OPENING STATEMENT

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Thank you for the opportunity to appear today and update the Committee on recent APRA activities as well as our agenda for the year ahead.

As the Committee is aware, two years in, the pandemic continues to have a significant social and economic impact on the Australian community. On a positive note, the Australian financial system has remained resilient throughout the COVID period, reflecting the underlying financial strength that has allowed it to actively support its customers throughout the pandemic. The operating environment remains unpredictable, but on the whole the financial system remains well positioned to manage through it.

With a stable financial system and an improving economic outlook, APRA has been able to continue to pursue its longer-term prudential agenda. Since the last time APRA was before this Committee in October last year, we have made good progress – and in some cases finalised – a number of important initiatives and reforms:

- Late last year, we issued a draft set of cross-industry prudential standards on recovery and resolution plans – designed to ensure entities (and APRA as Australia's resolution authority) are better prepared to deal with future threats to their viability.
- We finalised, after many years of consultation and analysis, a revised capital adequacy regime for Australia's banking industry, which will preserve the unquestionably strong levels of capital the industry currently has and ensure Australian banks continue to have the strength to withstand future adverse economic conditions.
- We published an Information Paper setting out our macroprudential framework, explaining the types of tools we were likely to use should the need arise, and the considerations that would go into using them.
- We finalised our prudential guidance on managing the financial risks of climate change.
- We have been undertaking a review of insurance risk management frameworks, released a consultation package to enhance oversight of life insurers' reinsurance, and issued draft standards to improve the capital framework for private health insurance. We've also been working to implement changes needed to the insurance capital and reporting framework for all insurers in light of changes to the international and Australian accounting standards (IFRS/AASB 17).
- And in superannuation, we released the third annual MySuper Heatmap, and complemented it with our first Heatmap for Choice products. The Heatmaps work to increase transparency of superannuation product performance, and intensify the spotlight being shone on underperforming funds.

The Choice Heatmap, which captured products and options in which members have made an active decision to invest, was the first time the performance of this segment of the market has been exposed to such public scrutiny. Our analysis highlighted a significant portion of investment options in the choice sector delivered returns below relevant benchmarks, with over 25 per cent of options delivering significantly poor returns (i.e. 50 basis points, or worse, below APRA's heatmap benchmarks) over a seven-year period.

In aggregate, the two heatmaps cover over $1.2 trillion in assets, which is 60 per cent of member benefits (excluding defined benefits) in the APRA-regulated superannuation sector. Since the publication of the first MySuper Heatmap in 2019, 22 MySuper products, most of which were underperforming, have closed, merged or otherwise left the market. Millions of MySuper members have also benefitted from fee reductions – estimated to be in the hundreds of millions of dollars in total across the MySuper sector.

APRA's Heatmaps supplement the Government's annual performance test – introduced last year for MySuper products and expanding this year to trustee-directed products. Together, these measures are driving an acceleration in the actions many trustees are taking to improve outcomes for members – reduced fees, improvements to investment strategies, and the removal of weaker products, options and funds from the industry.

Finally, since we last appeared before this Committee, APRA also took formal enforcement action against a number of superannuation trustees:

- accepting a Court Enforceable Undertaking from AMP Super; and
- imposing licence conditions on the trustees of Christian Super and EISS.

As with all of APRA's work in superannuation, these enforcement actions have the same objective: to strength the protection of, and improve the outcomes for, superannuation fund members.

With these comments, my colleagues and I are happy to answer your questions.