OPENING STATEMENT

John Lonsdale
Chair
Australian Prudential Regulation Authority

Senate Economics Legislation Committee
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My colleagues and I value the opportunity to be here today to detail APRA's work protecting the financial wellbeing of Australians.

Although there are several topics we could touch on across banking, insurance and superannuation, I want to begin by focusing on our response to recent offshore banking failures and APRA's ongoing work in ensuring the safety and resilience of the Australian financial sector.

Recent stresses within US and European banks triggered concern throughout international banking markets and highlighted new complexities and challenges in responding to bank stress. Our response to these events needed to be urgent and intensive to mitigate contagion risk and shore up confidence in the sector.

APRA's actions at the time included:

- liaison with regulatory counterparts both overseas and domestically to share data and learnings;
- closer supervision of banks and more frequent liquidity reporting;
- targeted analysis and mitigation of risks; and
- education regarding the strength of Australia's banks and the resilience within our financial system.

This financial system resilience reflects significant reforms to the Australian prudential framework and work over many years. Australians can and should be confident in the strength of our system. We have significantly higher capital expectations of our banks, plus liquidity, credit risk and interest rate risk requirements, which go beyond international minimum expectations. Although not immune to issues, these measures make our banking system one of the strongest in the world.

Ongoing vigilance and lessons

While the Australian banking system remains highly resilient, international events present an opportunity for APRA and its peers to consider the lessons we can draw from these events.

One of the clear observations is the need for regulators to be ready to respond to a crisis with much greater speed than previously required. This lesson is steering our direction at APRA as we finalise the review of our strategy for the upcoming financial year. Two other areas are also noteworthy

1. <u>In regulation</u>: There are specific lessons in terms of liquidity risk and the speed of runs. Additionally, and in spite of our much stricter requirements for Australian banks to carry

capital to address the risk of rising interest rates, we continue to consider ways to improve interest rate risk management. The Basel Committee, too, will firm up its expectations of the world's banks and this will inform our framework improvements over time.

2. In supervision: Naturally, the assessments of the regulatory actions in both the US and Switzerland will shape improvements to our supervision approach here in Australia, as well as to the regulatory framework.

Current risks

There are several challenges and risks we remain focused on including an uncertain economic outlook, heightened inflation risks, geopolitical risks, contagion risks from offshore, as well as unforeseen shocks. This means APRA's intensified monitoring and supervision continues.

APRA's serviceability buffer – currently set at 3 per cent – is important so lending remains prudent. We continually appraise these settings in response to changes in economic conditions. APRA's assessment is that the serviceability buffer level remains appropriate in the current environment.

We are attuned to concerns for some borrowers who may have fewer options for refinancing their existing loan with another lender, for what could be a variety of reasons. For some, the impact of rising interest rates may have resulted in less favourable serviceability results; others might be impacted by declining housing prices or changed personal finances.

Where sound borrowers do not fit standard lending criteria, APRA's framework does not prohibit banks from lending to these borrowers. APRA expects banks to have prudent limits, controls and justifications for exceptions to lending policy and for these loans to be monitored closely.

It is important that exceptions are used prudently and do not result in new, higher risk lending. We will continue to reiterate our guidance and expectations in the coming period.

APRA's upcoming* focuses *and accountability

Beyond the continued focus on banking which this statement outlines, APRA continues to tackle key issues in insurance availability and affordability, as well as superannuation transparency, efficiency and member outcomes. The annual superannuation performance test is due in August, and together with ASIC, we are finalising a thematic review relating to the retirement income covenant.

Cyber issues, operational risk and climate risk all remain key focus areas for APRA. Industry engagement on operational risk and remuneration is also upcoming.

APRA recently completed its bi-annual stakeholder survey, where we seek feedback from regulated entities as to the effectiveness of our regulation, processes and communications. Pleasingly, one of the key findings is that most entities believe that APRA's supervision benefits their industry and helps to protect the financial wellbeing of the Australian community.

The survey results have been provided to the Financial Regulator Assessment Authority (FRAA), which is completing its independent assessments. The final FRAA report is due to the Minister next month, and its appraisal will be an important input as we endeavour to continually evolve APRA as a high performing institution.

On that note, my colleagues and I welcome your questions.