AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY | APRA.GOV.AU

Incoming Government Brief

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APRA

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1. Overview

1.1 Prudential regulation keeps the system strong and stable

As Australia's prudential regulator, APRA's comprehensive view of the financial system, both at the entity level and at a macro-level, is unique among the Council of Financial Regulator (CFR) agencies. APRA has one-to-one engagement with the boards of our regulated entities, giving us the ability to gather information and understand risks and strategies at an entity level. This is an important element of prudential supervision: working with entities at an early stage to address issues before they progress into systemic problems posing risks to stability. Our engagement helps us to identify emerging threats to financial stability and which policy tools to use. For example, we use macroprudential policy measures to promote the stability of Australia's financial system.

APRA also serves as the data collection agency for the financial sector with reporting standards across banking, superannuation and insurance. APRA's data collection activities support a wide range of policy making across government in addition to prudential regulation and are supported by APRA's extensive powers to compel the disclosure of entity information.

APRA is a key contributor in international forums and engages extensively with peer regulators and other key stakeholders overseas. This provides Australia the ability to shape global standards and ensures that Australia is well placed in a world of increased financial integration that is also increasingly volatile.

The Australian financial system remains resilient and stable against a backdrop of an increasingly complex risk landscape both domestically and internationally, highlighted by recent market turmoil from tariffs. Banks are well-capitalised and losses are low, as underscored by our banking stress test. These outcomes are being supported by a tight labour market and positive economic growth. A key vulnerability for the Australian system is the high leverage of households, among the highest in the Organisation for Economic Co-operation and Development (OECD).

The banking system is evidencing healthy competition with compressed net interest margins, competition for deposits, and shifts in market share between the big banks, as well as towards mid-sized and smaller banks. This competition remains particularly pronounced in mortgage lending. Smaller banks also continue to consolidate, driven by a search for economies of scale, with a view to improve their overall competitiveness.

The superannuation system continues to experience constant, compound growth driven by compulsory contributions and market returns with total assets under management now exceeding $4 trillion. However, recent cyber-attacks and persistent issues with the quality of member services, highlight governance and operational issues. We are working with the Treasury on mandatory service standards to help address these issues alongside other agencies such as the Australian Securities and Investments Commission (ASIC). Recent market turmoil due to the imposition of tariffs has also materially impacted superannuation funds who have increased their overseas exposures in recent years. This has highlighted the need for robust investment governance including the accurate valuation of unlisted assets. APRA is closely monitoring market conditions and engaging with regulated entities to manage emerging risks.

Australia's general, life and private health insurance industries all remain financially sound despite difficult conditions in recent years. Insurance affordability remains a challenge for all three industries, with life and private health insurance also facing sustainability challenges in the longer term.

In delivering on our mandate across the industries we regulate, APRA takes enforcement action where necessary. In what is a step-change for a prudential regulator, APRA has significantly strengthened its enforcement capability over the past four years, embedding it as a core part of our supervisory approach. This function has continued to grow, with further investment in expertise and frameworks that enhance our ability to hold entities and individuals to account. Our approach is targeted and enhances the effectiveness of our supervision by emphasising important areas of supervisory focus. Enforcement action also has a deterrent effect and gives the public confidence that the law is being followed. In the current financial year, APRA has accepted three Court Enforceable Undertakings from regulated entities, with two in the superannuation sector and one in banking. Additionally, APRA has imposed extra licence conditions on three trustees, successfully defending a judicial review claim by one trustee who opposed these conditions. Furthermore, APRA has issued infringement notices totalling $10.7 million against a trustee for failing to invest members' default superannuation contributions in MySuper products. The commencement of the Financial Accountability Regime has also bolstered APRA's toolkit, enabling APRA to focus on senior executive accountability.

As a forward-looking prudential regulator, APRA is working closely with industry to ensure that the system is prepared for emerging risks that could impact its future stability. APRA has a strong focus on potential risks that could emerge from growing interconnectedness in a digital world, cyber risks and geopolitical concerns. In 2025, APRA is undertaking its first system-wide stress test, designed to identify potential risks from cross-sector linkages between banking and super sectors. APRA is working closely with the CFR to strengthen coordination on cyber and operational risk, and advancing our readiness in response to rising geopolitical threats. APRA is working increasingly closely with national security agencies as part of a whole-of-Government response to the changing threat environment.

It is important that the prudential framework is proportionate and efficient. APRA has progressed work to streamline and simplify obligations, including for smaller regulated entities. APRA is working closely with the CFR on the Review into Small and Medium-sized Banks (the CFR Review), and is progressing several initiatives to provide greater flexibility to that sector, Section 47C/47E(d) [redacted] Work continues with external stakeholders, including the Productivity Commission, to help identify further areas where regulatory settings could be streamlined or improved, without undermining our statutory objectives.

