

31 July 2025

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House of Representatives
Parliament House
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Senator the Hon Katy Gallagher
Minister for Finance
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John Lonsdale, Chair

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Dear Treasurer and Minister

Thank you for your letter of 4 July 2025 asking that we identify regulatory reform opportunities that APRA could progress to bolster Australia's productivity growth. We welcome the opportunity to share our approach with Government.

APRA's mandate is to provide Australians with a safe and stable financial system. The economic benefits of this are significant. International confidence in the Australian financial system remains critical to attracting the capital that households and businesses need to grow and invest. A safe and stable financial system prevents financial vulnerabilities from building, which can often cause severe economic harm.¹

In delivering on our mandate, we do not pursue a 'safety at all costs' agenda. We maintain a close and open dialogue with industry and peer regulators to ensure our actions are proportionate and risk-based. APRA's current priorities are focused on targeted improvements to our standards, not large or comprehensive reforms. Our framework is also subject to regular review – most recently, the Council of Financial Regulators (CFR) and Australian Competition and Consumer Commission (ACCC) assessed Australia's regulatory frameworks for small and medium-sized banks as broadly fit for purpose. Later this year, APRA's framework will again be subject to an independent review by the International Monetary Fund.

To further reinforce our focus on competition and productivity, we pay close attention to international developments. Some jurisdictions have recently announced areas where they are paring back requirements in support of productivity. For the most part, these relate to more onerous prudential requirements that were not introduced by APRA in the first place. For example, UK announcements on ring-fencing, small bank capital standards, resolution planning, remuneration and accountability standards would bring UK prudential standards closer into line with APRA's existing framework. The same applies to recent US announcements regarding leverage requirements.

Your letter asks APRA to identify and propose substantial, material and measurable actions to directly support productivity, without undermining standards. APRA's response sets out:

- **Our framework for supporting productivity.** We have a long-established framework to minimise any undue costs of regulation for industry. By design, our prudential standards avoid overly prescriptive requirements which would otherwise stymie innovation and increase compliance costs. We are risk-based and proportionate. Our framework is subject to regular review and challenge to make sure it achieves balanced objectives.
- **Actions we have recently taken to support productivity.** In recent years, we have prioritised targeted actions to reduce burden on industry without compromising our safety and stability objectives. We have

¹ For example, the Organisation for Economic Co-operation and Development (OECD) has estimated the cost of a financial crisis at around 6 per cent of economic output. This estimate is based on median loss in output among the 19 OECD countries that experienced a banking crisis. [The output cost of the global financial crisis](#), 2018.

significantly streamlined our policy agenda, ceased certain data collections, made our framework more accessible and improved our coordination with peer agencies.

- **Further actions we are taking.** More than half of our current policy priorities are aimed at reducing burden and supporting innovation. Within APRA, we are investing in technology to deliver efficiencies and changing the way we work to further strengthen productivity and competition considerations in our decision making and culture. We will introduce new public performance targets to strengthen our public accountability and will continue to engage with external stakeholders to challenge internal perspectives.
- **Considerations for Government.** We have also explored broader options for reform, working with regulatory peers to consider frameworks from a whole-of-system perspective. We would welcome the opportunity to discuss these with Government.

Isolating the impact of these actions on productivity is challenging. In the short term, APRA's actions will moderately reduce regulatory burden for the financial sector and, at the margin, help to free up capital for other productive purposes. Over the longer-term, initiatives aimed at supporting innovation should deliver further benefits. Finally, within APRA, cultural changes and improvements to accountability will ensure a continued and sustained focus on competition and productivity over time.

Annex A explains the above areas in more detail. We look forward to continuing to work with Government in support of this objective.

I am of course happy to elaborate and discuss.

Yours sincerely



John Lonsdale

ANNEX A: APRA's role in supporting productivity

1. APRA's framework

Under APRA's mandate, we must balance our financial safety and stability objectives with competition and efficiency considerations. We take this obligation seriously. APRA has a long-established framework to minimise any undue cost of regulation for industry. Our framework is based on:

- **A principles-based approach to rule making.** Where possible, APRA seeks to avoid overly prescriptive regulation. Our framework generally allows industry participants to achieve desired outcomes in their own way, providing flexibility to accommodate innovation and keep compliance costs low.
- **A risk-based and proportionate approach to supervision.** We apply regulation only where necessary to achieve our objectives. Our policy framework subjects smaller entities to simpler or fewer requirements. Our supervisory framework places more heightened scrutiny on the largest and most complex entities. As a forward-looking and proactive regulator, much of APRA's work is achieved through working cooperatively with entities to identify and rectify problems before they cause harm.²
- **Collaboration with peer regulators.** We work collectively with our regulatory peers, including under the Council of Financial Regulators. This helps to ensure a whole-of-system response to areas of mutual interest. It aims to prevent siloed responses and duplicative requests of industry.
- **Regular independent scrutiny.** APRA's framework is subject to regular review and scrutiny, to ensure it strikes the right balance. In 2023, the Financial Regulator Assessment Authority (FRAA) reviewed APRA's supervision of the superannuation industry. In 2025, the CFR and ACCC undertook an assessment of Australia's regulatory framework for small and medium-sized banks. Later this year, our framework will again be subject to a review by the International Monetary Fund.

