OPENING STATEMENT

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Senate Economic Legislation Committee
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APRA's 2018/19 Annual Report was tabled last week, detailing our activities for the past year. We emphasised in that report that the Australian community continues to benefit from a sound, stable and resilient financial system – which is APRA's core deliverable. We also emphasised, however, that stability should not be taken for granted. There are a range of vulnerabilities – economic, political and technological – that pose material threats to financial system were they to play out adversely. Our role is to maintain a careful watch on these and ensure the financial system will be as resilient as reasonably possible to shocks and stresses, should they arrive. Confidence in the strength and resilience of financial institutions is critical to supporting and promoting economic growth and prosperity in Australia.

In August, we published our updated Corporate Plan for the next four years, setting out a roadmap for reinforcing APRA's strong track record of safeguarding financial stability, while also lifting our capabilities to address emerging and future challenges. The formulation of the plan has been influenced by the findings of six separate reviews and inquiries over the past 18 months that examined aspects of APRA's regulatory approach and performance, including the financial services Royal Commission and recent Capability Review. While APRA continues to undertake a broad range of activities in a wide range of areas, the Corporate Plan calls out four key outcomes that we aim to deliver for the Australian community. They are:

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

We fully expect this Committee will want to regularly engage with us to ensure these important outcomes are being delivered.

As I noted, our Corporate Plan has been influenced by a range of reviews and inquiries, including the recent APRA Capability Review. The Review provides a useful – albeit very ambitious – roadmap for the future. We were very pleased that the report recognised APRA has been effective over a long period of time in delivering our core financial safety and stability mandate. We also fully accept the report's underlying theme that APRA must adapt and evolve to our increasingly complex operating environment if we are to be successful in the future.

In response, and to successfully deliver on the four key outcomes I referred to earlier, we are investing heavily in our own capabilities across the full gamut of our operations: improving and broadening our risk-based supervision; improving our resolution capability and crisis readiness; significantly improving our data-enabled decision making; enhancing our external engagement and collaboration; and increasing our investment in our leadership, people and culture. These will take time and, if we are to meet our aspirations, additional resourcing. But we are ready and willing to embrace the challenge.

Before concluding, I'd like to make some quick comments on three important areas of current activity.

First, housing. Housing has been a regular topic of discussion at these hearings. APRA has worked extensively over the past five years to re-establish sound lending standards after an earlier period in which they had been eroded due to strong competitive pressures. While not declaring victory, we have been able to step back and materially reduce the extent of intervention in this area over the past year as sound lending standards became embedded across the industry. Nonetheless, the housing market remains an area we are watching closely, particularly given record low interest rates, already high household debt, and signs of some revival in borrowing for speculative purposes.

Second, superannuation is another topic that has been of regular interest to this committee. The passage of superannuation reforms by the Parliament in April granted APRA additional powers, including the long-sought directions power. This power has already been used on several occasions to compel trustees to take specific actions to protect member interests. Coupled with a strengthening of APRA's own prudential requirements and intensified supervisory scrutiny, the industry continues to consolidate in response to heightened expectations.[1]

The pressure on underperforming funds will increase further before the end of this year, with the publication by APRA of a heatmap showing the performance of MySuper products across a number of dimensions: returns, fees and costs, sustainability and (in due course) insurance. The heatmaps will be expanded to include choice products over time. This initiative will bring a major new level of transparency to the performance of trustees in delivering outcomes for their members.

Third, we have a major program of work aimed at transforming governance, culture, remuneration and accountability throughout the financial sector. This has three key components: strengthening the prudential framework (through firmer expectations of boards and senior executives); sharpening our supervision (by undertaking new activities and acquiring additional expertise) and sharing our insights and findings (meaning we will make a lot more information about what we find publically available).

Related to this, we have a major policy reform in train in relation to remuneration. Reflecting a clear conclusion from the Royal Commission that remuneration practices played a significant role in producing poor outcomes, we are consulting on a new standard that will require boards to ensure their remuneration practices reward the right behaviours, improve accountability and promote effective management of financial and non-financial risks. We are not capping executive pay, but have proposed a limit on the use of financial metrics to determine variable remuneration, and increasing bonus deferral periods to at least seven years for CEOs.

There are many other activities I could speak about – such as our work on building cyber resilience in the financial system, our efforts to support competition, our data modernisation program, our increased enforcement activity and enhanced inter-agency collaboration – but in the interests of time I will conclude here. My colleagues and I would be pleased to answer your questions.

[1] This reflects a longer term trend in industry consolidation in the face of rising standards and heightened supervisory expectations: for example, a decade ago there were 278 superannuation trustees; today, that has contracted to 114.