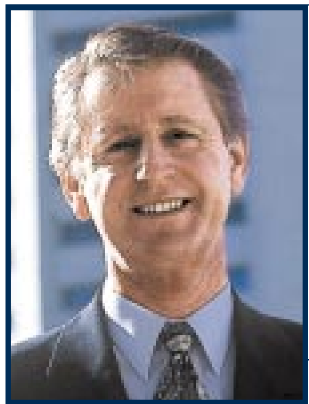


The establishment of APRA as a new integrated regulatory agency on 1 July 1998 was a key milestone in fulfilling the vision for regulatory reform that had been presented in the Wallis Report and acted on by the Australian Government.

Against the background of these sweeping changes, it came as no surprise to all involved that APRA's first year of operations was enormously busy and challenging. With our focus clearly on the need to establish a new corporate structure and identity, changes to regulatory policy were kept to a minimum.

Jeffrey Carmichael, Chair

CHAIR'S REPORT

On 1 July 1998, APRA's Board adopted the Reserve Bank's then-existing prudential standards for banks and the Insurance and Superannuation Commission's equivalent regulations for life and general insurance and for superannuation. This provided a degree of stability for the industry at a time when extensive change could have been disruptive. It also provided time for staff in the various specialist areas inherited from the RBA and the ISC to begin the difficult task of understanding each other's roles, responsibilities and methods.

APRA's role and identity

The new regulatory arrangements are based on a functional model of responsibilities. In this framework, the Reserve Bank (RBA) is responsible for monetary policy and for the stability of the financial system, the Australian Securities and Investments Commission (ASIC) is responsible for market conduct, the Australian Competition and Consumer Commission (ACCC) protects competitiveness and APRA is responsible for all prudential regulation.

While APRA's role is, in principle, distinct, in practice it continues to overlap – or at least abut – the roles of the other financial regulatory agencies. Good communication with these agencies therefore continues to be very important. The presence of representatives of both the RBA and ASIC on APRA's Board has greatly enhanced the communication and cooperation between the three agencies.

We have also been working to establish APRA's identity internationally, building on the impressive records of its predecessor institutions. It is notable that several other countries have set up agencies similar to APRA in recent years, while others are contemplating such reform. Our experience with integrated regulation, and Australia's experience with regulatory reform more generally, is proving to be of great interest internationally.

During the year, a number of our staff and Board members were asked to contribute to discussions about international regulatory reform and to provide assistance in training and regulatory methodology to countries in our region. In May of this year, APRA hosted the inaugural meeting of international integrated supervisors. This meeting brought together nine of the world's integrated regulators to discuss the challenges and objectives of integrated regulation. The worldwide trend towards regulatory amalgamation suggests that membership of this group will continue to grow in coming years.

Some acknowledgments

This Report would be hollow without a tribute to the staff of APRA. Establishment periods are always difficult. Those difficulties are compounded when establishment involves the merging of different cultures. It is a credit to the professionalism of the staff that we inherited from the RBA and ISC that they were able to function effectively from the first day of operations. That they continued to work with enthusiasm and commitment, despite uncertainties about both the evolving internal structure and about their individual positions within that structure, gives me great confidence in APRA's future. As Chair, I wish to register my appreciation of the efforts of all staff during this demanding and, at times, daunting first year.

Graeme Thompson's leadership was critical to this smooth transition and the high respect which he is accorded by the Australian financial community contributed greatly to APRA's ready acceptance by industry. I have greatly enjoyed working with Graeme and his senior staff throughout this past year.

I wish also to record my appreciation to the APRA Board for its support and input during the year. Demands on the Board were considerable. Issues ranged from mechanical establishment requirements, to regulatory policy, to the appropriate internal structure for an integrated regulator. I appreciated the openness with which Board members approached these issues, especially where issues involved multiple jurisdictions, and the wide range of expertise that they brought to the table. Equally, I appreciated the positive attitude with which they approached their various tasks and the good humour that pervaded at all times.

The establishment of APRA as a new integrated regulatory agency on 1 July 1998 was a key milestone in fulfilling the vision for regulatory reform that had been presented in the Wallis Report

The challenges ahead

To date, we have largely carried on the policies and practices inherited from the formerly responsible agencies. This has smoothed the adjustment to the new regime for regulated firms that had many other issues to deal with, including preparation for the Year 2000 date change. It also gave us room to think about Australia's longer-term needs in supervision, in line with our charter.

Work has begun on several areas of major policy change. These include proposals, issued for discussion in March, for prudential supervision of conglomerate groups and a thorough review of the regulatory regime for general insurers. Work has also begun on harmonising prudential standards across all authorised deposit-taking institutions, and on developing a more discriminating, risk-based approach to oversight of superannuation funds.

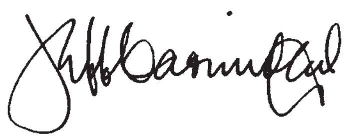
CHAIR'S REPORT

Our basic objectives of consistency in regulatory treatment of similar activities and risks, and of avoiding inefficient and uncompetitive side effects, underlie all of this work. Other common themes are to place more reliance on internal risk management systems – where they are adequate – and to harness the disciplines of market scrutiny as an ally in our work.

The challenges ahead include creating a genuine integrated prudential framework and building the staff skill base needed to implement it, as well as producing the efficiency dividend from integrated regulation sought by the Australian Government. While the efficiency dividend is largely dependent on the development of an integrated regulatory framework, APRA has sought to derive some immediate economies from its integrated staff structure.

Notwithstanding these cost savings, we fully appreciate that full cost recovery for regulation is new to some segments of the industry, and that the initial levy structure raised concerns about possible inequities across different industry groups. The Australian Government has recognised these issues and has announced its intention to review the levy structure. Without wishing to imply support for any particular changes at this point, APRA supports the Government's review and looks forward to participating in discussions.

In looking to the future, I am reassured from our first year of operations that APRA is well positioned in terms of its internal structure, staff commitment, and support from industry and Government to meet the challenges of creating and maintaining a world-class prudential regulatory agency.



Jeffrey Carmichael
Chair