1.2 Ensuring stability amidst heightened global uncertainty

Geopolitically, the global environment is increasingly characterised by fragmentation and protectionism, which, for an economy reliant on international trade and capital flows like Australia, represents a risk to financial markets and the real economy. The imposition of tariffs by the United States under the second Trump administration, particularly on China, have added to uncertainty in global trade and investment flows. While the Australian financial system remains resilient and stable, the state of uncertainty means that APRA must continue to monitor closely potential stability risks including ongoing access to funding markets, liquidity stress, unlisted valuation issues and member switching activity in superannuation. This includes potential transmission risks between banking and superannuation sectors.

Additionally, while countries including the US remain broadly committed to the global regulatory standards forged in the post the Global Financial Crisis (GFC) such as Basel III, there are signs of slowing momentum in implementation. This includes delays to full Basel III alignment in key jurisdictions, such as the UK's recent deferral of implementation timelines and the absence of a finalised Basel III "endgame" plan in the US. These developments may create divergence in prudential standards and supervisory intensity, which could pose risks of fragmentation over time. APRA is monitoring these trends closely. At the same time, APRA recognises the importance of tailoring regulation to Australia's specific circumstances and vulnerabilities. Steps have been taken to reduce unnecessary regulatory burden and to take a more proportionate approach to regulation, in line with our risk-based approach to supervision. Our smaller banks are already subject to simplified capital and liquidity requirements as well as less intense supervisory and reporting requirements. Opportunities to increase proportionality including by lifting the Significant Financial Institutions (SFIs) threshold (non-SFIs are subject to less intense regulation) and through the CFR Review. There is scope to reduce further regulation of small banks as part of this process. However, increasing APRA's risk tolerance for small bank failures would necessitate changes to the Financial Claims Scheme (FCS) to ensure it is fit for purpose to resolve smaller banks.

APRA's mandate to maintain financial safety and stability is primary and APRA must ensure that the regulatory settings address the particular risks that present themselves in the Australian economy, particularly risks that may not be present to the same degree in other comparable economies. These particular risks include high levels of household indebtedness and our banks' heavy reliance on international wholesale funding markets.

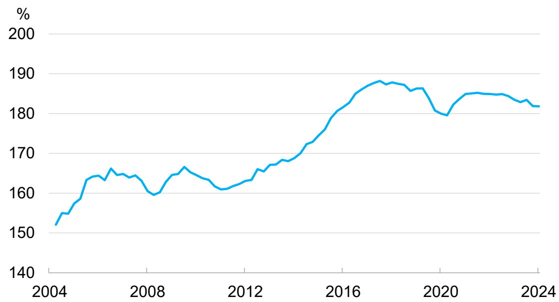
The benefits to the Australian economy from having an Unquestionably Strong capital framework (UQS) – a key recommendation of the 2014 Financial System Inquiry – cannot be overstated. Recent market turmoil has only underscored the need for strong capital settings and prudent liquidity risk management. It's important to keep in mind that Australia is an open economy that needs access to international capital markets and that Australia's banks are reliant on wholesale funding from overseas. UQS gives certainty and attracts capital which is then put to work by the banks in lending to households and businesses. Further, UQS reduces the likelihood that taxpayers will have to bail banks out in periods of turmoil. Banks with strong balance sheets will also be able to continue to lend in periods of turmoil.

1.3 Household debt is a key structural vulnerability for Australia

Australia's households are highly indebted relative to most of their OECD peers, presenting the Australian economy with a structural vulnerability. A highly indebted household sector is more vulnerable to future shocks with implications for banks and wider system stability, particularly considering that over 60 per cent of Australian banks' loan books are comprised of housing loans. Australia has the third-highest level of household debt among OECD countries at 180 per cent of incomes, with only Norway and Switzerland having higher levels of debt. Mortgage debt typically makes up the biggest portion of average household debt in Australia, with other contributors being car loans, credit cards and student loans.

Figure 1: Household debt to income

(Ratio of household debt to annualised disposable income)

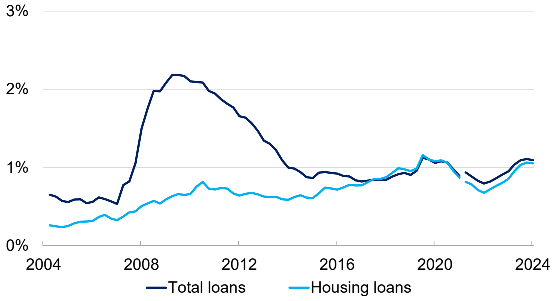


Source: RBA

APRA's macroprudential policy aims to mitigate financial stability risks at a system-wide level by building resilience for lenders and borrowers to help withstand future stress. APRA's macroprudential toolkit currently comprises: (1) the serviceability assessment buffer (currently set at 3 per cent above the mortgage rate); (2) the counter-cyclical capital buffer (1 per cent of risk-weighted assets); and (3) limits on lending or capital distributions (no limits currently set). These tools complement APRA's other prudential policy and supervision activities to ensure a safe and stable financial system, which enables households and businesses to borrow confidently, save and invest for the future. APRA continues to review its macroprudential toolkit as risks to the financial system evolve over time. APRA uses its toolkit, weighing up a range of indicators, risks, vulnerabilities, and in consultation with CFR agencies.

