



APRA

REGULATOR PERFORMANCE FRAMEWORK

APRA Self-assessment 2017/18

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INTRODUCTION

This report sets out APRA's 2017/18 self-assessment against the Australian Government's Regulator Performance Framework.

The Reporting Framework: Measures of good regulatory performance

The Government's Deregulation Agenda established the Regulator Performance Framework (the Framework) to assess regulators' performance when interacting with business, the community and individuals while carrying out their functions.

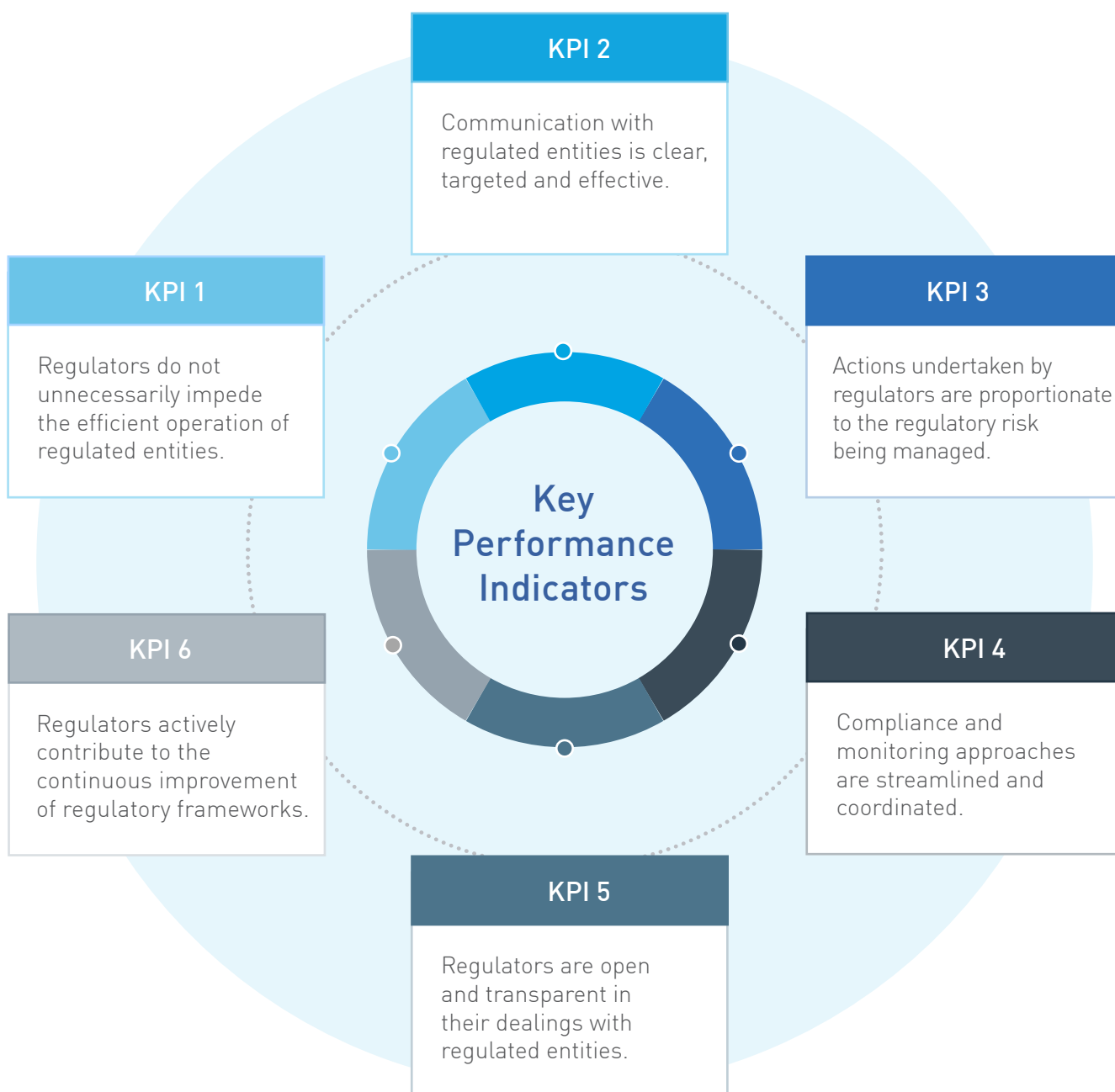
The Framework seeks to improve the way regulators operate, reduce the costs incurred by business, individuals and the community from the administration of regulation, and increase the public accountability and transparency of regulators.

