Senate Estimates opening statement

Supplementary Budget Estimates 2024–25: Economics Legislation Committee, 21 November 2024

Thank you for the opportunity to provide the Committee with an update on APRA's initiatives to uphold safety, stability and resilience in Australia's financial system, in the interests of the Australian community and to ensure regulated entities are delivering on their promises to their beneficiaries.

I would like to begin by reiterating that Australia's financial system remains strong and stable, benefiting from prudential regulation and policy settings reviewed and enhanced over many years. This offers reassurance that APRA-regulated entities have sufficient financial means to meet their obligations to bank deposit holders, insurance policyholders and superannuation fund members and to support a thriving economy.

However, financial services firms are facing a complex risk landscape, one requiring proactive management as well as adaptability and resilience. Key risks include an uncertain economic outlook, rising geopolitical tensions and ongoing cost of living pressures. As organisations have embraced digital transformation, cybersecurity and operational resilience are also top priorities.

Against this backdrop and since we last met with the Committee, APRA released its 2024-25 Corporate Plan with further detail on the key risks and issues the industry must manage and the initiatives APRA is prioritising in support.

In banking and the context of the uncertain economic environment, APRA continues to work with banks to ensure lending practices remain sound. Our data indicates housing credit continues to grow at a rate which is in line with longer-term averages. Arrears are at low levels, albeit they are increasing. Business credit growth remains solid and medium-sized businesses in particular have increased their borrowing.

Macroprudential policy remains a key focus. APRA will continue to review settings of the tools including the mortgage serviceability buffer and the counter-cyclical capital buffer with the aim to mitigate risks to financial stability at a system-wide level. We will release our regular macroprudential update later this year. The Committee will be aware APRA provided detailed evidence about macroprudential policy at the recent hearing on Financial Regulatory Framework and Home Ownership.

APRA continues its targeted updates to the prudential framework to support the resilience of the banking system in a stress event. We recently sought industry feedback on a proposal to replace Additional Tier 1 (AT1) capital with more reliable and effective forms of capital, and will update industry on this issue before the end of the year.

The revision of the bank capital framework in 2023 has also strengthened banking resilience. APRA's hypothetical stress test exercise for banks, recently completed, showed the large banks who participated all had sufficient capital to withstand the severe downturn and support an economic recovery.

In insurance, APRA also continues its work to collaboration with industry stakeholders and government bodies to address the complex challenges associated with insurance availability and affordability. This includes our work with the Hazards Insurance Partnership.

Australia's superannuation pool plays a critical role in securing positive retirement outcomes for Australians. By nature of its size and growth, the role it plays in supporting economic resilience and financial system stability is also increasing. The industry is strong and robust, yet APRA's clear focus remains on driving trustees to improve the outcomes for fund members.

Following the introduction of the best financial interests duty (BFID), APRA intensified supervision and focus on trustee expenditure and began gathering information from trustees. Our expectations about what trustees needed to do to satisfy BFID were set out clearly in both private and public forums.

We have subsequently undertaken an extensive data collection exercise across the industry to understand fund expenditure. The first round of data collection includes more than 40,000 items, which we released publicly last month to increase transparency.

With the benefit of this detailed payments data, we are scrutinising potential outliers, and our supervisory efforts are focused on:

- Discretionary expenditure categories such as travel, entertainment and conferences.
- Relative and absolute size outliers, including consideration of impact to members.
- Types of payees and payments where benefit to members is not immediately apparent.

It is important to understand that APRA does not explicitly approve trustee payments – all decisions about expenditure are made by trustees who are responsible for compliance with BFID and their other duties and obligations. Nonetheless, APRA seeks to ensure expenditure is in members best financial interests through transparency and intensive supervisory focus, especially where the benefit to members is not immediately evident or may not be reasonably justified.

Several enforcement actions are currently underway against superannuation trustees – two of which are before the Courts – indicating our appetite to take strong action and enforce the law to safeguard members' interests.

APRA will soon release a discussion paper in review of governance requirements for our regulated industries. It will touch on expectations around skills and integrity, accountability for board performance and continual improvement, and embedding better practices on board structure and renewal.

This review sits alongside APRA's role as co-administrator of the Financial Accountability Regime (FAR) alongside ASIC. The FAR will come into effect for superannuation trustees and insurers in March next year, one year following its implementation in banking.

APRA is developing Australia's first system stress test, which will focus on interconnections between banking and superannuation and explore the nature and speed by which risks can spread between super funds, banks and into the broader financial system. We are engaging with industry and fellow Council of Financial Regulators agencies on the design of the activity, including the hypothetical scenario we will examine, next year.

Last week APRA published the findings of its second voluntary climate risk self-assessment survey, providing deeper insights into how regulated entities identify, manage and disclose the financial risks of climate change and align their practices with the Prudential Practice Guide CPG 229 Climate Change Financial Risks.

Another key focus is assisting our regulated cohort to improve their cyber defences (in accordance with CPS 234 Information Security) and operational resilience. The new CPS 230 Operational Risk Management standard comes into effect in July 2025, to ensure organisations can maintain critical operations through disruptions.

APRA also has a broad program of work underway to improve its own capabilities. This includes upgrading its technology and data systems and investing in supervisory excellence. These investments in people, process, tools and technology will mean APRA continues to evolve as a modern and future-focused regulator prepared to anticipate and manage future risks.

With that overview, I welcome your questions.