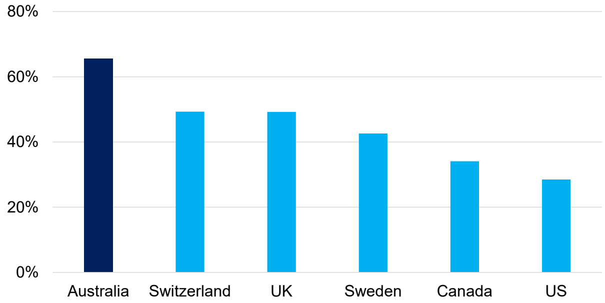
While higher interest rates over the past three years have created stress for segments of borrowers, banks' lending standards – supported by APRA's serviceability assessment buffer – have cushioned against widespread defaults to date. The level of banks' non-performing housing loans is similar to immediately prior to the pandemic, and well below arrears rates experienced domestically during the GFC. Total non-performing loans picked up slightly over 2024 from a low base alongside high debt servicing costs and cost of living pressures. However, with continued uncertainty in the economic outlook, high levels of household indebtedness, and the large proportion of housing loans on banks' loan books, it is important that lending practices remain prudent. Weaker lending standards would amplify the impact of any future shocks, for borrowers and the wider economy. While these are not areas APRA is currently concerned about, they are being closely monitored, next to broader financial conditions, and the macroprudential settings will be adjusted if necessary.

Figure 2: Non-performing loans
(Share of loans outstanding)



Source: APRA; RBA. Series breaks are due to definitional updates

Figure 3: Housing loans, share of total bank loans
(As at June 2024)



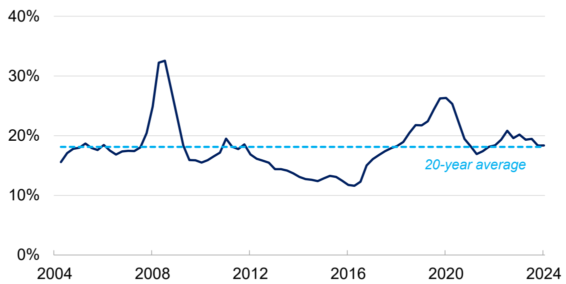
Source: IMF

1.4 Housing affordability is a challenge, but credit flow is healthy

APRA's data shows that credit continues to flow to households and businesses at a rate in line with 10-year averages and is accessible to borrowers with adequate capacity to service their debts. Although the rate of house price growth has slowed, prices are still 40 per cent higher than before the pandemic and Australian household debt remains high relative to international peers. The inability to gather a sufficient deposit likely constitutes a larger barrier to accessing credit than the serviceability buffer or higher interest rates. We note the Government's commitment to expanding the Home Guarantee Scheme and the Help to Buy Scheme to increase first home buyer access to credit and home ownership.

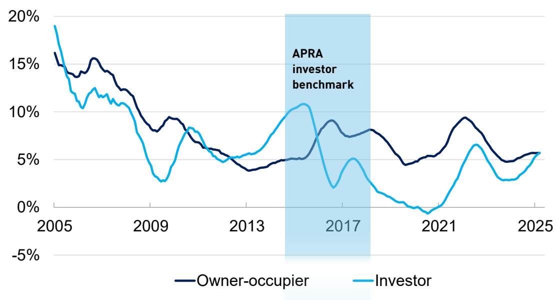
Credit has continued to flow across different borrower segments. The share of new lending that flows to first-home buyers is around its long-term average. Over the past year, growth in lending for housing increased, from 4.3 per cent to 5.7 per cent. Investor credit is growing at around the rate of owner-occupier credit, having picked up markedly over the past year from a relatively low rate. Investor credit growth, and shares of higher-risk lending (such as high LVR lending) remain well below what was seen in 2014 when APRA introduced investor lending limits.

Figure 4: First home buyers
(Share of new loan commitments, excluding refinancing)



Source: ABS, seasonally-adjusted

Figure 5: Housing credit growth
(12-month ended growth)



Source: RBA, seasonally-adjusted

Business credit growth also strengthened over 2024, due in part to new lending to medium-sized businesses. As well as removing unnecessary regulation, a focus of any productivity agenda will include business access to finance, especially small and medium enterprises that drive innovation.

1.5 Domestic and International Collaboration

Interagency collaboration is critical in addressing cross-industry issues and emerging risks which involve the remit of other agencies. APRA works closely with CFR agencies on issues which impact the broader financial system, from macroprudential policy measures to emerging risks such as cyber and operational resilience. Among other things, APRA is working closely with ASIC on the implementation of the RIC and the administration of the Financial Accountability Regime (FAR). The CFR's role in coordinating Australia's main financial sector authorities will continue to be vital as risks to the financial system evolve. Further, APRA continues to contribute to the Financial Services Regulatory Initiatives Grid to help industry anticipate and plan for upcoming regulatory changes. Beyond the CFR agencies, APRA continues to work with other relevant departments and agencies including the Department of Health, Disability and Aged Care, the Australian Signals Directorate, the Australian Security Intelligence Organisation, Office of National Intelligence, Department of Home Affairs, Department of Industry, Science and Resources, the Office of the Australian Information Commissioner, and the Digital Transformation Agency.