The Framework establishes six outcome-based Key Performance Indicators (KPIs) of performance and administration that apply to all regulators.

Under the Framework, regulators were required to develop and consult on a range of evidence-based metrics to be used to conduct an annual self-assessment of performance and to identify areas for improvement. APRA established a set of metrics to support assessment against the above KPIs and, after consultation with approved stakeholders, published its [Regulator Performance Framework Metrics](#) in July 2015.

More information about the Framework can be found at:
www.cuttingredtape.gov.au/resources/rpf

The Framework is one component of a broader suite of accountability mechanisms established for APRA and, to this end, complements a range of other performance reporting mechanisms in place. It is also explicitly not intended to capture the process for, and outcomes of, regulatory policy making.



Evaluating APRA's performance

The Framework is intended to evaluate how regulators administer regulation, with the aim of encouraging regulators to undertake their functions with the minimum impact necessary to achieve regulatory objectives.

In accordance with the Framework, all regulators are to undertake an annual self-assessment of performance against each KPI. The Framework requires that the self-assessment report is externally validated through an approved stakeholder mechanism prior to its release to the regulator's Minister, and publication.

Self-assessment

APRA's self-assessment includes quantified evidence complemented with qualitative information that outlines specific actions taken during the period which relate to APRA's performance against the Framework. Case studies or examples of specific activities have been included in the self-assessment where relevant to demonstrate performance against the KPIs. One key source of evidence is the findings from APRA's Biennial Stakeholder Survey (last conducted in 2017), from which APRA gains insight from regulated entities and knowledgeable observers on a broad range of its activities.

External validation

APRA's self-assessment was externally validated in November 2018 through the approved stakeholder consultation mechanism.²

The validation process provides an avenue for stakeholders to provide feedback on whether the self-assessment accords with their views of APRA's performance against the KPIs over the assessment period. Stakeholders are to consider if:

- APRA's conclusions are reasonable and objective; and
- the areas identified for further improvement are appropriate or justified.

The validation is not intended to be an audit of APRA's self-assessment or an opportunity for stakeholders to deal with specific individual experiences or interactions with a regulator.

1. <https://www.apra.gov.au/submissions>

2. APRA's approved stakeholder consultation mechanism includes the following industry associations: Australian Banking Association (ABA), Association of Superannuation Funds Australia (ASFA), Community Owned Banking Association (COBA), Insurance Council of Australia (ICA), Financial Services Council (FSC), Members Health Fund Alliance and Private Healthcare Australia (PHA).

GENERAL STAKEHOLDER VALIDATION FEEDBACK

A range of general comments about the RPF process and APRA's 2017/18 RPF report were received.

1. All industry bodies expressed support for the RPF process and appreciated the opportunity to provide feedback to APRA.
2. Industry bodies were generally in agreement with APRA's RPF self-assessment of its performance. Some industry bodies did however make recommendations for improvements in some specific areas.
3. APRA's methodological approach, both conceptually and its selection of supporting data, was questioned. It was suggested there are limitations and room for improvement.

Specific feedback included:

- *[We are] pleased to be involved in the assessment of APRA's performance against the Government's Regulator Performance Framework (the Framework). [We] consider that ongoing assessments of this kind can help regulators improve the way they operate, reduce the costs incurred by business, individuals and the community from the administration of regulation, and increase the public accountability and transparency of regulators.*
- *[We] broadly agrees with APRA's self-assessment and supports APRA's continual process of self-assessment as a key component of improving [our] industry's regulatory environment.*
- *In broad terms, [we] consider that APRA's self-assessment against its Key Performance Indicators (KPIs) is reasonable and objective. ... However, [we have] identified some areas where APRA could improve its performance against particular KPIs.*
- *The extent of overlap and duplication of metrics across the KPIs is, on reflection, quite marked. In [our] view, it may be appropriate to consider whether a more diverse range of metrics might provide a more rounded and insightful assessment of APRA's performance. We recommend that this be considered as part of any future process to refine and improve the metrics.*
- *[We] noted the weight placed on the biennial stakeholder survey as the primary metric to measure APRA's performance against all six KPIs. ... APRA should consider increasing the frequency of the survey (from biennially to annually) to align it with the annual self-assessment process.*

KEY PERFORMANCE INDICATOR 1



Regulators do not unnecessarily impede the efficient operation of regulated entities

Measures of good regulatory performance³

- 1(i) Regulators demonstrate an understanding of the operating environment of the industry or organisation, or the circumstances of individuals and the current and emerging issues that affect the sector.
- 1(ii) Regulators take actions to minimise the potential for unintended negative impacts of regulatory activities on regulated entities or affected supplier industries and supply chains.
- 1(iii) Regulators implement continuous improvement strategies to reduce the costs of compliance for those they regulate.

