



OPENING STATEMENT

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***Senate Economics Legislation Committee
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Since our previous appearance in May, APRA has continued with a very busy agenda, and made good progress on some of the issues we discussed with you previously:

- On bank capital, we announced in July how we would calibrate capital requirements to meet the Financial System Inquiry's 'unquestionably strong' objective. There is more work to do to achieve this objective, but importantly there's now more certainty for the industry about the ultimate destination for strong capital levels and the time to achieve it.
- In the area of housing, we've continued to work to reinforce sound lending standards. The measures we've taken appear to be having a positive impact with strengthened serviceability assessments, moderating investor loan growth and a reduction in high loan-to-valuation lending, and our most recent benchmark for interest only lending to remain below 30 per cent of total new lending looks like it has been comfortably achieved overall.
- In relation to life insurance, significant progress has been made in the work APRA and ASIC are undertaking to deliver enhanced information about life insurance claims to consumers. The two agencies are currently analysing the results of the pilot data collection we launched in May. Comparability of the data is not yet where we need it to be, but we expect that insurers will improve their performance as the pilot proceeds. We'll have more to say on this in the next few weeks when we release an update on progress and launch the next round of our pilot data collection.

In recent months, we've also contributed to the development of the Government's proposals, announced in the Budget and discussed briefly with you last time, regarding accountability in the banking system (the BEAR regime), measures regarding non-ADI lenders, and use of the term 'bank'. Of less prominence, but of major importance, has been the development of the Bill on APRA's crisis management powers that was introduced into Parliament last week. We regard this legislation, which has been many years in the making, as vital infrastructure for the well-being of the financial system, and commend it to you.

All of those issues were on the radar when we last appeared before this Committee. More recently, there are three developments I would like to mention:

- Firstly, we are working to lift operational governance practices of superannuation trustees: how trustees determine their strategic objectives, undertake business planning and run their business operations on a day-to-day basis. We're currently considering feedback from initial consultation on proposed changes to the superannuation prudential framework, with a view to releasing a detailed package of draft standards and guidance in the next month or so. APRA's proposals are separate to – but aligned with – the Government's own proposals to enhance superannuation governance, accountability and member outcomes. Importantly, both initiatives have the same goal: improved outcomes for superannuation fund members.
- Secondly, we announced a Prudential Inquiry into governance, culture and accountability within the Commonwealth Bank. This decision followed a series of incidents at the bank, which have severely damaged its reputation and public standing. Our view was that the situation had reached the point where an independent review was required to give the community greater confidence that the causes of these incidents have been properly addressed. The Inquiry is now fully staffed and underway, with a progress report due in January and a final report at the end of April.
- Thirdly, APRA recently released the results of its biennial Stakeholder Survey. We use this survey as an important barometer of APRA's performance, and as a means of demonstrating our accountability. Pleasingly, the 2017 Survey provided very strong endorsement of APRA by both regulated institutions and knowledgeable observers, with APRA's activities viewed as benefiting individual institutions, the financial system, and the community as a whole. The Survey is conducted by an independent research agency, and their report is publicly available on our website.

Before I conclude, I thought it also worth making with a couple of comments on the broader health and structure of the financial system. The Australian financial system remains fundamentally sound, but not without its challenges. Returns have, overall, been declining in recent years. Many of the largest financial institutions face an environment in which there are significant cost pressures, domestic growth opportunities are limited, but international expansion is viewed with caution by their investors. This has led to a focus on streamlining business models, and, in some cases, major divestments.

One area where this change is having a major impact is in life insurance. Not that long ago, the Australian life insurance industry was largely Australian-owned. Recent transactions have seen it become majority foreign-owned, and it is not impossible to foresee an almost fully foreign owned within the next five years or so. This change in ownership is partly a consequence of the decision by most of the major banks to exit the life industry, in light of the forces which are impacting returns in their own industry. The new foreign owners are typically specialist life insurers, with deep sources of capital and longer time horizons aligned to the insurance cycle. They potentially bring benefits in the shape of product innovation, product coverage and related competition. To the extent there are challenges, they come from managing the comparability of regulatory regimes for the parent companies and ability to engage with the senior executives and owners of the Australian business.

In raising this issue of changing ownership, I don't want to be seen to suggest such an outcome would necessarily be problematic from a prudential perspective – I raise it simply as a reminder that, with so much focus on the here and now, the important trends that shape the financial system we'll have in the future can sometimes go largely unnoticed.

I hope that has been useful background. We would now be happy to take your questions.