APRA's international engagement and collaboration is strong. APRA's international activities provide important benefits including strengthening relationships and information exchange with peer regulators, supervision of institutions which operate across jurisdictions and providing cost-effective and valued technical assistance in the Asia-Pacific region. APRA is engaged in a range of global forums that shape the international financial regulatory architecture. This includes membership on the global standard-setting bodies for banking (the Basel Committee on Banking Supervision and the Financial Stability Board), insurance (the International Association of Insurance Supervisors), superannuation (the International Organisation of Pension Supervisors and the Working Party on Private Pensions) and central banks in the Asia-Pacific region (the Executives' Meeting of East Asia-Pacific Central Banks). APRA's bilateral engagement with regulatory peers in the Asia-Pacific Region has increased particularly on topics spanning risk-based supervision, governance and climate risk. Our broader agenda also includes preparatory work for the upcoming Financial Sector Assessment Program and engagement with the International Monetary Fund.

1.6 Cross Industry Focus Areas

Against the current risk outlook, APRA has three main priorities. The first priority is responding to emerging and significant risks – as set out below, APRA is increasing the focus on cyber risks, geopolitical shocks and assessing potential risks from interconnections across the financial sector. The second priority is ensuring the continued resilience of the system, by reinforcing expectations of prudent governance and focusing on crisis preparedness. Thirdly, APRA remains focused on ensuring our prudential framework is proportionate and efficient, including as APRA's role in payments regulation expands.

Responding to Emerging and Significant Risks

Cyber and operational resilience

In April 2025, the superannuation system was subject to a cyber-attack affecting a number of funds. While the number of member accounts that had funds fraudulently withdrawn was small, the incident highlighted the need for this sector to uplift its cyber security and operational resilience maturity. This need will only grow as the sector increases in size, more members enter retirement and the sector takes on greater systemic significance with interlinkages to the banking sector.

Beyond superannuation, we have seen the sustained cyber-attacks on banking and insurance entities and third-party providers, continuing to test resilience and defences as attackers develop new technologies and approaches. We continue to work with the CFR, national security agencies and industry in response to attacks by sharing information and insights.

Strengthening operational and cyber resilience has been and will continue to be a core prudential priority. APRA is further intensifying its supervisory focus on operational risk and cyber resilience. Cross-industry Prudential Standard *CPS 230 – Operational Resilience* comes into effect on 1 July 2025, requiring entities to strengthen operational risk management and improve business continuity practices, with a particular focus on critical third-party service providers. This standard sits alongside Prudential Standard *CPS 234 – Information Security* which requires entities to have appropriate information security in place commensurate with the vulnerabilities and threats in the environment.

Geopolitical risk

In a more uncertain world, geopolitical risk has risen in prominence as regulators around the world increasingly focus on ongoing and future risks to financial stability. With the impacts of geopolitical turmoil being felt across the financial system, APRA is coordinating and working closely with the members of the CFR. The CFR approved a Geopolitical Risk Work Plan in December 2024 which will assist in building resilience of the financial system to a range of scenarios. APRA is incorporating considerations related to geopolitical risk as part of its routine supervision.

System-wide stress test

This year's market turmoil, last year's operational resilience disruptions and bank failures overseas in 2023 show that the entire system can be impacted despite an initial shock to just one part. APRA is undertaking its first system-wide risk stress test over the remainder of 2025 to better understand interconnections across the financial system and provide a platform to quantify, assess and respond to identified risks. This activity will include a number of large superannuation funds and banks. It will have a particular focus on liquidity shocks for both superannuation funds and banks, as well as second order financial system effects.

Ensuring the Continued Resilience of the System

Governance

Sound corporate governance is a cornerstone of financial stability. APRA has observed instances of weak governance across our regulated population resulting in adverse outcomes for those entities. Of the institutions subject to heightened risk-based supervision, nearly 80 per cent have underlying governance issues. In March 2025, APRA released a package of proposed reforms to modernise governance and fit-and-proper standards, across all APRA regulated industries. Key measures include 10-year tenure limits for non-executive directors and more rigorous expectations for board skills as well as more robust processes to ensure the fitness and propriety of trustees, including more proactive engagement with APRA. These proposals reinforce APRA's expectation that all APRA regulated entities have high-calibre, high-integrity leaders; and shift the regulatory emphasis from process to performance. APRA will consult on proposals to strengthen governance with a view to releasing draft standards for further consultation in 2026.

Crisis management

Australia's financial system remains fundamentally strong. APRA's latest stress test confirmed that the banking sector could withstand severe economic shocks, such as unemployment rising to 10 per cent and house prices falling by 30 per cent, without threatening overall stability. This resilience reflects significant by work APRA over the past decade to strengthen the system, drawing lessons from the 2008 GFC, the COVID pandemic, and the 2023 banking turmoil.

