



WAYNE BYRES

APRA Chair

15 December 2020

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS AND INSURERS

CAPITAL MANAGEMENT

In July 2020, APRA provided guidance on capital management to all authorised deposit-taking institutions (ADIs) and insurers. This guidance included an expectation that all entities would maintain caution on dividends, and for banks to retain at least half of their earnings in 2020. APRA is now providing updated guidance for banks and insurers, to apply from the start of 2021.

Industry Guidance

Since July 2020, there has been an improvement in the economic outlook and stability in financial markets. For banks, there has been a strengthening in capital positions and provisioning levels, and the majority of loans that were previously granted repayment deferral have recommenced repayments. APRA has also undertaken a range of stress testing exercises that has provided assurance that the banking industry is well placed to withstand a range of downturn scenarios, with the results from the most recent round published today.¹

In the period ahead, it will be important that banks and insurers continue to support households and businesses. There remains a high degree of uncertainty in the outlook for the operating environment, and all entities will need to maintain vigilance and careful planning in capital management. This should include:

- regular stress testing to assess financial resilience in a range of scenarios, including severe but plausible downturn conditions;
- assurance on the capacity to continue to lend and underwrite insurance, with the use of capital buffers to absorb the impacts of stress if needed;
- a rigorous approach to recovery planning, to ensure readiness to initiate contingency measures and respond to conditions if required; and
- caution in capital distributions, with an ongoing measured approach to dividends in this heightened risk environment.

APRA expects banks and insurers to continue to moderate dividend payout ratios, and consider the use of dividend reinvestment plans (DRPs) and/or other capital management

¹ [Stress testing banks during COVID-19](#)

initiatives to offset the impact on capital from distributions. While APRA will no longer hold banks to a minimum level of earnings retention, the onus will be on Boards to carefully consider the sustainable rate for dividends, taking into account the outlook for profitability, capital and the economic environment.

The guidance outlined above is intended to support banks and insurers in capital planning for the period ahead. If there is, however, a marked change in operating conditions or the expected outlook, APRA will provide further guidance as required.

If you have any questions on the above guidance on capital management, please contact your responsible supervisor.

Yours sincerely,

Wayne Byres
Chair