



APRA

CORPORATE PLAN 2019-2023

AUGUST 2019

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WAYNE BYRES

Chairman

Thursday 29 August 2019

The Hon Josh Frydenberg, MP
Treasurer
Parliament House
Canberra ACT 2600

Dear Treasurer,

As the accountable authority of the Australian Prudential Regulation Authority (APRA), I present APRA's 2019-2023 Corporate Plan (the Plan), as required under paragraph 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013*.

APRA is an independent authority established for the purposes of prudential supervision of financial institutions and for promoting financial system stability in Australia.

APRA's purpose is established in the *Australian Prudential Regulation Authority Act 1998* and through specific industry legislation including the *Banking Act 1959*; the *Insurance Act 1973*; the *Life Insurance Act 1995*; the *Private Health Insurance (Prudential Supervision) Act 2015*; the *Superannuation Industry (Supervision) Act 1993*; and the *Financial Sector (Collection of Data) Act 2001*.

This Plan sets out APRA's priorities for the 2019-2023 planning period relevant to achieving its purpose and in consideration of the Australian Government's Statement of Expectations for APRA and APRA's Statement of Intent published in September 2018. I will report on progress against this Plan in APRA's 2019-2020 Annual Report.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Byres', on a light blue background.

Chapter 1 – Introduction

APRA's evolving strategy

The Australian financial system remains stable and broadly in good health. This is a product of many factors, including supportive economic conditions and policy settings. APRA's active supervision of the financial services industry has also contributed. However, the financial system is exposed to many vulnerabilities and challenges, and ongoing financial safety and stability cannot be taken for granted. Moreover, community trust in the fairness of the financial system has been eroded, and regulators like APRA need to play a role in restoring that trust.

2018-19 was an intense year for APRA. In addition to pursuing a wide-ranging agenda to deliver continued improvements to its policy and supervisory frameworks, APRA's operations were also subjected to considerable public scrutiny via a range of reviews and inquiries.¹ These have produced a large number of recommendations and suggestions on how APRA needs to evolve and adapt to remain a successful prudential supervisor into the future.

This external environment, and the results of the external scrutiny of APRA's operations, have significantly contributed to shaping APRA's revised 2019-2023 strategy.

Last year, APRA's 2018-2022 Corporate Plan set out an ambitious change agenda, built on a robust strategic development process that undertook a comprehensive assessment of the internal and external environment, as well as international best practice. The past year has only reinforced the need for APRA to go further and with greater speed, supported by sufficient funding, in a number of the strategic priorities previously identified if it is to respond effectively to the changing environment and achieve its vision:

To deliver a sound and resilient financial system, founded on excellence in prudential supervision.

As a result, APRA's 2019-2023 Corporate Plan has now been revised to better articulate what APRA intends to do, and more clearly identify the expected outcomes for the Australian community. It has been designed to enable APRA to be held to account on delivering outcomes in line with the explicit commitments in its mandate and this plan, underpinned by APRA's boosted funding and capability in key operational areas.

¹ These reviews and inquiries included the Financial Sector Assessment Program conducted by the IMF, the Royal Commission in Misconduct in the Banking, Superannuation and Financial Services Industry, the Productivity Commission inquiries into *Superannuation: Assessing Efficiency and Competitiveness* and *Competition in the Australian Financial System*, APRA's own Enforcement Strategy Review, and the APRA Capability Review.

In particular, the 2019-2023 strategy identifies four strategic focus areas to strengthen outcomes for the Australian community that APRA is seeking to deliver. They are:

- Maintaining financial system resilience
- Improving outcomes for superannuation members
- Improving cyber-resilience across the financial system, and
- Transforming governance, culture, remuneration and accountability across all regulated financial institutions.

To successfully deliver on these commitments, the 2019-2023 Corporate Plan also recognises areas where APRA will focus on uplifting its own capabilities. These are largely the same as APRA's 2018-2022 plan, but the detail of underpinning initiatives has been revised to reflect changes in APRA's operating environment and to optimise our ability to successfully deliver over the plan period. They are:

- Improving and broadening our risk-based supervision
- Improving our resolution capability
- Improving our external engagement and collaboration
- Transforming our data-enabled decision making, and
- Transforming our leadership, people and culture.

The following chapters provide a review of APRA's external and internal operating environment, an overview of APRA's assessment of its environment and strategic positioning, an outline of APRA's priorities, and how APRA will execute its strategy and measure its performance.

Fulfilling these commitments will ensure APRA is well-positioned to deliver on its mandate:

To protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system.

Chapter 2 - APRA's operating environment

APRA's external environment

In developing its 2019-2023 Corporate Plan, APRA considered a wide range of external circumstances and trends, as well as the Government's revised Statement of Expectations² and APRA's Statement of Intent³ published in September 2018.

Macroeconomic and political forces

- Domestically, despite softening, the economic environment remains resilient.
- Declining house prices and subdued wage growth present some systemic risk and have the ability to impact stability within a banking system which is heavily exposed to mortgages and household capacity for servicing substantial debt. Loans in 'negative equity', where loan value is greater than the encumbered asset value, are increasing although widespread loan losses are not evident and presently unlikely.
- In the context of reduced growth and very low interest rates, there is continued pressure on the Boards and management of APRA-regulated institutions to maintain profitability.
- Globally, growth concerns and trade tensions are leading to a more uncertain outlook. Geopolitical risks are impacting confidence, and leading to market volatility.

Industry and technological shifts

- New types of entities are seeking to enter the financial services sector (e.g. fintechs, tech giants), providing new competitive challenges to incumbent entities. The 'Open Banking' reforms and the Consumer Data Right have the potential to significantly alter the competitive landscape, but bring additional technology, security and privacy challenges.
- Technological advancements are rapidly transforming the way products and services are provided, and there is a marked increase in the use of artificial intelligence.
- Institutions are outsourcing critical functions and activities to external parties that vary in levels of sophistication and potentially exist outside of the regulatory perimeter.
- Cyber security risks are continuing to grow in scale and sophistication.
- The impact of climate change is being assessed across all regulated sectors.

Heightened community expectations

- The Royal Commission into *Misconduct in the Banking, Superannuation and Financial Services Industry* highlighted the erosion of community trust in the fairness of the financial services sector. Amongst other things, it identified shortcomings in financial sector governance, culture and remuneration, leading to poor community outcomes. Regulatory responses to these were identified as insufficient.

² [APRA's Statement of Expectations - 2018](#)

³ [APRA's Statement of Intent - 2018](#)

- Financial institutions must act to improve their conduct and there is a greater expectation of deterrent and punitive enforcement action by all regulators, which has been facilitated by recent legislative changes.
- APRA and its peer regulators are expected to collaborate more explicitly, especially given the increasing prevalence of shared responsibilities and issues of common interest.
- The Government's renewed Statement of Expectations reinforced expectations for APRA to be transparent and accountable by providing external communications on key decisions and regulatory outcomes (subject to the secrecy provisions in the *Australian Prudential Regulation Authority Act 1998*) and how they align with APRA's statutory objectives and strategic priorities.