APRA, along with its CFR counterparts, has developed and tested a wide range of policy responses to potential systemic risks. These preparations include detailed planning around possible downside scenarios and early intervention tools. The approach is based on the principle that acting early before confidence begins to erode is the most effective way to maintain stability and minimise disruption.

APRA is well-placed to provide Government with timely advice on stabilising actions should they be necessary. While the system is resilient, in aggregate, idiosyncratic risks can emerge. In the unlikely event of a systemic bank failure, Australia is better prepared than ever before. The major banks and Macquarie now hold $90 billion in resolution capital to reduce the risk to public funds. The CFR has also conducted major crisis simulation exercises, including with New Zealand counterparts, to rehearse coordinated responses across jurisdictions. These exercises have underscored the importance of strong Trans-Tasman regulatory cooperation and highlighted key operational learnings, such as maintaining communication channels and joint decision-making frameworks.

Despite this progress, resolving a larger bank failure would be complex, costly, and disruptive. Even with planning, such a scenario would carry significant economic and fiscal consequences. The economic cost of a major banking crisis would be substantial, with severe impacts on GDP, employment and public confidence. Section 47J [redacted] APRA continues to believe that emphasising prevention over cure strikes the right balance for Australia.

Ensuring Proportionality and Efficiency

Competition and proportionality

In pursuing APRA's financial safety and stability mandate, APRA remains focused on balancing competition and efficiency considerations.

APRA's expectations of regulated entities are differentiated according to entity size and complexity – larger and more complex entities are typically subject to heightened supervision and additional prudential obligations, relative to smaller entities. For example, APRA requires the largest banks to hold additional capital, compared to small and mid-tier banks, and smaller entities longer timeframes for implementing new requirements.

As part of the CFR Review, APRA has worked closely with CFR peers and external stakeholders to identify additional areas where regulatory settings could be streamlined, without undermining APRA's ability to deliver on its statutory mandate. Section 47C [redacted]

Payments System reforms

The financial system continues to evolve with technological innovations and new forms of finance transforming business models and service delivery. Rapid technological change, while bringing opportunities for better outcomes for consumers, is challenging established regulatory frameworks. This is particularly evident with payment systems. Innovations here frequently occur at the periphery of existing regulatory settings. Section 47C [redacted]

APRA continues to work closely with the Treasury and ASIC to implement the Government's proposed reform to payments system regulation. In particular, work is ongoing to support the drafting of legislation to establish a regulatory framework for payments service providers that undertake certain payments functions.

Section 47C [redacted]

Section 47C [redacted]

[redacted]

APRA supports the Government's objectives of increased access and competition by introducing a streamlined, easy to understand prudential framework for Major SVFs which sets requirements commensurate with risks. APRA will consult on this proposed prudential framework after exposure draft legislation has been released.

Section 47C [redacted]

2. Regulated Industries

2.1 Banking

2.1.1 Industry overview

The Australian banking sector remains resilient, well-capitalised, and profitable, supported by robust risk frameworks and strong regulatory oversight. Credit quality remains sound, with capital and liquidity buffers at adequate levels. The sector plays a systemic role in financial intermediation, funding the economy through credit provision, safeguarding deposits, and transmitting monetary policy as well as in the facilitation of payments. While, the operating environment continues to evolve with competition and innovation, the underlying stability of the banking system remains critical to national economic resilience.

Recent merger activity reflects structural change and strategic repositioning. There is broad trend of consolidation among mid-tier and customer-owned banks. These mergers are driven by the need for banks to build scale to better absorb costs particularly relating to technology and regulatory costs and to compete more effectively with the majors. APRA is engaging closely with merging institutions to ensure integration risks are well managed and prudential outcomes maintained.

Other structural changes in the banking sector include shifts in how customers engage with day-to-day banking services. The continued uptake of digital channels has coincided with a steady decline in the number of physical bank branches, with 1,176 branches closing in metropolitan areas and 439 in regional and remote communities over the five years to June 2024. The major banks have been most active in reducing branch numbers, seeking cost efficiencies. Smaller banks now play an outsized role in providing access to branches. These trends have also raised challenges around ongoing access to cash, particularly in regional areas. In response, the CFR with the Australian Competition and Consumer Commission is undertaking work to support the continued availability of cash.

Over the past five years, APRA has undertaken a deliberate and sustained effort to reinforce the banking system's ability to absorb shocks, operate with integrity, and maintain public trust. In the wake of high-profile risk governance failings across major institutions, including those investigated by the 2019 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, APRA introduced stronger prudential expectations for board oversight, risk culture, and accountability. This included the application of capital overlays to address deficiencies in non-financial risk management, signalling that governance failures can carry real financial consequences.

APRA's decision to increase the mortgage serviceability buffer in 2021 reflected a proactive, system-wide response to emerging risks from rising household indebtedness and a rapidly changing property market. Similarly, the implementation of the revised bank capital framework in 2023 marked a major step in embedding the final Basel III reforms into the Australian context. This will ensure ADIs hold capital that is not only unquestionably strong, but appropriately risk-sensitive and comparable internationally. These reforms help insulate the system from external shocks and reinforce depositor protection.

