Opening Statement to Senate Economics Legislation Committee – February 2025

John Lonsdale, Chair - Australian Prudential Regulation Authority

Thank you for the opportunity to appear before you today.

APRA is pleased to confirm to you and the Australian community that our financial system remains resilient and stable, supported by a well-developed regulatory framework and pre-emptive management of risks by APRA and its regulated entities.

The 2025 operating environment for financial services organisations remains complex and uncertain. Organisations need to anticipate risks that might arise from the economic environment, including cost-of-living issues, geopolitical risk and the globally interconnected digital economy. Emerging technologies like artificial intelligence – which offer promise for efficiency and service improvements – also involve unrealised risks.

Housing affordability remains a challenge for many Australians. At 190 per cent of incomes, household debt remains high, both compared with long-term trends and relative to international peers. APRA's data, however, shows that credit continues to flow to households and businesses and is accessible to borrowers with capacity to meet their repayments. The share of new lending to first-home buyers is around its long-term average, investor credit increased markedly over the last year, and business credit growth also strengthened in 2024.

APRA recently clarified its position on certain matters relating to how borrower capacity should be assessed.

APRA's baseline expectation is that banks and credit unions continue to consider Higher Education Loan Program (HELP) repayments in serviceability assessments. However, APRA is consulting with industry on updating APG 223 Residential Mortgage Lending to clarify that ADIs may remove HELP repayments from serviceability assessments by exception where a borrower is expected to pay off their HELP debt in the near term. APRA also proposes to exclude Higher Education Loan Program (HELP) debts from debt-to-income (DTI) reporting.

APRA continues to review macroprudential settings in the context of domestic and international economic and financial conditions and risks. The mortgage serviceability buffer and countercyclical capital buffer are currently set at 3 percentage points and 1 per cent of risk-weighted assets, respectively. Uncertainty in the financial and economic outlook remains. While risks from higher inflation are receding and interest rates were modestly reduced last week, the risk of shocks to household incomes from weak economic growth remains prominent. Given relatively high household debt in Australia, we are carefully watching developments in credit growth, including in response to interest rate changes.

In insurance, the significant property losses due to the floods in Queensland highlight the fundamental importance of insurance to financial security and the need for long-term mitigation and risk reduction. Decreasing the protection gap will take time and requires ongoing collaboration among industry, all levels of government and broader stakeholder groups.

In superannuation, APRA continues to drive greater transparency, performance and trustee accountability to improve retirement outcomes for members. As per APRA's superannuation data for the quarter ending September

2024, the superannuation sector is valued at over $4 trillion, which represents growth of 13.4 per cent over the previous year.

APRA has intensified its scrutiny of expenditure by funds, to improve practices and reduce spending that is not in the best financial interests of fund members. Newly released APRA data shows that total industry expenditure was $12.7 billion for the year ending June 2024, an increase of 15 per cent from the financial year ending June 2023.

While supervision continues to be APRA's primary tool to protect the financial interests of the community, APRA will use its broad range of enforcement powers to prevent and address serious prudential risks. Most recently, APRA took enforcement action to address material prudential concerns with Cbus in areas including fit and proper processes and fund expenditure management. APRA has imposed similar licence conditions on BUSSQ, which are now subject to a Federal Court appeal by BUSSQ after the trustee's earlier application to the court for a judicial review was dismissed. The Court applications have delayed the progress of the independent third-party review, which APRA required in the interest of addressing prudential concerns and safeguarding members.

Other recent enforcement actions include the application of an additional $10 million capital requirement to Pacific International Insurance after a review found deficiencies in Pacific's binder holder arrangements, and an increase of the capital add-on applied to ANZ to $750 million due to heightened concerns about the bank's non-financial risk management practices.

Several significant cross-industry initiatives will take effect this year. From mid-March, the Financial Accountability Regime will extend beyond banking to include APRA-regulated entities in insurance and superannuation. Operational risk management requirements under new standard CPS 230 will take effect from 1 July. Additionally, APRA will conduct its first financial system-wide stress test to deepen its understanding of the potential impact and sources of risk that might emerge and transmit across the system in the event of a system-wide shock scenario.

APRA will shortly release a discussion paper as we begin the process of updating our prudential standards on governance. Well-governed institutions are likely to be more resilient in times of stress, while there is a strong link between substandard governance and poor outcomes for both entities and their customers. Our proposals for consultation aim to enhance board performance and ensure boards are governed by directors with the skills, experience and character needed for today's complex risk environment.

With that, my colleagues and I are happy to take your questions.