APRA specific measures

- 1.1 APRA publications address current and emerging issues or developments in the financial sector.
- 1.2 Development of standards includes a consultation process consistent with the Office of Best Practice principles (OBPR) including preparing Regulation Impact Statements (RIS), public release of stakeholder submissions and a response to submissions.
- 1.3 Publicly reported peer assessments against relevant international practices and standards and demonstrated engagement with relevant international bodies and offshore regulators.
- 1.4 Feedback collected and publicly reported from biennial stakeholder survey.

3. The Government framework explicitly defines measures of good regulatory performance for each high-level KPI.

APRA's self-assessment against KPI 1

APRA continued to have a deep understanding of its operating environment and current and emerging issues affecting regulated entities, regulated industries and the financial system more broadly.

APRA maintained close and continuous contact with regulated entities during the year to keep abreast of emerging trends and risks and continued its proactive on-site and off-site supervision activities designed to identify and evaluate material risks in regulated entities and industries at an early stage and ensure that these risks are appropriately mitigated.

86 per cent of respondents to APRA's 2017 Biennial Stakeholder Survey either agreed or strongly agreed that APRA's supervision teams have a good understanding of regulated entities.

In 2017/18, APRA continued to evolve the prudential framework across all regulated industries in response to, amongst other things, idiosyncratic risks, broader financial stability vulnerabilities and the global regulatory agenda through a thorough and consultative policy development process consistent with Office of Best Practice Regulation (OBPR) principles.

Feedback received in past stakeholder surveys indicated a lower number of respondents [17 per cent in 2015 and 23 per cent in 2017] agreeing or strongly agreeing that changes to APRA's prudential framework consider the cost of regulation imposed on industry. APRA continues to target full compliance with OBPR requirements to ensure costs to industry are thoroughly considered as part of new policy proposals. For all changes to the prudential framework made in 2017/18, APRA achieved 100 per cent compliance with OBPR requirements supported by the preparation of Regulatory Impact Statements (RIS) where needed to assess the costs, benefits and impact of regulatory policy change on industry. APRA also published response papers on its website to acknowledge feedback received from consultation processes and importantly to provide the rationale for final policy decisions.

Supporting evidence



APRA effectively balances its statutory objectives and considers regulatory costs on industry

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance⁴.

In its supervision of your industry, APRA effectively pursues financial safety, balanced with considerations of efficiency, competition, contestability and competitive neutrality, and promotes financial stability.

- 73% of stakeholder survey respondents agreed or strongly agreed;
- 21% were neutral; and
- 6% disagreed or strongly disagreed.

Changes to APRA's prudential framework consider the cost of regulation imposed on industry.

- 23% of stakeholder survey respondents agreed or strongly agreed;
- 39% were neutral; and
- 36% disagreed or strongly disagreed.



APRA understands its regulated entities⁴

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

[APRA's Supervisory team] has a good understanding of your organisation

- 86% of stakeholder survey respondents agreed or strongly agreed;
- 8% were neutral; and
- 3% disagreed or strongly disagreed.

Other APRA staff with whom your organisation interacts are experienced and knowledgeable.

- 74% of survey respondents agreed or strongly agreed;
- 16% were neutral; and
- 3% disagreed or strongly disagreed.



Prudential policy impact assessments

APRA has been assessed as fully compliant with the OBPR principles in its policy development activities and maintained full compliance with OBPR requirements in 2017/18. For APRA policy measures announced in 2017/18, a standard RIS was required in four instances, and APRA was assessed as either compliant, or best practice, in these instances.

4. Percentage results displayed from the 2017 Stakeholder Survey do not always add up to 100%. 'Don't know' responses have been excluded in this report.



Focus on
current/
emerging
issues

Case example: governance, culture, accountability and remuneration

As acknowledged in APRA's 2017-2021 Corporate Plan, there remains heightened public scrutiny on conduct across the financial sector (which has now culminated in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry), and APRA has maintained its focus on improving risk culture and governance practices in APRA-regulated industries. In the superannuation sector, this was evidenced by APRA's work to promote a strong focus amongst trustees on delivering quality, value-for-money outcomes for members. This work, while still relatively new, has generated a number of changes to trustees' business models and/or products designed to respond to measures of under-performance.

