# OPENING STATEMENT

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*Senate Select Committee on COVID-19*
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Thank you for the opportunity to appear here today to discuss how APRA is responding to the impact of COVID-19. I have a short opening statement on what has been a very volatile few months.

Obviously, this has first and foremost been a health crisis, and sadly the human cost has been high, even if Australia has been relatively successful in suppressing the spread of the virus.

But the health challenge has also quickly evolved into an economic one. The increases in unemployment and loss of income across the community have been sharp, reflecting a simultaneous contraction of supply and demand. Moreover, both the economic cost and outlook in relation to COVID-19 remain highly uncertain. As a result, there are many difficulties ahead for the financial system – we see this as a long term challenge, and are approaching it with a long term perspective.

As many on this Committee have heard me say before, Australia has a fundamentally safe and strong financial system, after a decade of concerted action to build up that strength. That means Australia went into this crisis with a strong starting position: a resilient, well-capitalised financial system that was able to take action and absorb some of the early shocks.

Nevertheless, along with our partner agencies within the Council of Financial Regulators (CFR), APRA has responded to the events of the past few months with a range of measures designed to ensure the financial system remains financially and operationally resilient, and can continue to support the wider community.

In January, we announced a comprehensive policy and supervision agenda for 2020. While we remain of the view that this remains the right agenda for the medium term, we decided that most of it should be deferred until the fourth quarter at the earliest, with many initiatives realistically unlikely to start until 2021. The reason for this deferral was two-fold: to allow institutions to focus their time and resources on sustaining their operations, and allow us to redeploy resources to issues needing more urgent attention.

In the case of superannuation, we primarily redirected our supervisory resources to collect additional information and monitor the liquidity of superannuation funds during a period of extreme volatility. This included information supporting implementation of the Government's superannuation early release scheme. As much as it is important that this scheme is implemented as the Government intends in the short term, we also need to make sure the superannuation system continues to look after its members' interests, and is able to play its role as an important provider of capital to the wider economy.

In banking, amongst other more detailed initiatives, we relaxed our expectations that banks maintain their large capital buffers built up in good times, to facilitate the continued flow of credit. We have been conducting stress test and scenario analysis to ensure the system remains robust as we enter a difficult period ahead. We have also provided concessional capital and reporting treatment to banks who have offered loan repayment deferrals to their customers. I should stress, however, that APRA does not determine whether, and in what form, banks choose to offer this support to their customers.

Early in April, we wrote to banks and insurers asking that they seriously consider deferring, or at least materially reducing, discretionary capital distributions in the months ahead. You will have probably seen that a number chose to defer dividends, while those that paid have generally offset them with other capital raisings. We see these as sensibly prudent steps given the highly uncertain outlook.

In the insurance sector, APRA has proactively engaged with insurers to ensure that appropriate capital management actions are being taken, so that capital levels remain strong and the industry remains resilient. Insurers have been able to support customers by modifying terms and conditions to help those affected by the virus, while at the same time continuing to deal with the earlier substantial claims from bushfires and storms at the start of the year.

More than three months into this crisis, our judgement is that, on the whole, the Australian financial system has responded well to the impact of COVID-19. Investments in financial resilience, risk management, cyber security and contingency planning, while never perfect, have stood up well thus far. But it is still early days, many more significant challenges remain ahead, and the resources of the industry are not limitless. So, a high degree of ongoing vigilance – by both the industry and APRA – will be necessary to make sure that the financial and operational resilience demonstrated thus far is preserved over the long haul, for the benefit of the Australian community.