

1. Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics (the committee) is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee in accordance with the Speaker's schedule.
- 1.2 The 2014-2015 Annual Report (annual report) of the Australian Prudential Regulation Authority (APRA) stands referred to the committee in accordance with this schedule and the committee resolved at its meeting on 15 September 2016 that it would conduct an inquiry into the annual report.
- 1.3 A summary of APRA's activities is provided in the annual report as follows:

APRA oversees Australia's banks, credit unions, building societies, life and general insurance companies and reinsurance companies, friendly societies and most of the superannuation industry. APRA is funded largely by the industries that it supervises. It was established on 1 July 1998. APRA currently supervises institutions holding \$5.4 trillion in assets for Australian depositors, policyholders and superannuation fund members. From 1 July 2015, APRA also became the prudential regulator of private health insurance funds.¹
- 1.4 The annual report describes APRA's mission in the following terms:

¹ Australian Prudential Regulation Authority (APRA), *Annual Report 2014-15*, p. [2].

- to be a world-class prudential regulator, with excellence of supervision as the foundation;
 - to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system; and
 - to act as a national statistical agency for the Australian financial sector.²
- 1.5 All deposit-taking institutions, life and general insurance and reinsurance companies and friendly societies must hold an APRA licence to operate in Australia. APRA also licenses trustees of prudentially regulated superannuation funds.³
- 1.6 After an institution is licensed, it is subject to ongoing supervision by APRA to ensure that it is managing risks prudently and meeting prudential requirements. The two main supervisory tools APRA uses are on-site and off-site analysis. These reviews are undertaken by prudential supervisors with in-depth knowledge of institutions in a particular sector, and supported by specialist risk experts.⁴
- 1.7 APRA states that it employs a cooperative approach to resolving issues with supervised institutions. However, where an institution is unwilling or unable to cooperate, APRA is empowered to take enforcement action against an institution, or against individuals associated with that institution. Some enforcement options include formal investigation, imposing conditions on

² APRA, *Annual Report 2014-15*, p. 3.

³ APRA, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA_Brochure.pdf> viewed 17 October 2016.

⁴ APRA, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA_Brochure.pdf> viewed 17 October 2016.

an institution's licence, appointment of a replacement trustee and taking criminal action against a person or institution.⁵

Scope and conduct of the review

- 1.8 APRA appeared before the committee at its first public hearing to review the annual report in the 45th Parliament on 14 October 2016 in Canberra. Details are provided in Appendix A.
- 1.9 The proceedings of the hearing were webcast over the internet, through the Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. The transcript of the hearing is available on the committee's website.⁶
- 1.10 This report focuses on the issues raised in the annual report and, in particular, on matters raised at the public hearing on 14 October 2016.
- 1.11 At the public hearing, the committee examined the current policy settings and regulatory framework for enforcement of prudential standards and practices by APRA. Issues canvassed at the hearing included competition in the banking sector, recent stress testing of authorised deposit-taking institutions (ADIs) that APRA conducted, increased margins in small business lending, increased supervision of investor lending in the property market, rate tracker mortgages, executive accountability in APRA-regulated institutions, reviews into the life insurance industry and related party arrangements and fees in superannuation.

⁵ APRA, 'Factsheet 6 – APRA's enforcement activities', <<http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA-FS6-062015.pdf>> viewed 17 October 2016.

⁶ House of Representatives Standing Committee on Economics <http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/APRAAnnualReport/Public_Hearings> viewed 17 October 2016.