In August 2017, APRA established an independent prudential inquiry into the Commonwealth Bank of Australia (CBA) to examine the governance, culture and accountability frameworks and practices within the group, following a number of incidents that damaged the reputation and public standing of the bank. The inquiry provided APRA with the opportunity to consider how its usual supervision practices could be enhanced, particularly in assessing risk culture, the quality of risk governance, and the degree to which accountability and remuneration frameworks have supported effective risk management.

The CBA Prudential Inquiry report released in May 2018 identified a number of findings and recommendations and provided important insights for all financial institutions and, in this respect, was considered a landmark report both domestically and internationally. With this in mind, APRA has asked larger institutions to prepare a self-assessment against the CBA report's findings.

In 2017/18, APRA also completed an extensive benchmarking review of remuneration practices at large financial institutions across regulated industries.⁵ In response to the outcomes of the review, which identified considerable room for improvement in industry practices, APRA continues to engage with individual institutions on the findings as part of ongoing supervisory work as well as examining ways to strengthen the prudential framework more broadly.

5. Information Paper: Remuneration practices at large financial institutions (April 2018).



Focus on
current/
emerging
issues

Case example: residential mortgage lending standards

APRA maintained a strong focus on residential mortgage lending standards in its supervision of authorised deposit-taking institutions (ADIs) during 2017/18. Over the past year, APRA:

- continued to closely monitor higher risk lending, with a particular focus on how ADIs tracked against industry benchmarks established by APRA for investor loan growth and lending on an interest-only basis;
- conducted a detailed review of lending practices at a range of ADIs, examining the effectiveness of controls around the collection of borrower financial information used to test affordability; and
- refreshed its data collection to gain a better insight into residential mortgage lending, with the release of the new reporting form ARF 223 – Residential Mortgage Lending.

In April 2018, APRA indicated its willingness to remove the temporary 10 per cent investor loan growth benchmark from 1 July 2018. APRA also commenced consultation on revised capital requirements for housing lending, designed to ensure that regulatory capital requirements for this important component of lending are proportionate and commensurate with underlying risks.



Entity effort
required for
prudential
reviews and
APRA's impact
on financial
management

APRA's 2017 Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

The effort required of your institution during APRA's prudential reviews is appropriate

- 77% of survey respondents agreed or strongly agreed;
- 15% were neutral; and
- 7% disagreed or strongly disagreed.

What impact have APRA's prudential requirements had on the financial management of your entity?

- 67% of survey respondents stated positive impact, or very positive impact;
- 26% were no impact; and
- 6% negative impact, or very negative impact.

External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI1 that APRA does **'not unnecessarily impede the efficient operation of regulated entities'**. There was however some diversity in views.

Specific feedback included:

- *[We] consider that the [our industry] requires a strong regulatory framework, and that regulators should have appropriate powers and instruments to ensure the system is stable, efficient and delivers on its objectives. However, as a general principle, [we] consider there must be a clear justification for any extension of existing regulatory obligations. ... [entities] already have significant obligations, fiduciary and otherwise, and the regulatory environment in which they operate is rigorous and demanding.*
- *[We] note that the 'red tape' associated with complying with APRA's prudential and regulatory requirements remains an issue for regulated entities, and compliance costs are continuing to increase, despite the government's stated emphasis on minimising or reducing red tape.*
- *[We] consider that the cost of complying with some of the prudential and regulatory requirements could be a focus of APRA's next semi-regular update on its regulatory cost savings project.*
- *[We] recognise the efforts APRA has made to ensure that consultation periods for new or changed reporting standards, prudential standards and guidance are adequate to allow industry to provide a considered response ...supported by the preparation of RISs (where needed) to assess the costs, benefits and impact of regulatory policy change on industry.*

KEY PERFORMANCE INDICATOR 2



Communication with regulated entities is clear, targeted and effective

Measures of good regulatory performance

- 2(i)** Regulators provide guidance and information that is up-to-date, clear, accessible and concise through media appropriate to the target audience.
- 2(ii)** Regulators consider the impact on regulated entities and engage with industry groups and representatives of the affected stakeholders before changing policies, practices or service standards.
- 2(iii)** Regulators' decisions and advice are provided in a timely manner, clearly articulating expectations and the underlying reasons for decisions.
- 2(iv)** Regulators' advice is consistent and supports predictable outcomes.