Over the past two years, APRA has also devoted significant attention to analysing and responding to the lessons learned from the collapse of Silicon Valley Bank and the broader global banking stresses observed in 2023. APRA has progressed a suite of targeted reforms to bolster the resilience of the Australian banking system. These include enhancements to interest rate risk management in the banking book (IRRBB), aimed at improving banks' capacity to withstand rate shocks, and a review of liquidity frameworks to ensure more robust valuation of liquid assets and readiness for exceptional liquidity assistance. In parallel, APRA has announced its decision to phase out the recognition of Additional Tier 1 (AT1) instruments as part of Common Equity Tier 1 (CET1) capital. These reforms are ongoing and reflect APRA's commitment to maintaining financial stability through forward-looking supervision and calibrated regulatory settings

In parallel, APRA has elevated its focus on operational and cyber resilience, recognising the potential for disruptions in critical banking services to have contagion effects across the broader economy. APRA is lifting baseline expectations around controls, governance, and recovery planning, with a focus on our largest and riskiest entities.

Each of these actions is tied to APRA's core mandate of promoting financial system stability. By holding ADIs to high prudential standards and adapting those standards in light of emerging risks, APRA helps ensure the banking sector remains a dependable anchor during periods of volatility, ultimately supporting economic confidence and protecting the financial interests of Australians.

2.1.2 Key priorities and opportunities

Housing lending dynamics reflect a complex mix of resilience and emerging risks. Overall lending volumes in the banking sector remain in line with historical levels indicating that credit-worthy borrowers continue to be able to access credit. Access to credit for first-home buyers remains broadly in line with long-term averages, but housing supply is constrained, particularly in major metropolitan areas. While owner-occupier loans are subject to a lower capital requirement relative to investors, we have observed that investor credit has picked up markedly over the past year, but from a relatively low rate and has been growing at around the rate of owner-occupier credit over the past year. Lending activity is increasingly concentrated among higher-income households, driven by price inflation and a growing divide in housing accessibility.

APRA frequently reviews its settings both in terms of our prudential standards and our macroprudential tools to respond to changes in the financial stability risk environment. We are constantly monitoring risk indicators when setting macroprudential tools to ensure that they are right for the current financial stability risk environment.

The share of small domestic banks and mutual banks in housing loans has increased over the last 10 years by around 3.3 per cent combined, which corresponds with a decline in the market share of the major banks. While small and medium banks have been able to improve their market share, their lack of scale limits their profitability and makes it harder to fund investments to upgrade their operational resilience. As noted in the CFR Review's issues paper, in an environment where substantial investments need to be made in a bank's technological capability to attract and retain customers and where cyber-attacks and scams are more frequent, the effects of scale diseconomies are becoming more pronounced. This focus on technological capacity has implications for the viability of 'brick and mortar' physical branches, as these typically involve much higher operating costs and are disproportionately provided by smaller banks.

Proportionality for smaller banks needs to be balanced with a stronger depositor protection framework. APRA is considering the balance of regulatory requirements for small and mid-tier banks – particularly in areas such as 47C/47E(d) [redacted], reporting obligations, and operational risk standards – where a more proportionate, risk-based approach can be applied without increasing systemic risk. These changes aim to support competition, reduce compliance costs, and improve the long-term viability of smaller ADIs. Section 47C/47E(d) [redacted]

2.2 Life, Private Health and General Insurance

2.2.1 Industry overview

General Insurance

The Australian insurance industry remains financially sound but is navigating a challenging environment shaped by rising claims costs, climate risk, and affordability pressures.

In recent years, rising general insurance premiums have been a prominent concern, particularly in regions exposed to frequent and severe natural disasters. Escalating claims from floods, cyclones and bushfires, combined with inflationary pressures and a tighter global reinsurance market, have placed upward pressure on home and contents premiums. While there are some signs that insurance premium growth has slowed since June 2024, insurance affordability remains a significant challenge, particularly in areas more exposed to natural disasters.

Motor vehicle premiums have also increased due to higher repair costs for more advanced technology in vehicles and constraints on parts and vehicle availability due to supply chain pressures. However, the most recent Consumer Price Index data shows a slower rate of price growth, attributed to easing costs for spare parts, labour for repairs, and lower second-hand vehicle prices. [2]

Life Insurance

The life insurance industry is facing sustainability challenges due to limited growth opportunities and structural challenges in key areas such as distribution and rationalisation of legacy products. Lapse rates have been outpacing the volume of new business due to premium increases and decreasing numbers of financial advisers making new sales. Life insurers are also grappling with deteriorating claims experience, one of the key drivers being the growth in mental health claims. In terms of opportunities, the implementation of the Quality of Advice Review and the growing focus on the retirement market are two areas that could bring growth for the industry with consumers having better access to advice and increasing their demand for longevity products.