APRA-regulated industries

Banking (ADIs)

- The ADI sector is generally financially sound and profitable, being well capitalised, with stable liquidity and funding.
- Stress within the ADI sector is closely linked to the broader economy. Locally, there is limited recent experience in dealing with recessionary conditions, however APRA remains prepared to respond promptly if required.
- The Royal Commission identified significant weaknesses across the sector in the governance and management of non-financial risks. This was consistent with APRA's Prudential Inquiry into the Commonwealth Bank of Australia (CBA) and subsequent self-assessments conducted across APRA-regulated industries.

Insurance

- The general insurance industry exhibits stable profitability and capital coverage with no critical short-term risks. However, over the medium-term outmoded business models could expose the industry to viability issues. There is also a risk that parts of the community will find it increasingly difficult to obtain affordable, appropriate or adequate insurance cover as a result of climate change and consequently areas of society could become uninsured.
- The life insurance market is characterised by long-standing issues regarding legacy products and systems; mis-selling products to consumers through direct marketing channels as highlighted by the Royal Commission; and (more recently) increasing underinsurance due to reforms impacting the advisor sales channel and insurance in superannuation. The industry is grappling with instances of poor product design and unsustainable risk product offerings that threaten affordability.
- The private health insurance industry is supported by a sound capital position and historical profitability. However, the industry faces a significant test of its financial resilience, as ongoing insurer sustainability is under threat from declining profitability, capital and membership associated with affordability pressures.

Superannuation

- Many superannuation products deliver good outcomes for the majority of superannuation members in a stable environment. However, there remain areas of persistent underperformance in the industry, as highlighted by the Productivity Commission.

- The Royal Commission also outlined specific examples where superannuation trustees did not appear to be putting members' interests first, highlighting concerns with governance and management of conflicts of interest.
- A lack of comparable and transparent information makes it difficult for superannuation members to make informed decisions and there are few products available in the market to manage longevity risk.

Reviews and inquiries

In 2018-2019, aspects of APRA's operations and the outcomes it achieves for the Australian community were examined by a number of reviews and inquiries:

- The International Monetary Fund's (IMF) *Financial Sector Assessment Program* (FSAP).
- The Royal Commission into *Misconduct in the Banking, Superannuation and Financial Services Industry*.
- The Productivity Commission's reviews on '*Competition in the Australian Financial System*' and '*Superannuation: Assessing Efficiency and Competition*'.
- APRA's own Enforcement Strategy Review.
- The Government-commissioned Capability Review (delivered in July 2019).

Collectively, the reviews recognised that APRA has been successful in delivering on its core mandate: the financial safety of its regulated institutions and a sound and resilient financial system. However, they also bring to the fore the need for APRA to continue to step beyond its traditional areas of focus and respond to an operating environment that is rapidly evolving and becoming increasingly complex. In particular, they have emphasised that APRA needs to sharpen its focus in superannuation, and engage more forcefully in areas of so-called 'non-financial risk' if it is to continue to be successful into the future.

The external reviews identified opportunities to strengthen regulation and supervision practices and collectively provided around 150 recommendations and suggestions for APRA to consider. APRA supports all recommendations from the Royal Commission and Capability Review directed at APRA. These recommendations, in addition to those directed at APRA by the IMF as part of the FSAP and also the Productivity Commission findings, have been considered as part of formulating APRA's 2019-2023 Corporate Plan and underlying operational plans.

APRA's internal environment

APRA's operating model



APRA's achieves its mandate through three **Core Functions**:

- **Policy** – APRA's policy function is directed at protecting the Australian community by establishing minimum expectations for financial institutions and empowering APRA's supervisors to achieve desired outcomes.
- **Supervision** – APRA's supervision function is directed at protecting the Australian community by identifying and responding to significant risks to financial institutions and the financial system in a timely and effective manner.
- **Resolution** – APRA's resolution function is directed at protecting the Australian community from financial loss and disruption by planning for and implementing prompt and effective responses to a crisis in the financial system.

APRA's ability to perform these three core functions is built on three **Core Capabilities**:

- **People and culture** - APRA seeks to maintain its highly-skilled and engaged workforce, supported by strong leaders, within a values-aligned corporate culture.
- **Risk intelligence and frameworks** - APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions.
- **Organisational effectiveness and infrastructure** – APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable premises and systems.

A more detailed description of APRA's Core Functions and Core Capabilities is included in Appendix B.

APRA's 2018-2022 Corporate Plan had identified a number of strategic priorities designed to significantly uplift APRA's internal capabilities and capacity to support its critical core functions and capabilities and these have progressed, albeit at a slower pace than originally anticipated due to a range of competing demands on the organisation.

In broad terms, APRA's operating model continues to be fit-for-purpose. However, changes to APRA's organisational structure to, amongst other things, support more focused prudential supervision along industry lines are forthcoming.

APRA's funding

During 2018-2019, APRA's funding was significantly increased through two funding measures announced in the 2018 Mid-Year Economic and Fiscal Outlook and the 2019 Federal Budget. These increased APRA's funding over the four years of the forward estimates by approximately \$210 million. The measures related primarily to responding to the Royal Commission and implementing APRA's new and expanded functions, including rolling-out the Banking Executive Accountability Regime (BEAR) across all APRA-regulated industries to heighten standards of accountability. The Government also addressed APRA's funding needs in the outer years which, if left unaddressed, would have required APRA to substantially reduce its staffing numbers.

The initiatives that informed the funding increases have been incorporated into APRA's 2019-2023 Corporate Plan.

Following the Capability Review, APRA noted that it would require Government support – through additional funding or legislative and/or policy changes – to effectively implement all the recommendations arising from that review (and as acknowledged in the Capability Review report). APRA notes the Government's indication that it will consider the need for any additional funding as part of the 2020-21 budget process and as such APRA will assess any implications to its four-year plan at that time.

