

## 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 2016 Annual Report (annual report) of the Australian Prudential Regulation Authority (APRA) stands referred to the committee in accordance with this schedule. The committee resolved at its meeting on 9 August 2017 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:

The Australian Prudential Regulation Authority (APRA) is the prudential regulator of the Australian financial services industry. It oversees Australia's banks, credit unions, building societies, general insurers and reinsurance companies, life insurers, private health insurers, friendly societies and most members of the superannuation industry.

APRA currently supervises institutions holding \$5.9 trillion in assets for Australian depositors, policyholders and superannuation fund members.<sup>1</sup>

- 1.4 The annual report describes APRA's mission in the following terms:
  - to be a world-class prudential regulator, with excellence of supervision as the foundation;

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1 Australian Prudential Regulation Authority (APRA), *Annual Report 2015-16*, p. ii.

- to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions supervised are met within a stable, efficient and competitive financial system; and
  - to act as a national statistical agency for the Australian financial sector.<sup>2</sup>
- 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.<sup>3</sup>
- 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.<sup>4</sup>
- 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 an institution's licence, appointment of a replacement trustee and taking criminal action against a person or institution.<sup>5</sup>
- 1.8 APRA's 2016 Annual Report also established six Strategic Objectives, which:
- ...underpin APRA's ability to protect the interests of the ultimate beneficiaries of its work – that is, Australian depositors, policyholders and superannuation fund members, and the Australian community more generally.<sup>6</sup>

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2 APRA, *Annual Report 2015-16*, p. 3.

3 APRA, *About Apra*, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <[http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA\\_Brochure.pdf](http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA_Brochure.pdf)>, viewed 5 September 2017.

4 APRA, *About Apra*, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <[http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA\\_Brochure.pdf](http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA_Brochure.pdf)>, viewed 5 September 2017.

5 APRA, *Factsheet 6*, 'APRA's enforcement activities', <<http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA-FS6-062015.pdf>>, viewed 5 September 2017.

6 APRA, *Annual Report 2015-16*, p. 7.

1.9 APRA's Strategic Objectives are:

1. To protect the interests of APRA's beneficiaries by responding in a timely and effective manner to significant risks at both institution and industry levels.
2. To maintain a robust prudential framework that sets requirements for prudent behaviour at regulated institutions, founded on relevant international standards where appropriate.
3. To materially strengthen our readiness for financial failure or crisis.
4. To attract and retain highly skilled and engaged people, supported by strong leaders within a values-aligned culture.
5. To have robust and efficient organisational processes and infrastructure supporting our core functions.
6. To be accountable for our performance by being transparent in our communication and effective in our engagement with stakeholders.<sup>7</sup>

## Scope and conduct of the review

- 1.10 APRA appeared before the committee on 13 September 2017 in Canberra as part of the review of its 2016 Annual Report. This was APRA's second appearance at a public hearing with the committee in the 45<sup>th</sup> Parliament. Details are provided in Appendix A.
- 1.11 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.<sup>8</sup>
- 1.12 This report focuses on the issues raised in the annual report and, in particular, on matters raised at the public hearing on 13 September 2017.

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<sup>7</sup> APRA, *Annual Report 2015-16*, p. 7.

<sup>8</sup> House of Representatives Standing Committee on Economics, *Past public hearings and transcripts*, <[http://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/APRAAnnualReport2016/Public\\_Hearings](http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/APRAAnnualReport2016/Public_Hearings)>, viewed on 15 September 2017.