APRA specific measures

- 2.1** APRA publishes up-to-date guidance on its framework, processes and activities on its external website.
- 2.2** Timely communication on key developments or consultations is delivered electronically to all relevant APRA contacts and those stakeholders that register for notifications on APRA's website.
- 2.3** Development of standards includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions.
- 2.4** Feedback is collected and publicly reported from biennial stakeholder surveys.

APRA's self-assessment against KPI 2

APRA is committed to communicating with its key stakeholders and providing high quality and timely information on prudential matters. APRA regularly engages with a variety of stakeholders using a diverse range of channels, targeting particular stakeholder groups where needed.

APRA shifted its approach to consultation on changes to prudential requirements this year by providing more diverse options for interested parties to provide input, such as through workshops, bilateral meetings, industry roundtables, as well as traditional formal written submissions to achieve a more agile and responsive policy-making process.

APRA's website was refreshed during the year with a new look and feel designed to facilitate ready access to prudential information via a modern and user friendly interface. APRA's website remained up-to-date and registered stakeholders were notified on the day of release when new prudential information was published.

As highlighted in APRA's 2016-17 self-assessment, APRA achieved excellent feedback from stakeholders as part of its 2017 Biennial

Stakeholder Survey in relation to communication with regulated institutions with **94 per cent** of respondents agreeing or strongly agreeing that APRA's communication is clear and effective and **92 per cent** that APRA is effective in communicating findings from supervisory visits. APRA also received positive results on clearly communicating proposed changes to the prudential framework during consultation processes with industry.

Responses to the Survey did however suggest that there is room for APRA to improve the usefulness of prudential information included in its regular 'Insight' publication and delivered via public speaking engagements. These, together with other external communication channels including the refresh of APRA's website, have been a key focus area for enhancement over the past year.

Supporting evidence



Public release and usefulness of prudential information

During 2017/18, APRA's website remained up-to-date with comprehensive information on the prudential framework covering all regulated industries together with other information on key prudential activities and decisions. All key developments were accompanied by notification to registered subscribers on the day of release. Specifically, APRA published:

- 30 information letters to industry;
- Four issues of APRA 'Insight' covering a range of topics including stress testing, APRA's refreshed approach to licensing; residential mortgages, cyber security; data transformation, resilience in private health insurance, and the sustainability of individual disability income insurance; and
- 70 media releases covering multiple topics and regulated industries including open consultations on proposed changes to the prudential framework.

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

[Over a one year period] how useful has your entity found the articles in APRA Insight?

- 40% of stakeholder survey respondents stated very useful or extremely useful;
- 37% were moderately useful; and
- 18% were slightly useful or not useful at all.



Clear and effective communication

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

APRA's communications to my entity are clear and effective?

- 94% of stakeholder survey respondents agreed or strongly agreed;
- 5% were neutral; and
- 1% disagreed or strongly disagreed.

APRA is effective in communicating the findings of supervisory visits to your institution

- 92% of respondents agreed or strongly agreed;
- 7% were neutral; and
- 1% disagreed or strongly disagreed.



Clear and effective communication (continued)

APRA communicates clearly during consultation with industry about proposed changes to prudential standards and guidance material

- 81% of stakeholder survey respondents agreed or strongly agreed;
- 16% were neutral; and
- 2% disagreed or strongly disagreed.

Case example: targeted communication approach for outlier superannuation funds

In 2017/18, APRA identified 26 registered superannuation entities offered by 14 registrable superannuation entity (RSE) licensees that were regarded as 'outliers' and not consistently delivering quality member outcomes or appropriately positioned for future effectiveness and sustainability.

Throughout the year, APRA met with all 14 RSE licensees and required them to develop an agreed strategy to address identified concerns and improve the outcomes being provided for their members within a reasonably short period.

As at mid-August 2018, 10 of the 14 RSE licensees had implemented (or commenced implementing) strategies to address identified issues. Follow up by APRA is continuing with the remaining four RSE licensees to finalise an agreed approach.

This work involved a targeted communication approach to support the achievement of sound prudential outcomes across a number of regulated entities.



APRA speaking engagements

During 2017/18:

- APRA presented at 93 separate speaking engagements on a wide range of topics covering all regulated industries.

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

Speeches by senior APRA representatives (how useful)?