Private Health Insurance

Private health insurance is similarly facing affordability and sustainability challenges. While private health insurance take-up increased post-pandemic, systemic issues like an ageing population, a small proportion of younger members and rising health claims costs will continue to drive affordability and longer-term sustainability challenges. APRA observes that members are continuing to downgrade cover and increase their excesses due to cost of living pressures. Outside APRA’s remit, the private hospital sector has called for greater contributions from private health insurers to help meet rising operating costs to support the long-term viability of the health providers.

2.2.2 Key priorities and opportunities

APRA’s priority is to ensure that insurers remain solvent and can pay claims. APRA expects insurers to be pricing and reserving prudently for the risks they cover. It is also important that insurers are sufficiently profitable to attract capital to the sector. APRA’s regulatory capital requirements ensure there is a prudent buffer between an insurer’s assets and its potential liabilities (most insurers choose to maintain much higher buffers than APRA requires).

[2] Consumer Price Index, Australia, March Quarter 2025

Operational resilience is a priority area for all three insurance industries. APRA has embedded stronger expectations for governance and operational resilience, recognising that strategic decisions including pricing and underwriting must be supported by robust risk frameworks and board-level oversight. Cyber risk, third-party dependencies, and claims management practices have all been elevated as areas of supervisory focus. New cross-industry standards such as *CPS 230 – Operational Risk Management* will further strengthen insurers' ability to operate reliably in a high-risk and high-change environment.

General Insurance

Household insurance affordability remains a prominent issue for Australians and a whole-of-government challenge. While APRA does not set or regulate premiums, APRA's industry data collections enable monitoring of general insurance access and affordability to inform policymakers' advice to Government and support forums such as the Hazards Insurance Partnership. APRA is also working with the five largest insurers on an Insurance Climate Vulnerability Assessment to better understand the impact of climate change on household insurance affordability to 2050. The result of this work will help in improving understanding of how insurance affordability may change over time, in identifying areas of the country which may experience acute challenges in the future and in informing the management of future climate challenges.

Higher home insurance premiums have been driven primarily by the heightened risk environment confronting insurers. These risks create long-term challenges to the resilience of insurers. They cannot be addressed simply by lowering insurers' capital requirements (APRA is working on refinements to facilitate more use of alternative and potentially cheaper reinsurance arrangements). Slowing the pace of premium growth requires sustained investment in risk mitigation and reforms to prevent further development in high-risk areas.

APRA expects that insurers should be transparent with policyholders about the reasons for any premium increases. APRA supports insurers educating consumers on household mitigation actions that can be taken to reduce premiums and minimise potential losses. APRA will continue to convey these expectations to industry and seek further opportunities to influence insurers to help to reduce insurance protection gaps. APRA will draw upon its data and international initiatives to support consideration of options for lowering premiums while maintaining a viable private insurance market in Australia. APRA has worked with Treasury on a potential response to the Final Report of the House of Representatives Economics Committee's Inquiry into insurers' responses to 2022 major floods claims.

Alongside broader international engagement, APRA is a participant in the International Association of Insurance Supervisors' task force on addressing natural catastrophe insurance protection gaps. APRA is also a member of the Network for the Greening of the Financial System (NGFS), alongside the Reserve Bank of Australia. APRA co-chairs the NGFS Task Force on Adaptation, which has emphasised the importance of climate adaptation and investment in resilience to financial stability and has also examined the impact of climate change on insurance protection gaps.

Life Insurance

The sustainability of life insurance products remains a key focus for APRA. In May 2025, APRA and ASIC concluded a joint review on premium practices in retail life insurance. The joint review resulted in a substantial uplift in re-rating practices, marketing and disclosure materials, and product governance. Looking forward, APRA will continue to engage with industry and other stakeholders (including the Government) to address product design and distribution issues. A whole of system response is needed in order to ensure a sustainable life insurance industry.

APRA will be releasing a public consultation on capital settings for annuity products in June 2025. While this will not solve all of the issues in the annuities market, these proposals should facilitate more competitive pricing without unduly increasing risks for policyholders. The proposed changes better align APRA's requirements with other jurisdictions and establish a more favourable environment for the potential growth of annuity products.

Private Health insurance

For private health insurance, rising premiums, unexpected out-of-pocket costs, and coverage downgrades are placing increased strain on policyholders in the midst of existing cost of living pressures. While the Minister for Health approves the annual premium changes, APRA provides advice on any associated prudential risk. APRA also provides advice on any prudential implications from any proposed policy reforms.

2.3 Superannuation

2.3.1 Industry overview

Alongside the overall growth in assets under management in the superannuation sector, there has been significant fund consolidation with 93 APRA-regulated funds[3] remaining (down from 200 in 2017). As the sector has grown, so have the risks and vulnerabilities. Australian superannuation funds have materially increased their international exposures in recent years with allocations to international assets (including international unlisted assets) increasing from 48 per cent in 2022 to 50 per cent in 2024. As the sector evolves and grows, maturity in board oversight and governance, member service standards, claims handling and cyber and operational resilience are emerging as prominent issues.