Chapter 3 – 2019-2023 strategy

APRA’s strategy in summary

APRA’s 2019-2023 Strategy



APRA's imperative to evolve

APRA operates within increasingly complex and challenging circumstances. APRA's 2019-2023 strategy responds to the following four imperatives drawn from the external and internal factors outlined in the previous chapter:

<i>Fact</i>	<i>APRA's challenge</i>
Our core mandate is unchanged	APRA must maintain the safety and resilience of the financial system
The need to respond to our evolving environment is well recognised	APRA is improving on multiple fronts but we need to modernise and adapt to our changing operating environment to ensure we remain fit for the future
There will be ongoing scrutiny and demand for accountability and action in key areas	APRA needs to demonstrate improvements in areas that matter to the Australian community: e.g. superannuation member outcomes, GCRA, ⁴ cyber security, and more clearly articulate our goals and progress
Increases in funding and support for our ongoing success provide us with an opportunity to do and achieve more	In building APRA's capacity and capability, APRA will need to progressively transform the organisation to achieve our stated outcomes for the Australian community

⁴ GCRA refers to the supervision of governance, culture, remuneration and accountability

Strategic positioning

Based on an assessment of APRA's operating environment and in recognition of the imperative to evolve, APRA has reaffirmed its operating model but will make changes to its organisational structure to align with the industries it supervises. APRA has also reset its priorities. Over the next four years, specific areas for concentrated APRA attention have been identified in order to maintain the current level of financial system resilience, make tangible and visible improvements in key result areas for the benefit of the Australian community and improve and transform APRA's internal tools, capabilities and ways of working. Performance measures will be developed to assess delivery against these objectives over time.

APRA's 2019-2023 strategy includes four strategic focus areas to strengthen outcomes for the Australian community. They are:

- Maintaining financial system resilience
- Improving outcomes for superannuation members
- Improving cyber-resilience across the financial system, and
- Transforming governance, culture remuneration and accountability across all regulated financial institutions

The four strategic focus areas identified above are not meant to represent all outcome areas where APRA has a responsibility or will direct its attention. APRA will continue to deliver on the full range of its activities captured within its mandate. Rather, the four strategic focus areas highlighted within the plan provide focal points for APRA over the next four years and articulate clear outcomes for the Australian community.

To achieve the identified strategic community outcomes, an uplift in APRA's internal capabilities in five areas are essential. Uplifts in each of these areas will enhance APRA's operating model and in turn enable the attainment of the desired community outcomes. They are:

- Improving and broadening our risk-based supervision
- Improving our resolution capability
- Improving our external engagement and collaboration
- Transforming our data-enabled decision making
- Transforming our leadership, people and culture

APRA's priorities are outlined in more detail below.

Strengthening community outcomes

Outlined below are four strategic focus areas where APRA aims to strengthen its contribution to the Australian community.

Strategic focus area: Maintain financial system resilience

Objective

APRA will maintain its strong track record of maintaining financial safety and stability by reinforcing the resilience of APRA-regulated financial institutions and the Australian financial system to protect the interests of Australian depositors, insurance policyholders and superannuation members.

Financial instability and a lack of confidence in the strength of regulated financial institutions comes at a heavy economic and social cost to a country. Many advanced economies experienced these costs as a result of the global financial crisis, when lack of confidence in the financial sector caused deep recession, large scale unemployment and required publicly funded financial institution bailouts, increasing government debt and impacting future generations. The maintenance of a stable financial system characterised by confidence in the strength and resilience of financial institutions is therefore crucial in promoting economic growth and development in Australia. APRA must continue to deliver on its core mandate of financial safety and stability to support this aim by upholding the resilience of APRA-regulated financial institutions and the Australian financial system.

Key outcomes

- Maintained balance sheet strength of APRA-regulated institutions.
- Very low incidence of failure of APRA-regulated institutions.

Actions

APRA has an ongoing supervision and prudential policy program dedicated to maintaining financial safety across APRA-regulated financial institutions and the stability of the financial system. Within this broad program, APRA will evolve its supervision and policy position to uphold the resilience of APRA-regulated financial institutions and the Australian financial system through the following specific initiatives:

- Strengthening capital requirements for authorised-deposit taking institutions (ADIs) by incorporating APRA's 'unquestionably strong' capital expectations into the implementation of global capital reforms in Australia, as well as undertaking other targeted activities such as stress testing.
- Ensuring superannuation fund members are protected by robust governance practices and operational controls and systems, designed to safeguard members' funds from theft or loss.
- Uplifting risk governance maturity and driving the development of sustainable risk products offered by life insurers by targeting supervisory activities to areas of greatest risk.
- Implementing a strong, fit-for-purpose prudential framework to strengthen and align capital, risk management and governance requirements for private health insurers (PHIs) and uplift PHI industry focus on affordability.
- Actively driving greater preparedness and resilience in the general insurance industry by working collaboratively with other domestic and international regulatory agencies to address issues including poor product design and consumer value and managing the reliance on overseas reinsurance by the industry.
- Improving recovery planning across all APRA-regulated industries.

Strategic focus area: Maintain financial system resilience

Note: Chapter 4 includes APRA's four-year roadmap which provides high level milestones and deliverables relating to this strategic focus area. Uplifts in APRA's internal capabilities focused on improving and broadening risk-based supervision, transforming data-enabled decision making and building resolution capability are linked to and will enable the attainment of this strategic focus area.

Strategic focus area: Improve outcomes for superannuation members

Objective

APRA will actively drive a superannuation trustee culture of continuous improvement in delivering quality outcomes to superannuation members, including addressing underperformance in the superannuation industry.

Australia's superannuation industry is a large and growing sector within the financial system; it plays a critical role in the delivery of retirement incomes for Australians and, through its investment of superannuation assets, in the economy more broadly. Given its size and importance, it is critical that the sector is prudently managed by superannuation trustees (RSE licensees) that have a strong focus on delivering quality outcomes for their members.

In recent years, APRA has intensified its focus on superannuation trustees that are not consistently delivering sound outcomes for their members or with governance and risk management arrangements that fall short of sound practice. APRA will continue to intensify this focus, to address the issues highlighted by the Royal Commission and Productivity Commission and drive long-term improvements in industry-wide practices and the retirement incomes provided for superannuation members.

Key outcomes

- Improved financial performance across the industry relative to key benchmarks, including exit of underperforming funds.
- Improved efficiency across the industry, including with respect to fees and costs, insurance and outsourcing, while maintaining high standards of governance and risk management.

Actions

To achieve this objective, APRA will:

- Drive an uplift in industry standards for performance assessment and foster a culture of continuous improvement in delivery of outcomes for superannuation members through implementation of SPS 515 *Strategic Planning and Member Outcomes* and the legislated outcomes assessment, as well as through deep dives into industry practices in key areas.
- Improve transparency of superannuation performance by collecting and publishing new, more granular data and benchmarking performance and outcomes in key areas including investment performance, expenses, insurance and sustainability.
- Influence industry practices and improve outcomes for superannuation members by enhanced transparency on supervisory actions and emerging areas of best practice identified through industry-wide reviews.
- Integrate APRA's assessment of member outcomes into APRA's risk assessment and response models and new enforcement approach.
- Facilitate the resolution or exit of persistently underperforming superannuation funds.