2. Actions we have recently taken

As productivity concerns have become more pronounced, we have increasingly challenged ourselves to make sure our prudential framework is not an undue constraint. In collaboration with industry, we have sought to reduce burden through a range of actions. The key examples include:

- **Progressing a more targeted policy agenda.** Last year, we reduced our policy consultations by more than half.³ We have now finalised the implementation of Government recommendations for large and comprehensive reforms under the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*. Our current focus is on making targeted improvements to our standards, to maintain resilience as the risk outlook evolves.
- **Working more collaboratively with industry on policy reforms.** We are providing industry greater opportunity to inform APRA's policy thinking at an early stage, to better assist with identifying policy solutions that minimise regulatory burden. For example, in exploring changes to our governance standards, we held 57 meetings and roundtables, involving more than 150 stakeholder organisations. This more collaborative approach to policy development has been positively received.⁴
- **Strengthening our coordination with other agencies.** We are sharing more data with other regulators, to reduce duplicative requests on industry. Measured by number, APRA shared 18 per cent more data files with external stakeholders in the past year.⁵ This coordination is supported by ongoing efforts to strengthen the use of the Regulatory Initiatives Grid.
- **Ceasing certain data collections.** We have focused on simplifying our data collection processes. Since 2024, we have ceased nine ad-hoc data collections for the banking sector, which are no longer considered necessary

² APRA is prepared to take enforcement action to deliver its prudential mandate when appropriate, including where supervisory approaches are not delivering satisfactory outcomes due to a lack of cooperation from an entity or individual.

³ In 2024/25, APRA conducted seven policy and reporting consultations. This compares to twenty in 2023/24, a reduction of 65 per cent.

⁴ 74 per cent of industry respondents to the 2025 APRA stakeholder survey agreed that APRA provided sufficient opportunity for consultation, compared to 60 per cent in 2023.

⁵ In the 12 months to March 2025, APRA processed 83 requests from external stakeholders for data, an 18 per cent increase on the year prior.

for effective prudential oversight. When introducing the new capital framework for banks in September 2023, we replaced 24 reporting forms with 4 forms, to further reduce burden on industry.

- Providing smaller entities with greater flexibility.** In line with Government’s expectations of APRA, we have improved proportionality in the prudential framework. Since 2020, we have implemented five major policy reforms – all of these have seen smaller entities subjected to simpler requirements or given longer implementation timeframes, compared to larger entities.⁶
- Simplifying our prudential architecture.** We have made our regulatory framework clearer to understand and simpler to navigate, to reduce the cost and complexity of complying with APRA’s regulations. In July 2024, we digitised our prudential framework. We have worked closely with industry to produce more streamlined and integrated guidance. We are currently upgrading our website, to further improve efficiency and functionality.

3. Further changes APRA intends to implement

In support of the Government’s focus on productivity, we have identified additional changes that we will progress (summarised below at figure 1). Many of these actions require public consultation – to provide industry with sufficient opportunity to consider APRA’s proposals, APRA will stage its engagements over a 12-month window.

In terms of impact, many of our actions are incremental – they build on existing proportionality in the framework. Other actions could realise benefits over a longer time frame, such as through supporting innovation. In aggregate, APRA estimates that its actions will moderately reduce burden for the financial sector and, at the margin, help to free up capital for other productive purposes.

Figure 1: Expected impact of APRA’s planned actions

Action	Timing	Impact:		
		Lower costs	Simpler processes	Support innovation
Banks Licensing regime	Consultation commenced	✓	✓	✓
Life insurers Capital requirements	Consultation commenced	✓		
General insurance Reinsurance settings	Consultation commenced	✓		
Banks Capital adjustments	Implementation in 2H-2025	Potentially over time	✓	
Banks Capital modelling	Consultation in 2H-2025	Potentially over time	✓	
Banks Proportionality	Consultation in 2H-2025	✓		
All industries Duplicative rules	Consultation in 1H-2026	✓		
All industries Data reporting	Completed by December 2027	✓	✓	
Payments Coordination	Timing subject to Government	✓	✓	✓

Further details on the specific actions that APRA will take forward over the next 12 months are set out below:

- Simplify our bank licensing regime.** We recently released a consultation paper on proposed changes to our bank licensing regime. While APRA can’t control the flow of new applicants, it is important that our processes

⁶ The reforms include: bank capital standards; remuneration standards; operational resilience standards; recovery and exit planning standards; and resolution planning standards.

are as efficient as possible to give high-quality new entrants the best possible chance of success. Our goal is to reduce the time taken to process new bank license applications by around half, through providing greater clarity on APRA's expectations and introducing greater formality within the framework.

