

House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

Division/Agency: Australian Prudential Regulation Authority

Question No: APRA03QON

Topic: Pandemic Risk

Reference: Hansard 5 August 2020 pp. 23

Member: Craig Kelly

Question:

Mr CRAIG KELLY: Can you point me to where, in any of the APRA speeches or media releases over the last decade, you've talked about pandemic risk? I could probably point to 50 or more that talk about climate risk, but I'm struggling to see a single one where you talk about pandemic risk.

Mr Byres: You've given us a decade time horizon, and none of us at this table have been here for that entire decade. I'll take that on notice.

Mr CRAIG KELLY: Okay. Let's say over the last four or five years then.

Mr Byres: I'd have to go back and look at when the last update was of the guidance on pandemics, but, whenever we did that, it would have obviously been public and it would have been consulted on. As I said, let me take that on notice and we will come back to you.

Answer:

APRA-regulated entities are expected to manage risks, including pandemic and climate risk. As evidenced in the operational resilience of the financial system, pandemic risk is largely understood and is also managed through an entity's business continuity planning and processes. In contrast to pandemic risk, which is addressed through long standing prudential guidance and standards related to Business Continuity planning, APRA considers climate change risk as a newer, emerging risk, and has therefore identified a need to deepen expertise and understanding of the financial risks associated with climate change as highlighted to industry in 2016-2017.

APRA has engaged industry on the topic of pandemic risk through the consultation and development of prudential guidance and standards relating to Pandemic planning and more broadly, Business Continuity Management. For example:

- In 2006 APRA released *Prudential Practice Guide CPG 233 Pandemic Planning* (CPG 233) (available at https://www.apra.gov.au/sites/default/files/Prudential-Practice-Guide-CPG-233-Pandemic-Planning-May-2013_1.pdf). This practice guide aims to assist regulated institutions consider and prudently manage the risks posed by a potential influenza pandemic, or any other widespread outbreak of contagious disease that could affect their operations.
- The guidance in CPG 233 supports compliance with *Prudential Standards CPS 232 Business Continuity Management* (CPS 232) (available at <https://www.apra.gov.au/sites/default/files/Prudential-Practice-Guide-CPG-233->

[Pandemic-Planning-May-2013_1.pdf](#)) and *SPS 232 Business Continuity Management* (SPS 232) (available at <https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-232-Business-Continuity-Management-%28July-2017%29.pdf>), which set out APRA's requirements in relation to business continuity management for authorised deposit-taking institutions (ADIs), general insurers, life companies and registrable superannuation entity (RSE) licensees.

CPG 233 was introduced amid heightened concerns regarding the potential for a human influenza pandemic to emerge from avian flu outbreaks in Asia and elsewhere in the world. As part of its prudential responsibilities, APRA discussed pandemic planning with regulated financial institutions to assess the extent of preparations within the financial industry.

- APRA published a summary of the issues and sound planning activities observed through its discussions in an information paper, *Pandemic Planning* (available at <https://www.apra.gov.au/sites/default/files/sp/Pandemic-Planning.pdf>).
- APRA conducted a pandemic stress test of the general and life insurance industries. The results of this stress test were published in an APRA Insight article in 2007 (available at <https://www.apra.gov.au/sites/default/files/sp/07-Insight-Issue-3.pdf>). In addition, entity engagement took place to discuss results and areas requiring improvement.

CPG 233 was most recently updated in 2013 to incorporate relevant references to the superannuation framework which was introduced at that time.

Based on its prudential guidance and ongoing supervisory review, APRA considers the knowledge of pandemic risk within APRA-regulated entities to be well established and managed within broader continuity plans, as evidenced by the continuing operational resilience of the Australian financial system. APRA continues to engage with regulated institutions to understand how COVID-19 might affect their ongoing operations, using CPG 233 as a benchmark to assess their readiness to cope with disruption. APRA is undertaking further targeted testing of those plans.

In contrast, APRA was concerned that there had been less awareness of climate-related risks within entities risk management frameworks. As a result, APRA adopted a deliberate strategy of raising awareness of the financial nature of climate risk through speeches, supervisory engagement and ongoing collaboration with industry-led initiatives. The results of these educational efforts were outlined in an information paper in 2019, *Climate change: Awareness to Action* (available at https://www.apra.gov.au/sites/default/files/climate_change_awareness_to_action_march_2019.pdf).