When the system was characterised by more numerous, smaller funds, APRA's focus was on the high levels of fees relative to returns, lack of scale and efficiency, board capability and sustainability issues particularly among a tail end of funds that had less than $10 billion in assets under management. The introduction of the Annual Performance Test in 2021 has driven a marked improvement in member outcomes. In the 2024 Annual Performance Test, no MySuper products failed (although of the trustee directed products, 37 out of 192 platform products failed to meet the test benchmarks). The 2025 Annual Performance Test is on track to be delivered by 31 August 2025. While there are criticisms of the test's design, it has been widely recognised as driving down fees and holding trustees accountable for poor returns. The introduction of the Best Financial Interest Duty in 2021 has also been a useful tool to drive better trustee behaviour.

The size of the sector and its links to the wider financial system, both domestically and globally, highlight the pressing need to ensure good governance, operational resilience and sound investment governance. Having boards with the right mix of skills, experience and capability is critical. APRA continues to drive an uplift in trustee behaviour through our intensified supervisory focus on expenditure. As noted in the Executive Summary, APRA has a strong pipeline of enforcement action guided by our 'constructively tough' approach.

APRA continues to look forward to think about future vulnerabilities, particularly as the sector grows in size, complexity, and interconnection. Later this year, APRA's planned system wide stress test will, among other things, examine channels of transmission between the superannuation sector and the banking system. Cyber-attacks at large superannuation funds, that look likely to increase in scope and frequency, highlight that capability in the management of cyber and operational risks must improve. We are also working with Treasury and ASIC as work progresses on the implementation of the Retirement Income Covenant and other reforms as more Australians enter retirement.

[3] with more than six members, as at 30 June 2024

2.3.2 Key priorities and opportunities

Increased scrutiny of superannuation fund expenditure reflects APRA's sharper focus on member outcomes and trustee accountability. Despite obligations on trustees to consider the best financial interests of their members and consistently to promote those interests, APRA has observed deficient practices and questionable expenditure in some areas. APRA has intensified its supervision of discretionary spending by superannuation trustees particularly in areas such as marketing, sponsorships, and payments to external organisations. Trustees are expected to justify clearly spending decisions and demonstrate robust governance and risk management practices. Where appropriate, APRA will use its enforcement powers and trustees can expect APRA to be engaging with them where member benefit is not immediately apparent. We collected 130,000 lines of data across FY23-24 and we are continuing to engage with trustees to ensure that data reported to APRA is accurate and in line with reporting obligations.

APRA is raising governance expectations across the superannuation sector to strengthen accountability and board effectiveness. Some of the main areas of corporate governance where APRA sees weakness include the skills and capabilities of directors, narrow approaches to assessing and reviewing fitness and propriety, insufficient attention to board performance assessments, problems stemming from overly long tenure and inadequate management of conflicts of interest. In March 2025, APRA released a package of proposed reforms to modernise governance and fit-and-proper standards, across all APRA regulated industries, including for trustee boards. These proposals reinforce APRA's expectation that all APRA-regulated entities have high-calibre, high-integrity leaders; and shift the regulatory emphasis from process to performance. This expectation applies to all superannuation trustees regardless of how they are nominated.

Recent global market turmoil has highlighted the importance of appropriate investment governance to safeguard retirement savings, particularly as funds invest a greater proportion of retirement savings overseas. In December 2024, APRA released an Information Paper on Governance of Unlisted Assets and Liquidity Risk Management. APRA's 2024 *SPS 530 – Investment Governance* Self-Assessment Survey and Information Paper also highlighted areas for improvement in valuation practice, including triggers for review, frequency of revaluation and board scrutiny. Where appropriate, remediation plans are being developed and trustees identified as requiring improvement prioritised. Should the remediation of issues not be resolved in a timely and efficient way, APRA will consider whether escalation to enforcement is warranted.

There is a broadly recognised need for Government, regulators and industry stakeholders to work together to improve retirement outcomes. The joint APRA-ASIC thematic review of Retirement Income Covenant (RIC) implementation in 2023 found trustees lacked urgency in implementing the RIC despite the growing number of members approaching or in the retirement phase. APRA and ASIC published a pulse check in 2024 to identify areas where the progress of trustees remains unsatisfactory. APRA and ASIC are following up this year with a second pulse check. APRA and ASIC are also working with Treasury to implement reforms to improve the retirement phase of superannuation including a Retirement Reporting Framework and Best Practice Principles.

Finally, as highlighted throughout this brief, strengthening operational and cyber resilience has been and will remain a core prudential priority. APRA has consistently made the case that superannuation trustees must uplift cyber security controls, with our public warnings going back to 2018. We also reiterated the importance of Multi-Factor Authentication as a type of information security control in a 2023 letter to industry and in the course of engagement with trustees. Recent cyber-attacks at a number of superannuation funds as covered in the media have highlighted the pressing need to drive maturity in the management of operational and cyber risk, particularly as these attacks continually take on new forms and become more prevalent.