



## OPENING STATEMENT

WAYNE BYRES

Chairman  
Australian Prudential Regulation Authority

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**OPENING STATEMENT TO THE SENATE ECONOMICS LEGISLATION COMMITTEE  
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I'd like to start by updating the Committee on a few matters that will be important items on APRA's agenda in the year ahead. Before doing so, let me first introduce Geoff Summerhayes, who was appointed as the third APRA Member from 1 January this year. As well as having overall responsibility for APRA activities alongside Helen and myself, Geoff will primarily lead our work on insurance related matters: life insurance, general insurance, and our new-ish responsibilities for private health insurance. I know he looks forward to answering your questions tonight!

Before delving into a few specific issues, it's worth saying a little bit about the position of the Australian financial sector in light of recent volatility in global financial markets. In my previous statements to this Committee, I have noted that Australia enjoys a financial system that is fundamentally sound. Nothing that has happened in the past couple of months has changed that position. As you would expect, we are keeping a close eye on global developments, but the declines in stock markets and the increases in credit spreads that have occurred in recent times have been quite manageable given the sector's strong starting position. Indeed, this is why we require regulated institutions to maintain buffers over and above our minimum requirements - so that this sort of volatility can be absorbed without any significant stress.

As for APRA's agenda for 2016, much of it is heavily influenced by the recommendations of the Financial System Inquiry (FSI). In banking, an important focus will be on how we refine the prudential framework for the deposit-taking sector that delivers on the FSI's recommendation for 'unquestionably strong' capital ratios. In doing this, we need to be mindful of the still-evolving international regulatory framework, but as things stand today we should be in a position by the end of the year to set out how an 'unquestionably strong' framework will be achieved.

Two other key pieces of work on the near-term agenda relate to securitisation and bank funding. In relation to securitisation, we are currently consulting on proposals for a simpler regulatory framework for securitisation, designed to help re-establish this market on a more resilient basis. We will also shortly be consulting on the Australian implementation of the Net Stable Funding Ratio (NSFR). The NSFR is a new international standard designed, in simple terms, to discourage banks from becoming overly reliant on volatile short-term borrowing when funding their illiquid assets. To the extent that this delivers some continued strengthening of funding profiles, it will also helpfully contribute to the FSI's objective of 'unquestionably strong'.

It is no secret that we devoted a lot of attention to housing lending in 2015, and that is unlikely to change in 2016. Throughout 2015, we worked extensively with housing lenders to reinforce sound residential mortgage lending standards. From our perspective, this work has had a positive effect: serviceability assessment standards have improved across the industry, lenders that were previously the least conservative have shown the greatest improvement, and some of the most aggressive lending practices that we observed have been eliminated. Our efforts have also likely played a role in the slow-down in the growth of investor lending. Looking through the noise in the data due to reclassifications, investor lending grew by around 8½ per cent over 2015. While this has moderated over recent months, lending to owner-occupiers has accelerated, such that the growth in the total volume of housing finance was slightly higher over the past year compared with the previous one.

Sound standards for lending in housing will, as I said, remain an important area of focus for APRA, as it is for many of our international peers. We are continuing to work to address to our satisfaction any lingering issues within individual lenders. We are also turning our mind to how we might entrench recent improvements and lessen the level of supervisory resources we devote to this topic in the future.

APRA's focus for 2016 in relation to superannuation will continue to be on assessing the adequacy of implementation of APRA's prudential requirements by superannuation entities, with a particular emphasis on how well boards and management are addressing key strategic, governance and operational areas whilst also ensuring they meet members' best interest obligations. We do this via our ongoing supervision at the level of individual trustees and funds, as well as thematic reviews across the industry. A key area of focus in 2015 was investment governance practices. In 2016, we will be looking in more depth at board appointment, renewal and performance assessment practices, as well as related party arrangements.

On that latter issue, APRA has been reviewing the outcomes of the Royal Commission into Trade Union Governance and Corruption as it relates to superannuation funds, and particularly related party arrangements. Although no matters were specifically referred to APRA, the observations and findings of the Royal Commission identified some similar themes to APRA's 2014 thematic review of the management of conflicts of interest. As a result, we will be undertaking further review of related party arrangements - for all types of funds - to ensure trustees can demonstrate such arrangements are consistent with their obligations to pursue members' best interests. The review will enable us to look more deeply into current practices, assess the extent to which the areas for improvement that we highlighted in our 2014 thematic review have been addressed, and identify where further improvements in practices are still needed.

Board appointment, renewal and performance assessment processes are also areas where industry practices could be improved. In a letter to trustees in December 2015, we advised the industry of proposed changes to APRA's prudential standards and guidance to support enhancements in these areas. Our work in the year ahead is intended to highlight better practices, as well as areas where improvements are required in line with accepted principles for sound governance.

Finally, you will recall APRA took over responsibility for the prudential supervision of private health insurance from 1 July 2015. We have since that time been working through a transition plan to bring the regulation and supervision of private health insurance into our business-as-usual processes. This will include, amongst other things, moving functions over time from Canberra to our other offices, with a view to being closer to the insurers that we regulate. We are also deepening our understanding of the operations of the health insurers, the industry, and the prudential framework that we inherited, and have commenced a thematic review of risk management practices across the industry. In addition, we are also currently assisting with this year's private health insurance premium round by providing advice to the Government as to whether insurers' premium proposals would result in any materially adverse prudential outcomes.

With that overview of the landscape, my colleagues and I would be happy to take your questions.