Strategic focus area: Improve outcomes for superannuation members

Note: Chapter 4 includes APRA's four-year roadmap which provides high level milestones and deliverables relating to this strategic focus area. Uplifts in APRA's internal capabilities focused on improving and broadening risk based supervision, transforming data-enabled decision making and improving external engagement and collaboration are linked to and will enable the attainment of this strategic focus area.

Strategic focus area: Improve cyber resilience across the financial system

Objective

APRA will seek to reduce the impact of cyber incidents to the Australian community and financial system by ensuring that APRA-regulated financial institutions are proactively undertaking continual actions to strengthen their cyber resilience.

Cyber-attacks are increasing in frequency, sophistication and impact globally. Australia is not immune to this. Capabilities across APRA's regulated institutions, and their key service providers, are variable with a range of cyber exposures and preparedness observed. As the prudential regulator, APRA plays a key role in ensuring that regulated institutions can combat cyber-attacks through prevention, detection and response capabilities.

Key outcomes

- Improved ability of institutions to deter, detect and defend against cyber incidents.
- Cyber resilience benchmarks are developed against which regulated institutions and key service providers can report.

Actions

As part of APRA's ongoing work on cyber resilience, APRA will refresh and execute its multi-year cyber strategy, which will include:

- Enforcing minimum standards and influencing sound practices: APRA will supervise the adoption of the new prudential standard CPS 234 *Information Security* and target areas of weakness with clear guidance to industry. Active supervision will ensure APRA-regulated institutions address basic cyber hygiene issues and maintain 'fit for purpose' response plans for plausible cyber incidents.
- Using data driven insights to interrogate cyber resilience data to prioritise and tailor supervisory activities. In the longer term, this will inform baseline metrics against which APRA regulated institutions will be benchmarked and held to account for maintaining sound cyber defences.
- Collaborating with peer regulatory agencies for better cyber resilience outcomes, including by executing the work plan of the Council of Financial Regulators Cyber Security Working Group, and engaging with other agencies, international peers and industry experts.
- Bolstering APRA's ability to assess the cyber resilience of regulated institutions by uplifting organisational capability and by leveraging third party expertise for deeper assessments where necessary.
- Uplifting APRA's cyber incident response capabilities to respond swiftly and decisively to cyber incidents that have materially impacted APRA regulated institutions. This includes playing its part in supporting institutions to recover from an incident and ensuring APRA's ability to enact the Financial Claims Schemes is not compromised by a cyber incident.

Strategic focus area: Improve cyber resilience across the financial system

Note: Chapter 4 includes APRA's four-year roadmap which provides high level milestones and deliverables relating to this strategic focus area. Uplifts in APRA's internal capabilities focused on improving and broadening risk based supervision and building resolution capability are linked to and will enable the attainment of this strategic focus area.

Strategic focus area: Transform governance, culture, remuneration and accountability across all regulated financial institutions

Objective

APRA will seek to transform governance, culture, remuneration and accountability (GCRA) across APRA-regulated institutions' management of non-financial risks. APRA will be 'constructively tough' with regulated institutions where practices fall below prudential expectations. The overarching objective of this work is to enhance the resilience of APRA regulated institutions and contribute to rebuilding the Australian community's trust and confidence in the fairness of the financial system.

Following on from the findings of the CBA Prudential Inquiry, Royal Commission and the self-assessment of governance, accountability and culture across Australia's largest financial institutions, a significant uplift is required in APRA regulated institutions management of GCRA. This involves lifting Board and senior management governance of non-financial risk, reinforcing the importance of 'tone from the top' to articulate and foster the desired risk culture, strengthening alignment of remuneration with performance and risk outcomes, and enhancing accountability by extending the executive accountability regime across all APRA regulated industries.

Key outcomes

- Stronger governance and control of non-financial risks by APRA-regulated institutions.
- Remuneration frameworks that reward good outcomes and impose consequences for poor behaviour.

Actions

As part of APRA's multi-year GCRA strategy, APRA will:

- Strengthen the prudential framework by uplifting and clarifying prudential expectations and guidance relating to GCRA, and work with Government on planned initiatives to extend the legislated accountability regime to all APRA-regulated institutions.
- Share more frequent GCRA insights with external stakeholders to reinforce prudential expectations, with a view to continuing to uplift the management of non-financial risks by APRA regulated institutions.
- Sharpen prudential supervision of GCRA through intensifying focus on risk management outcomes including:
 - Refreshing supervisory tools and approaches, which includes targeted use of regulatory technology, to transform supervision of GCRA;
 - Undertaking intensive reviews and prudential inquiries as appropriate to identify and require action where the poor management of GCRA risks is identified.
 - Embedding a 'constructively tough' mindset to the supervision of GCRA across APRA;

Strategic focus area: Transform governance, culture, remuneration and accountability across all regulated financial institutions

- o Empowering supervisors with market intelligence to identify GCRA outliers and take action where appropriate; and
- o Partnering with other regulators and third parties to incorporate best practices and leverage diverse pools of skills and experience to sharpen APRA's supervision.

Note: Chapter 4 includes APRA's four-year roadmap which provides high level milestones and deliverables relating to this strategic focus area. Uplifts in APRA's internal capabilities focused on improving and broadening risk based supervision and transforming data-enabled decision making are linked to and will enable the attainment of this strategic focus area.

Uplifting APRA's internal capabilities

APRA has identified aspects of its internal capabilities that require improvement in order to deliver on its mandate and strategic focus areas. The capability uplift areas are detailed below. *Chapter 4 includes APRA's four-year roadmap which provides high level milestones and deliverables relating to each capability uplift area.*

Capability uplift area: Improve and broaden risk-based supervision

Objectives and actions

- APRA will complete the review of its supervision model to ensure that is fit for purpose and responsive to a rapidly changing environment, as well as being one that drives consistent, informed and comprehensive prudential supervision across the financial system.
- APRA will improve its ability to proactively identify, assess and respond to a broader range of risks in a coordinated way and ensure risks are well-informed and empirically grounded.
- APRA will strengthen its enforcement capability by reinforcing its new enforcement approach⁵ which sets out how APRA will use its enforcement powers to prevent and address serious prudential risks, and hold financial institutions and executives to account.

Capability uplift area: Improve resolution capability

Objectives and actions

- APRA will strengthen recovery planning undertaken by ADIs and insurers to deliver credible strategies through which institutions can recover in the event of a crisis.
- APRA will establish a new prudential standard on resolution, and improve its resolution capability by developing more robust resolution strategies that aim to minimise financial loss, distress and instability within the financial system in the event of a crisis.
- APRA will improve its operational readiness to resolve failures and near failures including the operability of the Financial Claims Scheme (FCS) for ADIs and insurers.

