OPENING STATEMENT

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Thank you for the opportunity to appear before the Committee today.

The Committee would be aware that, in March, the Treasurer announced the appointment of Ms Margaret Cole as a new APRA Member. Margaret, who will take up duties from 1 July, brings to APRA a strong blend of regulatory and private sector experience, with a particular focus on governance, risk management and enforcement. We very much welcome Margaret's appointment.

Once Margaret takes up her appointment, she will take the lead overseeing APRA's activities in relation to superannuation – an area where, as I will come to shortly, a great deal has been achieved and a lot of activity continues. My colleague Helen Rowell, who has very ably performed the lead role for superannuation for the past 8 years, will take over lead responsibilities for insurance.

While there are some changes to APRA's leadership, APRA's broad objectives in relation to superannuation will be unchanged. We will continue to focus on driving superannuation trustees to improve outcomes for their members, through four key channels: enhanced data, greater transparency, a stronger prudential framework, and more intense supervision. Remedying sub-standard industry practices and eliminating unacceptable product performance remains a key focus for APRA.

We believe the pressure on the superannuation industry to lift its game is working:

- fund mergers and product closures have become more commonplace, as trustees are forced to ask whether their members would be better served in another product or fund. To give an example, the number of funds has fallen from 279 in 2013, when the Stronger Super reforms were introduced, to 170 today – a decline of more than 100, with more exits to come;

- fees are continuing to decline, as more transparency forces trustees to look harder at them, particularly on a relative basis, and also enables their members to better understand the fees they pay. As an example, since the first My Super heatmap in December 2019 and the update a year later, 71 per cent of MySuper members saw a reduction in fees and costs, with an aggregate overall saving of over $400 million.

But there is still more to do. We still have too many funds, too many underperforming funds, and more room for reductions in fees and costs.

We have a range of initiatives underway that continue to put the pressure on trustees to do better. I'd like to highlight two today.

The first is an extension of our Heatmap work to choice products, to enable us to increase the pressure on poorly performing products beyond MySuper products. Our preliminary work has shown choice products are producing more variability in outcomes, and often at higher costs, than MySuper products, and the tail of underperforming multi-sector choice products is large. We expect to publish our Heatmap on this sub-set of choice products later this year, as well as another update to the MySuper heatmap.

Second, APRA has previously advised this committee of a review we are undertaking of trustee expenditure. As part of this review, APRA requested a number of trustees provide information and supporting analysis on different types of expenditure, including advertising campaigns, TV program sponsorship, sponsorships of sporting teams and payments to external organisations.

This review is well progressed. Without pre-empting the results, it is fair to say that industry practice, in terms of demonstrating how certain expenditure translates to quantifiable benefits to members, varies considerably. We expect to be in a position to determine next steps, including whether any enforcement action is appropriate and/or whether adjustments to prudential requirements are necessary, in the coming months. We also plan to release a report of our findings at an aggregate level following completion of the review.

Before moving away from supervision, I would also like to briefly note that much of our work is closely aligned with the intent of the Government's Your Future Your Super reforms currently before the Parliament. As we said in our submission to the Committee's inquiry on the Bill, APRA supports the reforms. In particular:

- clear benchmarks, with consequences should they not be met, will reinforce the work APRA is doing to protect and improve outcomes for superannuation members;

- amending the best interests' duty to be the best financial interests duty, and increasing transparency of trustee expenditure, will sharpen trustees' current obligations and will leverage the enhanced reporting requirements that APRA has been working to implement; and

- having a capacity, in the form of a reserve power, to quickly and decisively deal with areas of ambiguity or avoidance activity in relation to expenditure by trustees, on an industry-wide basis, is helpful to improve the protection of members' funds.

I'd like to now turn to two other important releases APRA has made since we were last before this Committee.

In April, we published a draft Climate Change Financial Risk Prudential Practice Guide (PPG). The PPG covers areas relevant to the prudent management of climate-related financial risks, including aspects of governance, strategy, risk management and disclosure. As we have discussed with the Committee previously, the guidance does not tell financial institutions where to lend, what to insure or how to invest. Its goal is simply to make sure those decisions are well-informed with respect to climate-related risks. The guidance is out for consultation until 31 July 2021, and we plan to publish a final version of the guidance by the end of this year.

Also in April, APRA commenced consultation on draft guidance to assist industry meet the requirements of APRA's updated prudential standard on remuneration. As you will recall, the Royal Commission recommended APRA substantially upgrade its prudential requirements in relation to the way remuneration arrangements in the financial sector operate. The draft guidance sets out principles and examples of better practice to assist banks, insurers and superannuation licensees comply with APRA's proposed prudential standard on remuneration, which will be finalised later this year.

In concluding, it is important to note that the Australian financial system remains fundamentally sound and stable. However, it probably won't surprise you to hear me say that that is no grounds for complacency.

There are currently some very significant forces at play in the financial system – such as technology-driven shifts that are fundamentally changing business models and consumer preferences – coupled with new and emerging risks, including the economic forces that very low interest rates create, and the ever-growing threat of cyber-attacks. These are in turn creating new challenges for APRA (such as in licensing new entrants, evolving the regulatory framework for stored value providers, and monitoring the regulatory perimeter) as well as dealing with some well-known ones such as monitoring risks in the housing market. And all of that is occurring against the on-going uncertainty and disruption that COVID-19 is creating. All of this means APRA will need to continue to be vigilant, responsive and forward-looking.

With those opening remarks, my colleagues and I will be very happy to answer your questions.