- 40% of survey respondents stated useful or very useful;
- 44% were moderately useful; and
- 17% were slightly useful or not useful at all.



APRA's supervision is consistent

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

APRA's supervision of your entity is consistent with APRA's mission

- 94% of stakeholder survey respondents agreed or strongly agreed;
- 5% were neutral; and
- 1% disagreed or strongly disagreed.

External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI2 that APRA's '**communication with regulated entities is clear, targeted and effective**'.

Specific feedback included:

- *The APRA speeches and APRA 'Insight' are also useful tools.*
- *In our view APRA's approach to industry consultation, oversight and enforcement satisfies the KPIs it has been set.*
- *We consider that APRA has a sound understanding of the current and emerging prudential risks facing [our] industry and that its communication with industry has generally been clear, targeted and effective..... the level of engagement with APRA on its future data collection solution, which included cross-industry roundtables, sector-specific roundtables, technical sessions, and sector-specific webinars.*
- *[We] consider that the information conveyed in APRA's speeches and letters to RSE licensees to be generally reasonable in tone and content, and helpful as guidance when complying with their regulatory obligations.*
- *APRA now provides more diverse options for interested parties to provide input to consultation processes – such as submissions, workshops, bilateral meetings and industry roundtables. The various options provide stakeholders with greater flexibility as to how they can respond to a particular consultation process.*
- *[Could] APRA consider expanding the 2019 APRA's policy priorities information paper to include more tangible data (dates, timelines, etc).*
- *With respect to APRA's communications on key developments or consultation processes, ... the timeframe for the commencement of the new framework has been deferred. [we] appreciate that the deferral was in response to circumstances beyond APRA's control. Nonetheless, [we were] made aware of the deferral of the timeline only after contacting APRA.*

KEY PERFORMANCE INDICATOR 3



Actions undertaken by regulators are proportionate to the regulatory risk being managed

Measures of good regulatory performance

3(i) Regulators apply a risk-based, proportionate approach to compliance obligations, engagement and regulatory enforcement actions.

3(ii) Regulators' preferred approach to regulatory risk is regularly reassessed. Strategies, activities and enforcement actions are amended to reflect changing priorities that result from new and evolving regulatory threats, without diminishing regulatory certainty or impact.

3(iii) Regulators recognise the compliance record of regulated entities, including using earned autonomy where this is appropriate. All available and relevant data on compliance, including evidence of relevant external verification is considered.

APRA specific measures

3.1 APRA publications address current and emerging issues or developments in the financial sector.

3.2 APRA publishes its supervisory and enforcement approaches on its website.

3.3 Statements of Expectations and Intent are published.

3.4 Feedback is collected and publicly reported from biennial stakeholder surveys.

APRA's self-assessment against KPI 3

Throughout 2017/18, APRA continued to take a risk-based approach to identifying and assessing areas of greatest risk to regulated entities meeting their obligations to beneficiaries, and to financial stability in Australia, and directing its resources to address those risks.

APRA's risk assessment and response systems – the Probability and Impact Rating System (PAIRS) and Supervisory Oversight and Response System (SOARS) – are critical tools for identifying regulated institutions that have higher risk/ impact of failure and tailoring APRA's supervisory approach accordingly. In APRA's view its risk-based approach provides a direct link between identified risks and supervisory actions taken.

85 per cent of respondents to APRA's 2017 Biennial Stakeholder Survey either agreed or strongly agreed that APRA is effective in identifying risks and problems in entities that it regulates. Having said that, responses to the survey indicated there is scope for APRA to better meet its intentions in relation to supervising in line with international best practice.

In this regard, APRA commenced a comprehensive review of its supervision framework and practices during the year. A comparative study of supervision practices against international peers was conducted and is an important input to the review.

In 2017/18, APRA also conducted comprehensive self-assessments against international best practice principles across banking, insurance, superannuation, crisis management and deposit insurance to identify opportunities for improvement as part of preparing for the 2018 Australian Financial Sector Assessment Program (FSAP) conducted by the IMF.

Supporting evidence



APRA's effectiveness

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

APRA is effective in identifying risks and problems in that part of your institution that APRA regulates?

- 85% of survey respondents agreed or strongly agreed;
- 13% were neutral; and
- 2% disagreed or strongly disagreed.

APRA's prudential framework is effective in achieving APRA's mission?

- 87% of survey respondents agreed or strongly agreed;
- 12% were neutral; and
- 2% disagreed or strongly disagreed.