Capability uplift area: Improve external engagement and collaboration

Objectives and actions

- APRA will promote better prudential outcomes and drive greater accountability by developing and implementing an enhanced communications strategy and supporting communication mechanisms that cater to all stakeholder needs.
- APRA will publish a series of information papers designed to explain to stakeholders how it undertakes its activities in key areas (e.g. balancing its mandate, enforcement, GCRA, financial stability/macro prudential measures).
- APRA will adopt a 'whole of system' mindset to the collective success of Australia's financial regulatory regime through a more deliberate approach to collaborating with peer domestic and international agencies on a broader range of risks and mitigation activities. A key priority will be the ongoing strengthening of APRA's engagement with ASIC, particularly in areas of common interest (e.g. enforcement, superannuation, GCRA).

⁵ [APRA's new enforcement approach](#)

Capability uplift area: Transform data-enabled decision-making

Objectives and actions

- APRA intends to transform its data into a strategic asset by further developing its data strategy, in consultation with key stakeholders (including industry participants and other regulatory agencies), to facilitate greater and more effective use and sharing of data in the oversight of the Australian financial system and defining and implementing the data sources required.
- APRA will continue its multi-year transformation program (Program Athena) to modernise the way APRA collects, stores and accesses data by creating a new data collection solution that adapts quickly to changes in data and is efficient for APRA's regulated industries to use; enhancing its new enterprise data warehouse; and creating portals, dashboards and reports in close partnership with stakeholders to deliver data and insights.

Capability uplift area: Transform leadership, people and culture

Objectives and actions

- APRA will lift the capability of its leaders by greatly strengthening the focus and prioritisation given to leadership development, and the demonstration of a high standard of leadership behaviours, through a new capability framework. This will be supported by additional investment in leadership development, and implementing ongoing measurement and reporting of leadership improvements.
- APRA will leverage its values-aligned culture and implement further initiatives for ongoing cultural enhancement to drive organisational performance.
- APRA will reset its organisation structure to promote stronger accountability for strategic priorities and key community outcomes.
- APRA will optimise its workforce by obtaining new resources, skills and capabilities; and improve workforce planning and resource management processes and systems to support the ongoing delivery of APRA's strategy.

Chapter 4 – Strategy execution

APRA's high-level approach for execution of APRA's 2019-2023 strategy including its **roadmap for change, key performance measures, financial resources and risk oversight and management** are outlined in Chapters 4 and 5.

Roadmap for change

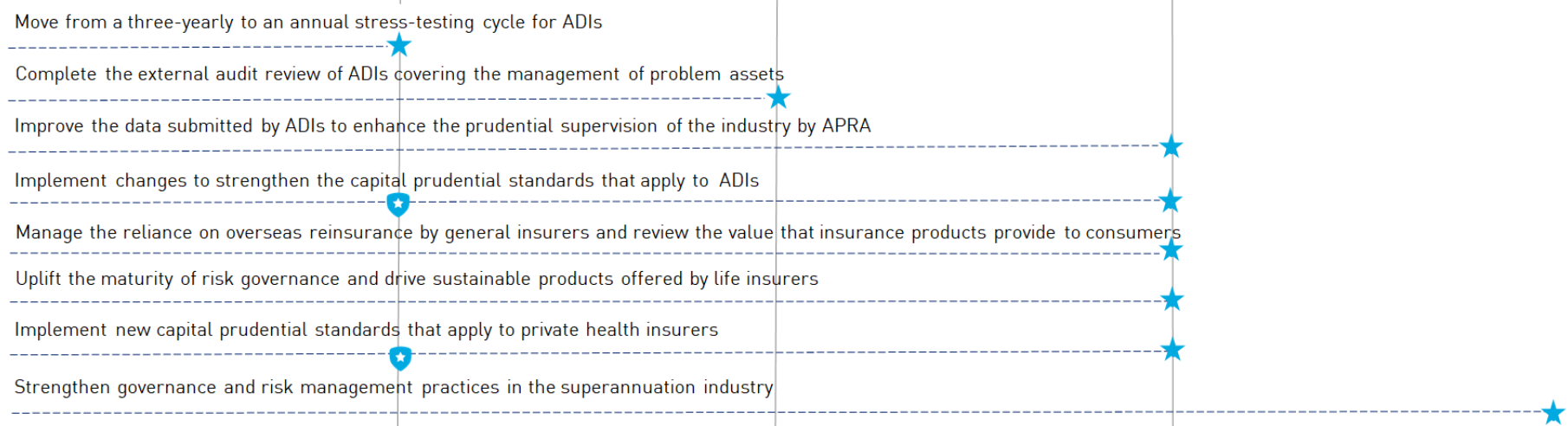
The roadmap below provides high level milestones for each strategic focus area to strengthen outcomes for the Australian community and for each area where APRA will uplift its internal capabilities over the next four years as outlined in Chapter 3 above.

It should be noted that the milestones and completion dates included in the roadmap are indicative and may be subject to change as more detailed planning occurs over the coming months. They are also subject, as noted in Chapter 2, to further review by the Government of APRA's longer-term resourcing needs.

2019-20		2020-21		2021-22		2022-23	
Jul – Dec 19	Jan – Jun 20	Jul – Dec 20	Jan – Jun 21	Jul – Dec 21	Jan – Jun 22	Jul – Dec 22	Jan – Jun 23

COMMUNITY OUTCOMES – STRATEGIC FOCUS AREAS

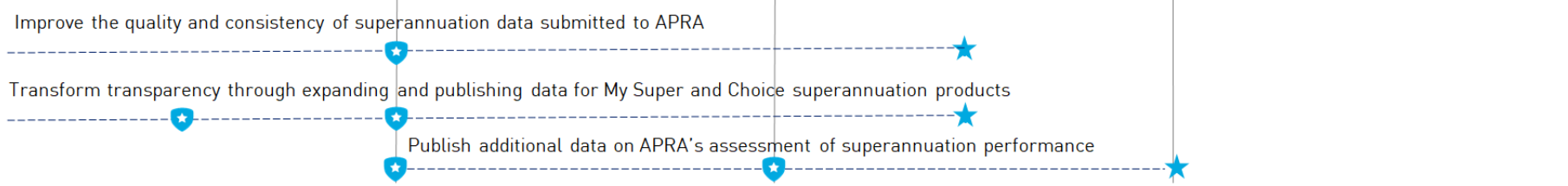
Strategic focus area: Maintain financial system resilience



Key enablers – Internal capability areas

Improve & broaden risk-based supervision; Transform data-enabled decision making; Improve resolution capability