- **Reduce capital requirements for annuity products.** We have commenced consultation with industry on proposals that would lower capital requirements for life insurers providing annuity products. Our aim is to moderately lower the cost to life insurers of providing annuity products, helping to attract participants and support growth in this market. APRA is planning to finalise its proposed changes later this year.
- **Promote access to cost-effective reinsurance.** We have also commenced consultation with general insurers on options to adjust APRA's reinsurance settings. These changes aim to support continued access to appropriate cost-effective reinsurance and may help reduce, at the margin, some of the pressure on insurance premiums. APRA will release further detail on its proposals later this year.
- **Provide greater clarity on APRA's supervisory expectations.** In coming months, we will begin implementing changes to the way we communicate with banks regarding adjustments to minimum capital requirements. Our changes will provide banks with greater clarity on the reasons for the adjustment and the outcomes needed to address APRA's concerns. Our goal is that banks will be better able to take action to have capital adjustments lowered or removed.
- **Promote access to internal capital modelling.** Later this year, we will consult on changes that aim to simplify and clarify our accreditation process that allows banks to use internal modelling for regulatory capital purposes. The use of internal models can result in moderately lower capital requirements, where banks can demonstrate sophisticated risk management.⁷ APRA's proposed changes aim to improve transparency and flexibility, but not lower standards.
- **Introduce further proportionality.** Later this year, we will consult on a proposal to introduce a third tier into our proportionality framework for banks. Our existing framework is based on a two-tier system that differentiates APRA's requirements between significant financial institutions (SFIs) and non-SFIs. A third tier will allow us to introduce more nuance into our prudential requirements of banks, reflecting different business models.
- **Remove unnecessary or duplicative rules.** We are currently discussing with industry proposals to remove outdated or duplicative rules from APRA's governance standards. A key area of focus is addressing overlap between reporting obligations that apply to entities under APRA's fitness and proprietary requirements and statutory requirements under the Financial Accountability Regime (FAR).⁸ We will consult on specific changes to our prudential standards in the first half of 2026.
- **Further reduce data reporting burden.** APRA is currently working with industry to migrate its data reporting to a new, more efficient platform. This is expected to be completed by December 2027, and will result in greater efficiency and reduced costs. APRA estimates the long run saving to industry at around \$6 million annually.⁹
- **Continue to coordinate with peer agencies on payments reform.** We are working closely with ASIC, the Reserve Bank of Australia and Treasury on proposed reforms to the regulation of Stored Value Facilities (SVF). These reforms aim to simplify the existing regulatory framework, to better support innovation and competition. Under the new regime, APRA plans for its prudential requirements of SVFs to be more streamlined than for banks, consistent with relative risks. Ahead of the reforms coming into effect, we are working with the RBA on interim measures that could bring forward some of the potential benefit for industry.¹⁰

Beyond these specific initiatives, we are also making changes to strengthen competition and productivity considerations in our internal decision-making and culture. This work is more forward looking – it aims to better

⁷ APRA has estimated that, for housing loans, this lower capital requirement is equivalent to an approximate 5 basis points pricing difference. There are currently six banks accredited to use internal models: the major banks, Macquarie and ING Australia.

⁸ The FAR came into effect on 15 March 2025 for insurers and superannuation trustees, a year after it became effective for banks.

⁹ Estimated saving to all entities from not having to maintain the required hardware associated with the legacy system.

¹⁰ This could involve raising the low-value threshold up to which the *Payment Systems (Regulation) Act 1998* (PSRA) does not apply to purchased payment facilities.

empower APRA's people to strike the right regulatory balance over the longer term. Our key areas of focus are summarised below:

- **Holding ourselves more firmly to account.** In August, we will outline a revised set of performance measures, which will include new public targets for striking the right regulatory balance. This increases the focus on competition and productivity considerations in how APRA explains its performance publicly. It is aimed at driving sustained improvements over time.
- **Changing the way we work.** We are also reviewing our internal processes to ensure that competition and productivity issues are routinely and consistently considered in our policy and supervisory decision-making. We have established an internal steering committee of executives to oversee this work, under the sponsorship of an APRA Member.

4. Considerations for Government

We have challenged ourselves more broadly, working with our peers to assess regulatory frameworks at a whole-of-system level. We have paid particular attention to interdependencies across regulatory frameworks and potential overlaps, where collective action by regulators could result in more optimal outcomes for industry. We have two areas that we raise for further consideration:

- The recent CFR and ACCC review of small and medium-sized banks identified further reform options which would require legislative change and cooperation across multiple regulators. We would welcome the opportunity to work with Government on these reforms.
- Another opportunity for reducing burden would involve a potential streamlining of requirements under the Financial Accountability Regime (FAR). APRA is currently engaging with industry on options to reduce overlap between the FAR and APRA's own fit and proper standards. Alongside ASIC, we also consider that there is scope to reduce burden associated with the administration framework of the FAR, whilst preserving the integrity of the substantive accountability provisions.

We also administer other legislation on behalf of Government. Over coming months, we will be looking at key legislation more closely, to identify potential further opportunities to support competition and productivity. We would welcome the opportunity to discuss our findings with Government, as this work progresses.