Forward-looking, principles-based approach

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

[APRA meets intentions] being forward looking in its supervision?

- 77% of survey respondents agreed or strongly agreed;
- 21% were neutral; and
- 1% disagreed or strongly disagreed.

APRA's prudential standards are based on principles rather than detailed prescription?

- 76% of survey respondents agreed or strongly agreed;
- 17% were neutral; and
- 7% disagreed or strongly disagreed.



APRA's assessments are appropriate and supervision practices are in line with best practice

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

During prudential reviews of your entity, APRA appropriately assesses the importance of issues that are subject to APRA requirements, recommendations or suggestions?

- 82% of stakeholder survey respondents agreed or strongly agreed,
- 16% were neutral and
- 1% disagreed or strongly disagreed.

[APRA meets intentions] supervising in line with international best practice?

- 64% of survey respondents agreed or strongly agreed;
- 19% were neutral; and
- 0% disagreed or strongly disagreed.

External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI3 that **'actions undertaken by [APRA] are proportionate to the regulatory risk being managed'**.

Specific feedback included:

- *[We] consider that the self-assessment [of KPI3] is reasonable and objective.*
- *APRA has adopted a sophisticated yet sensible risk based approach that both recognises the importance of retaining and enhancing competition and choice, and has not unnecessarily impeded the efficient operation of regulated entities.*
- *The regulatory approach taken by APRA demonstrates a thorough understanding of the importance of setting fit for purpose regulatory standards that are practical, do not unduly impact the commercial competitive environment and operate in the best interests of consumers.*

KEY PERFORMANCE INDICATOR 4



Compliance and monitoring approaches are streamlined and coordinated

Measures of good regulatory performance

- 4(i)** Regulators' information requests are tailored and only made when necessary to secure regulatory objectives, and only then in a way that minimises impact.
- 4(ii)** Regulators' frequency of information collection is minimised and coordinated with similar processes including those of other regulators so that, as far as possible, information is only requested once.
- 4(iii)** Regulators utilise existing information to limit the reliance on requests from regulated entities and share the information among other regulators, where possible.
- 4(iv)** Regulators base monitoring and inspection approaches on risk and, where possible, take into account the circumstance and operational needs of the regulated entity.

APRA specific measures

- 4.1** APRA collects and shares statistical information with other government agencies including RBA, ABS and ASIC.
- 4.2** Development of the reporting framework includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions.
- 4.3** APRA publishes non-confidential industry and entity level statistical information.
- 4.4** Feedback is collected and publicly reported from biennial stakeholder surveys.

APRA's self-assessment against KPI 4

APRA maintained strong working relationships with Australia's key financial agencies throughout the year to promote coordinated and streamlined approaches.

In particular, APRA continued to play an important role as the central repository of statistical information on the Australian financial system. APRA collects, distributes and publishes data on behalf of a number of other Government agencies and international organisations.

APRA is cognisant of the cost of collecting data from regulated entities. As such, and as outlined in its Corporate Plan, APRA is undertaking a substantial data transformation program to modernise how it

collects, stores, analyses and innovates with data. APRA's vision is to implement an easy-to-use system to collect high-quality data that is adaptable to future business needs and assists entities to achieve efficiency gains. Replacing the current data collection system, 'Direct to APRA' (D2A), with a more modern, efficient system that meets the needs of multiple stakeholders is integral to the program and is a key measure of success. APRA will select and implement a new Data Collection Solution in 2019 and transition reporting entities to the new solution in 2020.

Supporting evidence



APRA is
operationally
efficient

Costs per \$1,000 of assets supervised

APRA seeks to ensure it operates efficiently. Relative to the size of the industries that APRA supervises, the cost per \$1,000 of assets supervised was 2.2 cents in 2017/18. This compared with approximately 3.0 cents per \$1,000 of assets supervised at the start of the decade.



APRA is
well-resourced,
staff have
requisite
skills and
demonstrate
foresight

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

[Supervisory team] has an adequate number of staff to effectively complete supervisory activities?

- 77% of survey respondents agreed or strongly agreed;
- 13% were neutral; and
- 2% disagreed or strongly disagreed.

[Supervisory team] has the necessary skills to effectively complete supervisory activities?

- 91% of survey respondents agreed or strongly agreed;
- 5% were neutral; and
- 3% disagreed or strongly disagreed.

Foresight (staff demonstrate)?

- 71% of survey respondents stated staff demonstrate to a significant extent, or always demonstrate; and
- 25% stated staff demonstrate to some extent or never demonstrate.