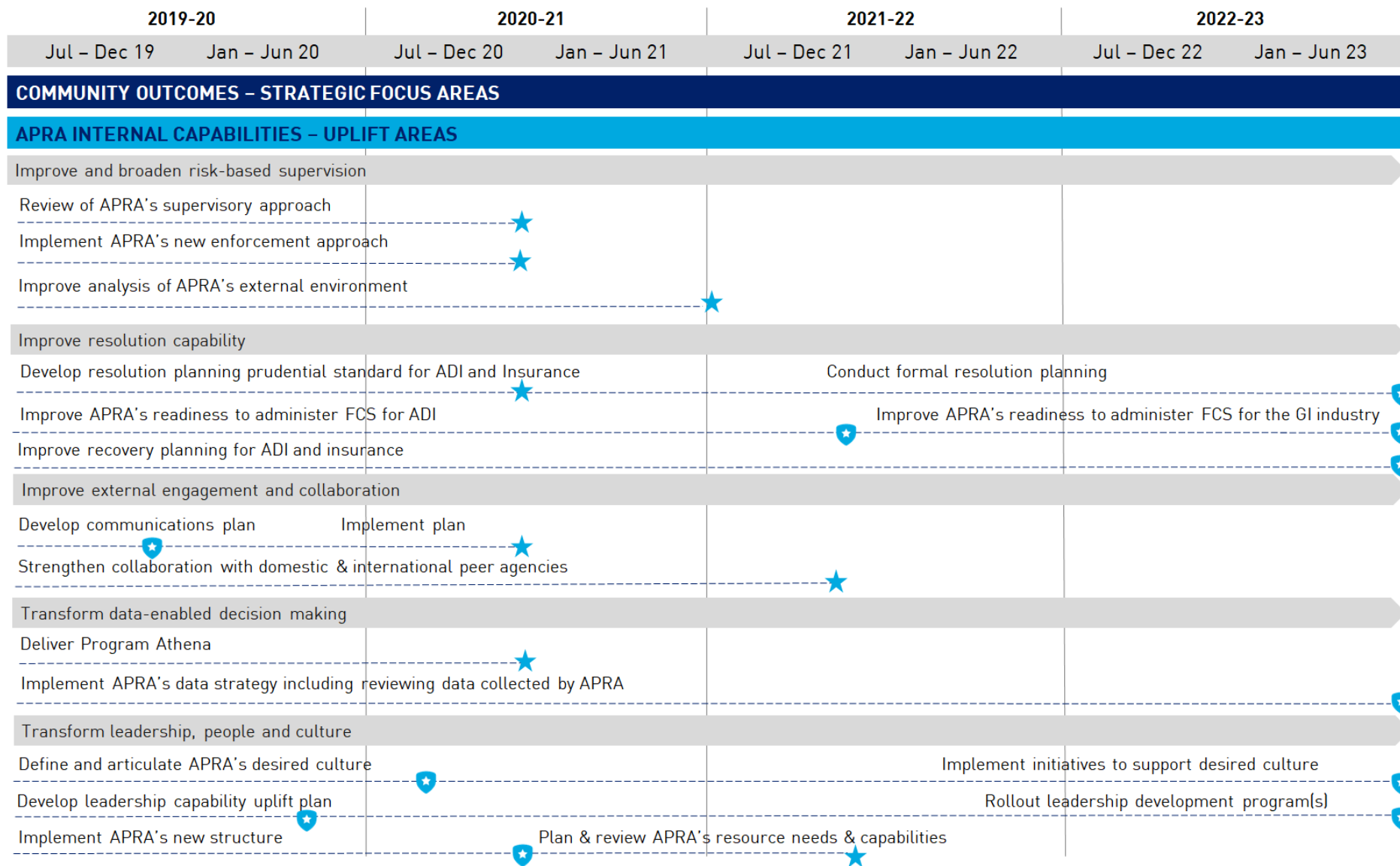
Strategic focus area: Improve outcomes for superannuation members



Note: milestones and completion dates included in APRA's roadmap are indicative and may be subject to change as more detailed planning occurs

----- Deliver ★ Milestone ★ Complete

2019-20		2020-21		2021-22		2022-23	
Jul – Dec 19	Jan – Jun 20	Jul – Dec 20	Jan – Jun 21	Jul – Dec 21	Jan – Jun 22	Jul – Dec 22	Jan – Jun 23
COMMUNITY OUTCOMES – STRATEGIC FOCUS AREAS							
Strategic focus area: Improve outcomes for superannuation members (cont.)							
Facilitate implementation of legislation and strengthen prudential standards							
		★		★		★	★
Improve the transparency of supervisory actions taken by APRA and publish the results of benchmarking exercises							
	★		★		★		
Conduct thematic and deep dive reviews into trustee practices							
	★		★		★		★
Facilitate the resolution/managed exit of persistently underperforming superannuation funds or products							
	★		★		★		
Key enablers – Internal capability areas							
Improve & broaden risk-based supervision, Transform data-enabled decision making, Improve external engagement & collaboration							
Strategic focus area: Improve cyber resilience across the financial system							
Implement changes to the prudential standards							
★							
Implement new supervision practices to assess cyber resilience							
		★					
Uplift industry practice to manage cyber incidents							
							★
Key enablers – Internal capability areas							
Improve & broaden risk-based supervision, Improve external engagement & collaboration, Transform leadership, people & culture							
Strategic focus area: Transform governance, culture, remuneration and accountability (GCRA) across all regulated institutions							
Introduce baseline indicators to assess governance practices							
			★				
Benchmark governance practices across institutions							
					★		
Increase thematic reviews of governance							
							★
Introduce baseline indicators to assess risk culture							
	★						
Conduct risk culture deep dive reviews & introduce survey tools							
					★		
Measure risk culture across industries							
							★
Implement intensive supervisory reviews (three entities per year)							
		★					
Implement revised remuneration prudential standard							
			★				
Implement executive accountability regime across GI, LI, PHI & Superannuation industries consistent with legislation							
							★
Key enablers – Internal capability areas							
Improve and broaden risk-based supervision, Improve external engagement and collaboration							



Chapter 5 - Measurement and accountability

In accordance with the Commonwealth performance framework, APRA's performance against its four-year Corporate Plan and Portfolio Budget Statement is reported on each year within its Annual Performance Statement (APS) included in APRA's published Annual Report. The key performance measures included below are designed to measure APRA's ability to achieve its purpose.

Key performance measures

Protecting the Australian community from financial loss and disruption

APRA endorses the view expressed in the Australian Government's Statement of Expectations that '...prudential regulation cannot and should not seek to guarantee a zero failure rate of prudentially regulated institutions or provide absolute protection for market participants. A regulatory approach with such intensity would remove the natural spectrum of risk that is fundamental to well-functioning markets, and ultimately reduce the efficiency and growth of the Australian economy'. As such, APRA seeks to maintain a low incidence of failure of financial institutions while not unnecessarily hindering efficiency, competition or otherwise impeding the competitive neutrality or contestability of the financial system. APRA aims to identify likely failures early enough so that corrective action can be promptly initiated or orderly exit achieved.

