

OPENING STATEMENT

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Chair
Australian Prudential Regulation Authority

Senate Economics Legislation Committee
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Thank you Chair and Committee members for the opportunity to be here today. My colleagues and I look forward to answering your questions around our role in protecting the financial wellbeing of Australia's community and maintaining resilience in the financial sector.

A fortnight ago, we released our policy and supervision priorities for 2023. It outlines our key focus areas across banking, insurance and superannuation. These priorities respond to the uncertainty present. The macroeconomic environment, including impacts of cost-of-living increases, rising interest rates as well as geopolitical uncertainty all present challenges to the entities we regulate and the community.

Balance

Our obligation as prudential regulator means we must have our eye on events playing out in the present while also scoping and preparing for long term risks. There has been much work undertaken over recent years to strengthen and build resilience in the system and prepare the industry for any potential downturn.

Our 2023 policy and supervision priorities continue this work to increase resilience, standards and capability across the industry for the benefit of all Australians. The agenda is measured to provide space for entities to deliver on these expectations whilst navigating through any economic turbulence including in support of customers. Some specific cross-industry focuses include:

- Strengthening operational resilience – a critical lesson from COVID-19.
- Bolstering cyber security across the sector, the importance of which was brought into sharper focus last year.
- Preparing for climate change impacts, particularly in relation to insurance availability and affordability.

Our forward-looking agenda also includes initiatives to modernise the prudential architecture and improve data collection across the industry. These initiatives will help make the regulatory framework clearer, simpler and more adaptable while also improving the quality and transparency of information available.

I'd like to provide a few more comments on some key sector focuses.

Banking

Rising interest rates, falling asset values and impacts to borrowers remain the most discussed issues in the banking sector.

APRA, alongside peer regulators and the industry, will continue to scrutinise impacts to the economy particularly mid-year when many fixed rate loans are due to expire.

A significant proportion of housing credit on low fixed rate terms will expire this year. APRA is engaging with banks to ensure that they are working proactively with affected customers.

Although some pockets of stress are likely to emerge this year, overall prudential indicators suggest that risks to financial stability are contained. Prior prudential measures aimed at strengthening banks' balance sheets and their lending standards mean that the system is well placed to absorb a more challenging period while continuing to meet the credit needs of households and businesses. Capital buffers are well above minimum requirements and APRA's latest stress testing indicates that the banking sector will remain resilient.

Put simply, credit continues to flow and bank lending standards are holding up. While there are clouds on the economic horizon, Australians can have confidence in the strength and stability of the system to ride out the conditions.

Superannuation

APRA's objectives for the superannuation sector remain consistent and pointed: rectify substandard industry practices, eradicate unacceptable product performance and improve outcomes for members.

Increasingly, we are urging the industry to develop high-quality retirement income strategies so a growing population of Australians can take advantage of their accumulated savings in their retirement.

This year we will review a key standard in superannuation – SPS 515 Strategic Planning and Member Outcomes – with the view of strengthening business planning practices and ensuring rigorous expenditure management. Building financial resilience is also high on our policy agenda.

As we have said before, APRA's view is that transparency in superannuation has been critical in driving better outcomes for members. We have undertaken a significant amount of work to shine the spotlight on underperformance, including through our most recent MySuper Heatmap update.

Our multi-year Superannuation Data Transformation project will see the publication of more data than ever before. This extensive work program will continue as we reform reporting standards and consult with industry, and much of the data we collect will be made public over time.

Insurance

In insurance, APRA's long-standing work to address affordability, availability and sustainability challenges continues.

The urgency of this work in general insurance is brought into sharp focus with each severe weather event affecting an Australian community. The problems are complex and solutions will be multi-faceted requiring a collaborative approach across industry, regulators, government and consumers.

APRA's engagement on climate change with industry and authorities both in Australia and internationally will remain a key focus. Late last year, we released the findings of the first Climate Vulnerability Assessment, which assessed the potential future financial impacts of climate change to help banks, insurers, and superannuation trustees better understand and manage these risks. Last year's assessment focused on the banks; this year, we intend to focus on the insurance sector.

APRA's capability

Before we go to questions, I'd like to give you a quick update on changes at APRA.

Since we last appeared before this committee and in our capacity as APRA's new Board, we have spent time assessing the organisation's capabilities.

APRA has a strong team of committed and talented individuals. I am proud to report that we achieved an 81 per cent employee engagement score late last year and have strong commitment from our people in areas including purpose, understanding of goals, collaboration and inclusion.

Nonetheless, in an environment of rapidly occurring change and where long-term risks may pose systemic impacts to the sector, it is appropriate we invest in our capabilities and have the right operating model in place. Hence, we have made changes to our organisation at a senior level to include a new division focusing on technology and data, and another which will improve efficiency and ways of working across the executive group. Leader appointments have been made and operational excellence is a focus for the organisation.

APRA's bi-annual stakeholder survey opens to the industry for feedback this week. It provides an important report on how we can continue to work collaboratively with entities, with the higher mission of protecting the financial interests of all Australians.

These inputs will be provided to the Financial Regulator Assessment Authority (FRAA). Alongside forums such as this one, APRA values the accountability that the FRAA review provides and we look forward its recommendations later this year.

On that note, I am happy to take your questions.