

## 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 Australian Prudential Regulatory Authority (APRA) Annual Report 2017 (annual report) stands referred to the committee in accordance with this schedule. On 7 February 2018 the committee resolved to conduct an inquiry into the annual report.
- 1.3 APRA is the prudential regulator of the Australian financial services industry, and is funded largely by the industries it supervises. It is one of four independent agencies with oversight of the Australian financial system.<sup>1</sup>
- 1.4 APRA describes its oversight activities as follows:

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.

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1 The Reserve Bank of Australia, the Australian Securities and Investments Commission, and the Australian Competition and Consumer Commission (ACCC) are the other three independent agencies. The committee also conducts regular reviews of the annual reports of these agencies.

APRA currently supervises institutions holding \$6.1 trillion in assets for Australian depositors, policyholders and superannuation fund members.<sup>2</sup>

- 1.5 The annual report sets out APRA's vision and mission:
- 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 supervised institutions are met within a stable, efficient and competitive financial system; and
  - to act as a national statistical agency for the Australian financial sector.<sup>3</sup>
- 1.6 All deposit-taking institutions, life and general insurance and reinsurance companies and friendly societies must have an APRA licence to operate in Australia. APRA also licenses trustees of prudentially regulated superannuation funds.<sup>4</sup>
- 1.7 Licensed institutions are subject to ongoing supervision by APRA to ensure they are managing risks prudently and meeting prudential requirements. The two main supervisory tools APRA uses are on-site and off-site analysis, undertaken by prudential supervisors with in-depth knowledge of institutions in a particular sector, and supported by specialist risk experts.
- 1.8 APRA described its supervisory approach as 'forward-looking, primarily risk-based, consultative, consistent and in line with international best practice'.<sup>5</sup>
- 1.9 APRA noted that one of its core functions is to plan and implement prompt and effective responses to the failure of a regulated institution, or a crisis in the financial system.<sup>6</sup>
- 1.10 APRA stated that it prefers to take a cooperative approach to resolving prudential issues with the institutions it supervises. However, where an institution is unwilling or unable to cooperate, APRA is empowered to
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2 Australian Prudential Regulation Authority (APRA), *Annual Report 2016-17*, p. 3.

3 APRA, *Annual Report 2016-17*, p. 6.

4 APRA, *About APRA*, 'Protecting Australia's depositors, insurance policyholders and superannuation fund members', <<http://www.apra.gov.au/AboutAPRA/Publications/Pages/APRA-Brochure.aspx>>, viewed 17 April 2018.

5 APRA, *About APRA*, <<http://www.apra.gov.au/AboutAPRA/Pages/Default.aspx>>, viewed 17 April 2018.

6 APRA, *Annual Report 2016-17*, p. 50.

take action against an institution, or individuals associated with that institution, to protect the interests of depositors, policyholders and members of superannuation funds. Enforcement action may include:

- formal investigations;
- imposing conditions on an institution's licence or issuing directions;
- appointing a replacement trustee to manage an institution's affairs;
- seeking a restraining order; and
- taking criminal action against a person or institution.<sup>7</sup>

1.11 In its annual report, APRA indicated that a focus underpinning 2016-17 was on building resilience. It suggested that this is far easier to do when times are relatively prosperous than trying to restore it after a period of adversity.<sup>8</sup>

## Scope and conduct of the review

1.12 APRA appeared before the committee on 28 March 2018 in Canberra as part of the review of its 2017 Annual Report. This was APRA's third appearance at a public hearing with the committee in the 45<sup>th</sup> Parliament. APRA officials who appeared are listed at Appendix A.

1.13 The proceedings were webcast 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 webpage.<sup>9</sup>

1.14 This report focuses on issues raised in the annual report and, in particular, on matters raised at the public hearing.

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7 APRA, *APRA's enforcement activities*, <<http://www.apra.gov.au/AboutAPRA/Publications/Documents/1408-APRA-FS-6.pdf>>, viewed 17 April 2018.

8 APRA, *Annual Report 2016-17*, p. 10.

9 House of Representatives Standing Committee on Economics, *Transcript*, 28 March 2018, <[https://www.aph.gov.au/Parliamentary\\_Business/Committees/House/Economics/APRAAnnualReport2017/Public\\_Hearings](https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/APRAAnnualReport2017/Public_Hearings)>, viewed 17 April 2018.