APRA measures its performance by the extent to which the Australian community is exposed to loss through the failure of a financial institution. The two key ratios APRA uses for this purpose are the **Performing Entity Ratio (PER)** and the **Money Protection Ratio (MPR)**.

Performance measure	Description
Performing Entity Ratio (PER)	The PER is an indicator of the incidence of failure amongst regulated institutions. It is determined as the number of regulated institutions that met their commitments to beneficiaries in a given year divided by the total number of regulated institutions. The higher the percentage, the lower the incidence of failure.
Money protection ratio (MPR)	The MPR is an indicator of the incidence of loss in the financial sector. It is determined as the dollar value of liabilities to beneficiaries in Australia in a given year, less any losses due to prudential failures, divided by the total dollar value of liabilities to beneficiaries in Australia in APRA-regulated institutions. Again, the higher the percentage, the lower the incidence of loss.

Administration of the Financial Claims Schemes

As specified in Section 8 of the *Australian Prudential Regulation Authority Act 1998*, APRA has responsibility for administering the Financial Claims Schemes (FCSs). The FCSs are Australian Government schemes designed to protect Australian depositors and general insurance policyholders in a situation in which an ADI or general insurer fails⁶. The FCSs therefore play an important role in supporting the stability of the Australian financial system.

Performance measure	Description
Percentage of FCS payments paid to account holders within seven calendar days of an FCS declaration ⁷	APRA measures the efficiency with which it performs its function in relation to the FCS for banks, building societies and credit unions by measuring the percentage of FCS payments paid to account holders within seven calendar days of an FCS declaration. Although the circumstance of each declaration will vary the timeliness of payment, this measure is consistent with APRA's endeavours to pay most account holders, or enable them to access, their FCS payment within seven days ⁸ .
Number of outstanding claims in the event of an FCS declaration	Given the long tail nature of general insurance claims which do not easily lend themselves to measures of efficiency, APRA reports on the number of outstanding claims in the event of an FCS declaration.

Operational efficiency

As well as striving to protect the Australian community by maintaining a low incidence of financial loss and efficiently administering the FCSs when required, APRA also seeks to conduct its operations efficiently. APRA currently measures its costs per \$1,000 of assets supervised supported by qualitative commentary on movements in this measure over time, with work underway to develop more informative indicators in this area.

Performance measure	Description
Costs per \$1,000 of assets supervised by APRA	APRA continues to focus on the efficiency of its operations and assesses performance in meeting its overall efficiency commitment by measuring the ratio of its costs per \$1,000 of assets it supervises supported by qualitative commentary on movements over time.

The results of APRA's performance against the key performance measures above including associated analysis will be reported on within its 2019-20 APS included in APRA's Annual Report.

⁶ The FCSs do not apply to life insurance companies, friendly societies or private health insurers.

⁷ Under the *Banking Act 1959* or the *Insurance Act 1973*, the relevant Minister may make a declaration which activates the FCS if certain conditions are met.

⁸ <https://www.fcs.gov.au/about-apra>

Financial resources

APRA's financial resources are provided through the Government's budgeting and related processes. The forward estimates are set out in the table below:

	2018/19 Actual \$'000	2019/20 Budget \$'000	2020/21 Forward Estimate \$'000	2021/22 Forward Estimate \$'000	2022/23 Forward Estimate \$'000
Annual expenses	158,420	184,223	186,986	197,589	201,985

In general terms, approximately 75 per cent of APRA's cost base is attributable to employee costs, 20 per cent to supplier costs and the balance is depreciation and amortisation.

Risk oversight and management

Risk management within APRA is overseen by the Executive Board and its supporting committees, including oversight of risk and audit items through a separate committee with membership including two independent non-executives.

APRA's Enterprise Risk Management Framework (ERMF) is aligned with the requirements of the Commonwealth Risk Management Policy. As part of the overall risk management framework, APRA has developed a compliance obligation monitoring system to ensure it complies with its responsibilities in accordance with applicable laws.

The ERMF comprises a Risk Appetite Statement, Risk Management Strategy, Risk Management Policy and Reportable Incident Management Policy.

Risk and obligation registers, registers of mitigating controls, treatment actions and monitoring processes are combined to support risk management practices across APRA.

The ERMF is designed to ensure APRA's management of risk is dynamic. It establishes risk owners for each risk who regularly review and update their respective risks, controls and treatment actions. These are assessed and challenged where appropriate.

A quarterly report is prepared on the status of APRA's enterprise risks and is reviewed by the Executive Board, with subsections reviewed by other relevant committees, each quarter.

APRA's management of risks and the consistency and quality of core activities are oversighted by two additional functions:

- An assurance team that reviews the quality and consistency with which core supervision activities are conducted, and the degree to which desired supervisory outcomes have been achieved.
- Reporting to the Audit Committee and a Deputy Chair of APRA, the Internal Audit function is an independent unit focusing on areas of highest risk across first and second line activities, and identifies priority areas for improvement to strengthen the control environment. As well as quarterly reporting to the Audit Committee, the function

provides regular independent reporting to the Executive Committee and Executive Board on the adequacy of remediation actions and the management of risks.

Appendix A – APRA’s role, mandate and values

APRA’s role

The Australian Prudential Regulatory Authority (APRA) is an independent statutory authority established for the purpose of prudential supervision of financial institutions and for promoting financial system stability in Australia.

APRA is the prudential supervisor and resolution authority for the majority of the Australian financial services sector. It oversees Australia’s banks, credit unions and building societies⁹, general, life and private health insurers, reinsurers, friendly societies and most of the superannuation industry. APRA supervises institutions in the financial sector in accordance with various laws of the Commonwealth.

In performing and exercising its functions and powers, APRA is required to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, and in doing so to promote financial system stability in Australia.

APRA’s mandate

APRA’s mandate is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that under all reasonable circumstances, financial promises made by institutions APRA supervises are met within a stable, efficient and competitive financial system.

APRA works closely with other regulatory agencies that form part of the Council of Financial Regulators (CFR) including the Department of the Treasury (the Treasury), the Reserve Bank of Australia (RBA), and the Australian Securities and Investments Commission (ASIC) in achieving its mandate.

APRA’s values

APRA’s values underpin the critical role it plays in protecting the financial well-being of the Australian community. In APRA’s work and its interactions, its people seek to demonstrate:

Integrity

We act without bias, are balanced in the use of our powers, and deliver on our commitments

Collaboration

We actively seek out and encourage diverse points of view, to produce well-founded decisions.

⁹ Collectively referred to as authorised deposit-taking institutions (ADIs).

