

OPENING STATEMENT

John Lonsdale
Chair
Australian Prudential Regulation Authority

Senate Economics Legislation Committee
9 November 2022

Thank you for the opportunity to appear here today. I am very pleased to be here at my first parliamentary hearing since becoming APRA chair on 31 October.

Firstly, I would like to congratulate the new Committee Chair and Deputy Chair. APRA looks forward to working with the committee to ensure our work protecting the financial wellbeing of the Australian community is understood.

Over the past two years, the Australian community has faced continuing challenges from the global pandemic, major geopolitical and weather events, and rapid changes in economic conditions with rising inflation and higher interest rates.

However, despite these considerable uncertainties, Australia's financial system has remained fundamentally sound and stable, and APRA regulated institutions – banks, insurers and superannuation funds – have been well-positioned to continue to deliver their important services and support to the Australian community.

As the new Chair, I want to ensure APRA continues to protect the financial wellbeing of the Australian community with a strong and stable financial system.

The challenges in front of us are significant – a rapidly shifting macro-economic environment, rapid technological development that challenge business models and regulation, cyber threats, insurance affordability pressures, climate change and improving the performance of our superannuation system to name a few.

APRA has a sound strategy in place which has been developed to respond to current challenges and emerging issues for the financial system.

Our work requires a whole of system approach to issues as a lot of the significant challenges facing the financial services industry cannot be solved by APRA alone. We are working closely with other regulators and other government departments on live issues, such as cyber security.

APRA has significant supervision, policy and resolution workplans in front of us to contribute to the community's ability to achieve good financial outcomes and this has been detailed in our Corporate Plan which we published in August.

Today, I will focus on a couple of areas of immediate focus for APRA.

Housing credit

APRA's focus in monitoring the housing market stems from our responsibility to protect bank depositors – who provide the funds that banks lend for housing – and to promote overall financial system stability. We do that through ensuring bank balance sheets are sound and lending standards are appropriate.

APRA has worked hard to ensure lending standards are sound to reduce the potential impact of bad loans on individuals and the financial system. I would note particularly the significant decline in high debt-to-income lending over the last 12 months.

With the macroeconomic outlook ahead, unfortunately, we expect there to be pockets of stress from mortgage holders and other borrowers who find themselves over-extended, which will be exacerbated as property prices fall. We are not yet seeing widespread evidence of this, albeit there is an uptick in defaults in some small business areas.

Cyber incidents

APRA continues to work with other government agencies, regulators and industry bodies to respond to the Optus and Medibank data breaches. APRA's role is different in terms of the two incidents, but fundamentally relates to the legal obligations of APRA-regulated entities outlined in Prudential Standard [CPS234 Information Security](#).

While APRA does not regulate Optus, APRA supported the whole of government response to the Optus breach and were active members of the Optus Taskforce. APRA assisted in the development of a new regulation to allow Optus to share limited customer information with APRA-regulated institutions and government agencies, to enable heightened monitoring and other protective measures to be implemented.

In addition, the Council of Financial Regulators' cybersecurity working group, of which APRA is currently chair, will examine and report on options to improve the ability of financial institutions to identify at risk customers and credentials by utilising an existing data sharing platform which meets the requisite privacy and security requirements. This would enable financial institutions to enhance further their protections for consumers from financial crime.

We continue to work closely with Medibank, which is now subject to heightened supervision following the data breach. We also wrote to all APRA-regulated entities following both the Medibank and Optus incidents to reinforce the need for entities to ensure that information security controls are in place and operating to safeguard the entity and protect their customers. APRA will look to apply lessons to APRA's existing program of work underway to uplift cyber resilience across the industry. In addition, we will be liaising with Medibank in relation to the scope of the external review announced by Medibank and will be kept apprised of outcomes.

Superannuation

In superannuation our focus continues to be on identifying and addressing fund underperformance, and ensuring trustees are always focusing on the interests of their members.

In August, APRA published the results of the 2022 MySuper performance test. While there were five failures, including four MySuper products that have now been closed to new members, overall the advent of the test, alongside the existing APRA heatmaps, has driven positive change. We have seen a steady flow of trustees acknowledging that their members

would be better placed in the hands of another, better performing trustee and this consolidation is driving costs down and seeing more members in better performing products.

As the committee would be aware, a review of the Your Future Your Super reforms is now underway. The review will give stakeholders the opportunity to have a say as to what enhancements could be made to the reforms, including the performance test. From APRA's perspective, a review after two cycles of the test makes good sense.

Next month, APRA will publish its fourth superannuation heatmap, which will add to the transparency around fund performance and fees. Over the next few weeks, APRA will be also releasing a number of important consultations for the superannuation industry on superannuation transfer planning, strengthening financial resilience, and investment governance.

In addition to these superannuation consultations, APRA will also be releasing a number of major publications over the next few months including:

- An information paper on the climate vulnerability assessments (CVA) that APRA undertook on Australia's largest five banks across 2021-2022.
- An information paper on APRA's macroprudential policy.
- The final prudential standard on recovery and exit planning.
- A guide for directors of authorised deposit taking institutions as part of our Modernising the Prudential Architecture project.
- A letter to providers of purchase payment facilities on minimum capital requirements.
- A consultation on a number of life insurance prudential standards.
- Jointly with the Australian Securities and Investment Commission (ASIC), information on the APRA-ASIC joint administration of the new Financial Accountability Regime, after legislation has passed parliament.

With these comments, my colleagues and I are happy to answer the Committee's questions.