



APRA

OPENING STATEMENT

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**OPENING STATEMENT TO THE SENATE ECONOMICS LEGISLATION COMMITTEE
30 MAY 2017**

I would like to make a short statement about recent initiatives and announcements affecting APRA and the institutions we supervise.

In doing so, however, I would like to start by reiterating the underlying assessment that I expressed when we appeared before this Committee in February: that while there are certainly risks within the economic and financial environment at present, Australia continues to benefit from a financial system that is fundamentally sound. That is not to be complacent, since the financial system will inevitably be adversely impacted by any external shocks or economic adversity that might emerge, but rather to acknowledge that there has also been a range of measures, past and ongoing, that have strengthened the underlying resilience of the financial system in recent years. That means we are better placed to deal with these risks than we might otherwise have been.

Probably the most high profile issue that we have focused on in the domestic environment in recent times has been the heightened risk in housing lending. This reflects the environment of high prices and household debt, low interest rates and income growth, and strong competitive pressures. Our actions - including our most recent intervention to limit the extent of interest-only lending - have been designed to reinforce sound lending standards in authorised deposit-taking institutions (ADIs). It's important to be clear that our goal has not been to seek to determine house prices. Housing prices are not within the control, nor the mandate, of the prudential regulator. Rather, our role in the current environment is to promote a higher-than-normal degree of prudence - by lenders and, ideally, also borrowers - in both credit decisions and balance sheet strength. This is an issue that we continue to monitor closely, along with the other members of the Council of Financial Regulators.

As this Committee knows, the Commonwealth Budget earlier this month contained a number of announcements relevant to APRA in relation to the Government's broader agenda to enhance competition and accountability in the Australian financial system. Although the Government is yet to announce the legislative details that will underpin these new measures, I would like to make a few broad comments on how APRA views them.

Most importantly, we do not consider that the measures announced in the Budget will fundamentally change APRA's supervisory philosophy.

Although considerable attention has been given to new penalty provisions and enforcement powers, as a prudential supervisor APRA's primary objective will always be to identify potential weaknesses in its regulated institutions before they become major problems, rather than rely heavily on after-the-event enforcement. That's not to suggest we don't see the new powers as useful: indeed, their very presence will help us encourage and promote prudent behaviour to begin with. But it's important to emphasise that prevention, rather than rectification, will remain our primary goal.

In addition, many of the measures involve a strengthening of APRA's existing powers, rather than completely new additions to APRA's armoury. APRA already has, for example, a fit & proper regime covering senior executives, powers that allow for the disqualification of individuals, and a capacity to set and enforce standards for remuneration policies. The proposals announced in the Budget will considerably strengthen these, particularly as they apply to ADIs, and better equip APRA to enforce change where clear shortcomings have been identified.

The two Budget measures that are genuinely new are the proposed civil penalty regime, and the proposed new power in the Banking Act to set some form of rules for non-ADI lenders where this is necessary to protect financial stability. APRA will be working with Treasury during the consultation on the proposed legislation to ensure there is clarity as to how these new measures are intended to work in practice.

Meanwhile, in the same way that the institutions we regulate have had to adapt to changes in the operating environment, APRA itself has continued to evolve and innovate. We recently appointed new senior executives to our leadership team as part of a broader organisational restructure. The restructure includes, amongst other things, a new centralised unit tasked with reviewing APRA's licensing activities to ensure they are suited to the increasingly diverse range of applicants that wish to engage with us. We expect this review will lead to changes to the current licensing process to better accommodate more innovative business models, structures and products.

As part of the review, we are considering the benefits and risks of adopting a two-phased approach to licensing for certain types of new entrant. A key benefit of a phased approach to licensing would be to allow eligible new entrants time to establish the full complement of resources and systems necessary to be able to comply with all aspects of the prudential framework. We will seek to balance this benefit with the community's reasonable expectations that a deposit-taker or insurance provider should be soundly managed, including having a sufficient level of financial strength.

Finally, I'd also like to highlight the recent collaborative efforts between APRA and ASIC to improve the understanding of claims handling practices in the life insurance industry. This joint initiative, in response to community concerns about current industry practices, aims to collect and publish life insurance claims data on a per insurer basis. This will include data on claims handling timeframes and dispute levels that will allow for meaningful comparisons of insurer performance, and more effectively inform consumers and other interested stakeholders.

I hope those remarks are helpful background for today's hearing, and my colleagues and I would be happy to answer your questions.