

## Senate Economics Legislative Committee

### APRA Crisis Powers

A few comments about APRA:

- There is an impregnable barrier around APRA. With the Federal Police and ASIO, it is one of our least transparent and non-accountable Federal agencies. This is not by accident but by design and there are some good reasons for that;
- The Wallis Committee had an enormous challenge in hiving off APRA from the Reserve Bank and Treasury. Despite the Wallis recommendations Treasury fought it all the way to Cabinet and it is a surprise that Wallis won;
- This demonstrates the power of Treasury and its unwillingness to dilute any of its powers or to be accountable or transparent as little as possible;
- So we now have another agency APRA, like the Reserve Bank and Treasury that have all been built in the same mould;
- It is interesting in the recent inquiries that APRA has slipped the noose:
  - The Harper Review would have liked to review competition in banking and the role of APRA but it was not in their remit,
  - The Hayne Royal Commission has been specifically excluded from dealing with APRA,
  - The Murray Review (a review by bankers for bankers) did not deal with the issues of competition. The balance between competition and financial stability was not discussed as it should have been. In a sense, the findings were one-sided,
  - Further, the Murray Review did not produce an economic study of banking and its regulatory agencies as it should have. A great opportunity was missed in dealing with many of the issues that have arisen today,
  - The only comments the Murray Review made directly or indirectly about APRA was to applaud APRA's role in supervising our banking system claimed to be one of the safest and best in the world and so averting the GFC crisis,
  - It can be argued that it was not APRA but the initiatives of Government that mainly saved Australia in the GFC crisis,

- APRA must accept some responsibility for the sameness of the banks. This partly arises from the way information which circles between APRA and the banks including the personnel interchanges;
- APRA defines and limits the ways in which our banks compete. APRA:
  - has strengthened and protected the oligopoly,
  - with the regulatory role makes it very difficult for the small player and new entrants, and,
  - there is a moat around APRA and the four trading banks;
- But, my view is that APRA has created another crisis by its questionable risk weighting methodology. It has caused a huge concentration of loans on residential housing and a very high level of household debt, one of the highest in the world. This is the key Vulnerability in our financial system today;
- APRA has failed to reign in this concentration and the huge risk conversely there are huge areas where banking needs are simply not being met;
- We know much more about the banks have got wrong but we know little about what the banks are not doing and understanding what a social licence really means;
- With APRA, the balance between competition and risk is wrong. Being unbalanced there is high risk;
- The mandate for APRA should be changed and strengthened so that competition issues are considered. There should be another Commissioner whose role should be competition;
- It is interesting that APRA, unlike the Reserve Bank, does not have a board. It is accountable to Treasury:
  - Change of mandate and a board with a different mission, including members knowledgeable in competition, law and economics (like Ian Harper) could drive a lot of change,
  - There are some fundamental questions that need to be probed and answered. A board with on-going responsibility could achieve that;
- Treasury will not like this and fight it to the end because a board dilutes Treasury direct control;
- It is very interesting that the banks like APRA. The Chairman of Westpac has publically stated that APRA does a good job. That says it all:

- The banks want the oligopoly to continue,
- APRA supports the oligopoly and Treasury would agree,
- It is easier to regulate four not eight,
- So the most powerful forces in the country will be against change: Treasury, APRA, Reserve Bank, Bankers Association, Individual Banks, their CEO's, Chairman and all the professional firms whose livelihood depends on the good graces of the banks,
- APRA is in a cohort of international agencies all of whom like their independence and many of their actions and policies reinforce that independence ;
- Putting board over APRA could have another advantage:
  - APRA by its demands of information from the banking sector and its regulation cause the banks massive cost which only gets handed onto the consumer,
  - A board could institute rigorous steps to ensure the cost benefit is done on regulation and information gathering,
  - APRA piles on new regulation and new requests for information everyday but what do they delete? Surely there are some old requests that could be abandoned;
- There are many other areas where a proper constituted board could deliver value. For instance, it could improve transparency and the reporting on APRA's operations. I could think of a number of others.

### **In Summary**

By the very nature of their activities APRA must be completely independent and capable of withstanding massive pressure from various directions. APRA activities have a very powerful influence on the behaviour and the allocation of our national resources. This brings with it huge responsibilities.

First, there must be great clarity about the mandate, the objectives and the relationship with the Treasurer and other regulators.

There is huge responsibility needs to be matched by:

- Accountability,
- Transparency and
- Effectiveness.

The current level of supervision is inadequate for an institution of such critical importance in our economy. APRA does have the benefit in being one step removed from Treasury and Government.

APRA, like the Reserve Bank, needs to have a Board of independent, strong and able Directors who are capable of:

- Reviewing the role of the regulator,
- The cost / benefit of the regulations and the massive information requests,
- What is it costing the banks?
- Where there needs to be reform and change of mandate or legislation,
- The relating to other agencies,
- Facilitating alternate points of views to be genuinely examined,
- Is APRA delivering value against its cost?

The Board could help remove the silo disadvantages of APRA which often develops in regulatory agencies.

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