

---

The Parliament of the Commonwealth of Australia

# **Review of the Australian Prudential Regulation Authority Annual Report 2019 (Second Report)**

House of Representatives  
Standing Committee on Economics

December 2020  
Canberra

---

© Commonwealth of Australia 2020

ISBN 978-1-76092-178-1 (Printed version)

ISBN 978-1-76092-179-8 (HTML version)

This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia License.



The details of this licence are available on the Creative Commons website:  
<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>.



## Chair's foreword

2020 has been a challenging year for Australians, businesses and our institutions, and APRA has not been exempted.

The COVID-19 pandemic has caused unprecedented disruption to our lives. While the pandemic is primarily a public health issue, it has significantly impacted economies and financial systems around the world. It has led to the closure of our borders; the biggest economic downturn in close to a century; pressure on many small and medium businesses from tough public health measures; and historically low interest rates.

The Australian financial sector and its regulators responded quickly to the pandemic. Financial institutions provided support to Australian families and businesses as they worked to manage their mortgages and debts during a time when income is disrupted. The Morrison government's early release scheme reunited Australians with their own superannuation savings to help them during this difficult time. While some uncertainty remains, it is encouraging that there appears to be a strong economic comeback for Australia against the experience of many other economies.

On the health side, being 'girt by sea' enabled Australia to be one of the few nations that was able to close its international borders and effectively stop COVID-19 entering. Closing our international borders has been the single biggest public health measure taken to protect Australians. The only examples of community transmission have come as a result of a breach of those borders.

On the economic side, when the Australian economy went into this crisis it was better positioned than most to weather the storm. Having a Federal Budget in balance has ensured that lockdown measures could be offset by fiscal support through temporary increases in JobSeeker and the creation of the temporary JobKeeper program. It is a reminder that you are prudent on the 'sunny days' in the hope that 'rainy days' never come, but inevitably do.

The role that APRA has played has also been crucial—particularly in ensuring banks could lend to businesses that faced significant and rapid readjustments in a time of crisis.

The opportunity of Australia’s economic comeback is to not simply resuscitate Australia’s 20<sup>th</sup> Century economy but build a forward-looking modern 21<sup>st</sup> Century economy that provides the foundation for sustainable growth that provides the next generation of Australians with opportunity, employment and home ownership.

However, the economic comeback brings its own challenges. It is essential that governments, regulators, and financial institutions continue to be proactive and work together as the immediacy of the crisis fades and the hard work of economic comeback continues.

The committee notes APRA’s proactive and ongoing engagement with peak bodies, superannuation funds, and financial institutions throughout the various stages and changing circumstances of the pandemic. In particular, the committee notes the strong relationship and high level of cooperation and coordination that ASIC and APRA have displayed during this challenging period. The committee notes APRA’s progress implementing the Capability Review and the Royal Commission’s recommendations, acknowledging the disruption caused by the pandemic and the deferral of implementation of commitments associated with the Royal Commission.

In 2021 the committee will continue to scrutinise APRA’s performance; its ongoing implementation of the Royal Commission recommendations and the Capability Reviews recommendations; and the ongoing strengthening of APRA’s capability. In particular, the committee will follow APRA’s ongoing response to the COVID-19 pandemic as we continue to manage the impacts of the pandemic and begin to focus on the path to recovery.

On behalf of the committee, I thank the Chair of APRA, Mr Wayne Byres, and other APRA representatives for appearing at the public hearings on 5 August 2020 and 23 October 2020.

**Tim Wilson MP**  
**Chair**



# Contents

Chair's foreword .....	iii
Membership of the Committee .....	vii
Terms of reference .....	ix
List of abbreviations .....	xi
<b>1 Introduction .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Scope and conduct of the review .....</b>	<b>2</b>
<b>2 Current issues in prudential regulation .....</b>	<b>5</b>
<b>Overview .....</b>	<b>5</b>
<b>Improving APRA's capability .....</b>	<b>5</b>
Update on progress since previous report.....	6
Deferral of implementation of commitments .....	12
<b>Response to the COVID-19 pandemic .....</b>	<b>13</b>
Regulatory relief .....	14
Temporary suspension of licensing .....	15
Loan repayment deferrals .....	15
Dividends .....	19
Early release of superannuation.....	22
<b>Superannuation.....</b>	<b>24</b>

---

Unlisted assets.....	24
Potential for 'quasi insider trading' during market downturn.....	27
MySuper Product Heatmap.....	27
Your Future, Your Super.....	29
<b>Private health insurance sector.....</b>	<b>30</b>
<b>Climate risk.....</b>	<b>31</b>
Managing investment risks.....	33
Stress testing.....	33
<b>Conclusion.....</b>	<b>34</b>

## **APPENDICIES**

<b>Appendix A — Hearings and witnesses.....</b>	<b>37</b>
-------------------------------------------------	-----------

## **LIST OF TABLES**

Table 2.1	APRA's actions on the Royal Commission recommendations.....	7
Table 2.2	APRA heatmap activity, December 2019 to August 2020.....	28



## **Membership of the Committee**

<b>Chair</b>	Mr Tim Wilson MP
<b>Deputy Chair</b>	Hon Dr Andrew Leigh MP
<b>Members</b>	Dr Anne Aly MP (to 8 October 2020)
	Mrs Bridget Archer MP (to 27 August 2020)
	Mr Adam Bandt MP
	Mr Jason Falinski MP
	Ms Celia Hammond MP (from 27 August 2020)
	Mr Craig Kelly MP
	Mr Andrew Laming MP
	Dr Daniel Mulino MP
	Ms Peta Murphy MP (from 8 October 2020)
	Mr Ted O'Brien MP (to 27 August 2020)
	Mr Julian Simmonds MP (from 27 August 2020)

## **Committee Secretariat**

<b>Secretary</b>	Ms Casey Mazzarella (from 3 August 2020) Mr Stephen Boyd (to 31 July 2020)
<b>Senior Research Officer</b>	Ms Stephanie Woodbridge
<b>Research Officer</b>	Ms Miriam El-Chami
<b>Administrative Officer</b>	Ms Jazmine Rakic



## **Terms of reference**

The House of Representatives Standing Committee on Economics 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 for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.





## List of abbreviations

ABA	Australian Banking Association
ACCC	Australian Competition and Consumer Commission
ADIs	authorised deposit-taking institutions
AFCA	Australian Financial Complaints Authority
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BEAR	Banking Executive Accountability Regime
Capability Review	Australian Prudential Regulation Authority Capability Review
ESG	environmental, social and governance
GCRA	governance, culture, remuneration and accountability
MoU	Memorandum of Understanding
PDC	COVID-19 Pandemic Data Collection
PHIs	private health insurers
RBA	Reserve Bank of Australia
Royal Commission	Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
RSE	Registrable Superannuation Entity

SMEs	small and medium-sized enterprises
SRI	Supervision Risk and Intensity Model