Accountability

We are open to challenge and scrutiny, and take responsibility for our actions

Respect

We are always respectful of others, and their opinions and ideas

Excellence

We maintain high standards of quality and professionalism in all that we do

Appendix B - APRA's core functions and core capabilities

APRA's core functions

APRA's core functions of **Policy**, **Supervision** and **Resolution** outlined below provide the foundation for delivering on APRA's mandate.

Policy

APRA's policy core function is directed at protecting the Australian community by establishing minimum expectations for financial institutions and empowering APRA's supervisors to achieve desired outcomes

APRA promotes prudent behaviour by financial institutions through a robust prudential framework of legislation, prudential standards and prudential guidance, which aims to ensure that risk-taking is conducted within reasonable bounds, risks are clearly identified and well-managed and that institutions are well governed taking into account outcomes for the Australian community.

APRA's policy function involves setting minimum expectations for financial institutions in consideration of risks to institutions and the broader financial system, the global regulatory agenda (in a manner that is appropriate for Australian circumstances) and key international standards of best practice.

APRA delivers policy through a thorough policy development process consistent with the Office of Best Practice Regulation requirements by analysing the cost, benefits and impacts of any proposed new regulation. When setting policy, APRA engages with other regulatory agencies on areas of common interest and consults with Government, financial institutions and other stakeholders.

APRA publicly announces its policy agenda at the beginning of each calendar year. It publishes all proposed changes to the regulatory framework on its website and any interested party can make a submission. It also publishes the results of those consultations, as well as updated standards, guidance, FAQs and letters to industry.

APRA plays an active role in domestic and international standard-setting of relevance to its mandate. APRA maintains strong engagement with Treasury by providing advice and recommendations on legislative and policy matters particularly where it is evident that the Australian financial system faces new risks that require prudential oversight to strengthen the resilience and stability of the financial system.

Supervision

APRA's supervision core function is directed at protecting the Australian community by identifying and responding to significant risks to financial institutions and the financial system in a timely and effective manner.

APRA places strong emphasis on an active program of prudential supervision. APRA's supervisory approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within financial institutions rests with those institutions' Board of directors and senior management. APRA adopts a risk-based approach to prudential supervision that is designed to identify and assess those areas of greatest risk to a financial institution or the financial system more broadly and direct resources and attention to those risks. APRA seeks to ensure that its judgements are accurate and robust and that its responses are targeted, timely and proportionate. The early identification and escalation of significant risks is fundamental to APRA being able to take prompt and corrective action to mitigate those risks before they pose a threat to the financial soundness of an institution.

APRA seeks to maintain an open and constructive relationship with the institutions and industries it regulates. It takes a preventative approach to identifying and rectifying potential issues with its regulated-entities. However, central to APRA's supervision approach is its ability, where necessary, to use the full suite of actions in its supervisory toolkit to ensure that institutions take the necessary steps to correct any identified issues. APRA has recently updated its enforcement approach¹⁰ to signal its increased appetite for using stronger enforcement measures and litigation as a means to achieve its stated prudential objectives.

APRA maintains strong engagement with other domestic and international regulatory agencies on areas of common interest and undertakes joint activities to achieve outcomes.

Resolution

APRA's resolution function is directed at protecting the Australian community from financial loss and disruption by planning for and implementing prompt and effective responses to a crisis in the financial system.

APRA's resolution function involves planning for and managing crisis events which may result in financial loss, distress or instability within the Australian financial system. Ensuring that corrective action can be promptly initiated to address potential threats to the viability of financial institutions or the financial system is key.

APRA regularly tests its operational readiness to resolve failures and near-failures including administration of the Financial Claims Schemes.

¹⁰ <https://www.apra.gov.au/media-centre/media-releases/apra-releases-new-enforcement-approach>

APRA shares information and co-operates with other regulatory agencies both domestically and internationally on the development of strategies and plans to effectively respond to crisis events. APRA has strong and ongoing engagement with the CFR agencies and other key forums such as the Trans-Tasman Banking Council (TTBC)¹¹.

Core capabilities

APRA's core capabilities of **People and Culture**, **Risk intelligence and frameworks** and **Organisational effectiveness and infrastructure** outlined below support the delivery of its core functions and strategic priorities.

People and culture

APRA seeks to maintain its highly skilled and engaged workforce, supported by strong leaders, within a values-aligned corporate culture.

APRA strives to maintain a highly skilled and engaged workforce and sufficient resources to meet its statutory and strategic objectives. The aim is to ensure APRA has the right people with the right skills to achieve its goals.

APRA fosters a progressive, high-performing and inclusive culture underpinned by APRA's Values of *Integrity, Collaboration, Accountability, Respect* and *Excellence* through a broad range of opportunities for the reward, recognition and professional and personal development of its employees. APRA strives to support the health and well-being of its employees and embrace the principles of diversity.

APRA's leaders endeavour to inspire staff to achieve business outcomes through clear and consistent communication on its organisational priorities, establishing inclusive workplaces and effectively engaging staff.

APRA continues to build a performance-based culture by establishing and measuring the achievement of performance goals and desired behaviours.

Risk intelligence and frameworks

APRA seeks to maintain strong analytical capabilities, using available data and specialist expertise within structured frameworks, to support well-founded, risk-based decisions.

APRA's broad range of risk and analytical specialists are integral to delivering its core functions.

¹¹ <https://treasury.govt.nz/about-treasury/our-work/key-relationships/trans-tasman-banking-council>.

Access to timely and relevant data and insights on financial institutions, regulated industries, the financial sector and the broader economy is integral to APRA producing well-founded, risk-based decisions.

APRA engages with other agencies, in particular agencies within the CFR, to harness collective expertise and enhances APRA's ability to identify, assess and respond to risks in a rapidly changing environment.

Establishing and maintaining robust frameworks supports efficient and effective practices and promotes high quality and consistent decisions to be made.

Organisational effectiveness and infrastructure

APRA seeks to maintain robust and efficient business support, transparent and accountable practices, and secure and reliable premises and systems.

APRA's infrastructure is the backbone of its operations. APRA strives to maintain safe, reliable and secure workplaces and technology that support collaboration and flexible ways of working.

APRA aims to ensure data and insights are made available to its stakeholders in a timely and efficient manner to enable effective decision making and in performing its responsibilities as the national statistical agency for the financial sector.

APRA is committed to focus on the efficiency of its operations and ensure that it operates in accordance with relevant legislative and Government requirements. APRA adopts contemporary practices that meet the spirit and intent of relevant Government policies and frameworks and the standards it expects of financial institutions including those for internal audit, risk management, compliance and performance reporting.

APRA strives to act in accordance with regulatory best practice in its decision making, policies, processes and communication with stakeholders to maximise effectiveness, efficiency and transparency.



APRA