the Prudential Inquiry recommendations.

Improving resolution capability

We are protecting the Australian community by planning ahead to minimise financial loss, distress and instability within the financial system in the event of a crisis.

- We continue to roll out and strengthen the credibility of recovery plans across industries to ensure they can respond to financial stress.
- We are enhancing our readiness to deal with potential failures of one or more institutions through contingency planning for high risk institutions and internal operational preparedness.
- We have required the largest banks to increase their loss absorbing capacity (LAC) capital to support orderly resolution in the event of failure, reducing potential call on public funds.