Liaison/
coordination
activities

APRA places a high level of importance on establishing and maintaining close working relationships with its key stakeholders. During 2017/18, APRA met and worked closely with 18 different prudential-related public sector bodies, groups and associations and with 16 prudential-related private sector groups and associations. Further information on regulatory liaison activities is included as part of APRA's self-assessment against KPI 6.



Efficiency improvements

Case example: Data transformation program

APRA is undertaking a substantial data transformation program to modernise how it collects, stores, analyses and innovates with data. Replacing the data collection tool Direct to APRA (D2A) is critical to this program. Industry input is helping APRA to select and implement a new Data Collection Solution, with reporting entities due to transition to the new solution in 2020.

Engagement with the financial services industry and other stakeholders on the design and implementation of the new system is a key component of the project and is essential to ensure the final product is well suited to all users. In March 2018, APRA commenced a substantial engagement program with reporting entities, administrators, industry bodies and Regtech providers, aimed at identifying the most desirable features for the new system, and how best to transition to it. In July 2018 APRA released a formal response to industry on the Data Collection Solution. The paper provides further clarification of the features APRA will look for in the new solution, as well as its preferred approach to implementation.

APRA has listened to stakeholder feedback calling for a system that is simpler, easier to use and requires less manual entry and has used that guidance and feedback to shape the solution and form the basis of a Request for Tender (RFT). Additionally, APRA has formed three external working groups to provide guidance and direction for key decisions and how to implement the transition from D2A. APRA will continue to engage with industry directly and through these groups throughout implementation and roll-out, having committed to providing industry with an early and comprehensive implementation plan and timeline, and appropriate engagement and support through transition.



Efficiency improvements

Case example: Life insurance claims data

APRA and ASIC will soon release a new reporting standard on life insurance claims and disputes. Life Insurance Reporting Standard LRS 750.0 Claims and Disputes, to be released by end-October 2019, will enhance the quality and consistency of life insurance data published through a ground-breaking program established jointly by APRA and the ASIC. As part of this program, the regulators engaged with life insurers and other stakeholders across three rounds of pilot data collections, a discussion paper and a response paper.

The new reporting standard makes it mandatory for life insurers to report data on claims and disputes, and is a critical milestone on the path to delivering enhanced transparency and accountability through the regular publication of credible, reliable and comparable data. Publication will provide consumers with access to high-quality, comparable data on life insurance claims and disputes.



APRA and entity risk assessments are aligned

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

APRA's PAIRS rating reflects your entity's view of its risk profile?

- 78% of survey respondents agreed or strongly agreed;
- 15% were neutral; and
- 5% disagreed or strongly disagreed.

External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI4 that APRA's **'compliance and monitoring approaches are streamlined and coordinated'**.

Specific feedback included:

- *[We] consider that there are significant opportunities for APRA to work closely with [our] industry and other financial regulators to ensure consistency in compliance and monitoring approaches.*
- *The eventual replacement of D2A will be greatly welcomed by industry and provides an important opportunity to deliver a more efficient system for reporting of data by entities to APRA.*
- *There is still room for improvement in the cooperation between APRA and the other regulators. In particular, multiple (and extensive) data requests from different regulators remains an issue and could be better coordinated in terms of content, scope and timing. In this regard, [we are] pleased to see APRA's adoption of Standard Business Reporting (SBR) in the new Data Collection Solution. This will facilitate data sharing by APRA and other agencies that also have adopted SBR.*

KEY PERFORMANCE INDICATOR 5



Regulators are open and transparent in their dealings with regulated entities

Measures of good regulatory performance

5(i) Regulators' risk-based frameworks are publicly available in a format which is clear, understandable and accessible.

5(ii) Regulators are open and responsive to requests from regulated entities regarding the operation of the regulatory framework, and approaches implemented by regulators.

5(iii) Regulators' performance measurement results are published in a timely manner to ensure accountability to the public.

APRA specific measures

5.1 APRA publishes its supervisory and enforcement approaches on its external website.

5.2 Demonstrated regular engagement with stakeholders.

5.3 APRA publicly reports on its performance and provides detail on key aspects of APRA's activities.

5.4 APRA's service charter is publicly available.

5.5 Feedback collected and publicly reported from biennial stakeholder survey.

APRA's overall self-assessment against KPI 5

In June 2018, the Australian Government refreshed APRA's Statement of Expectations (SOE).

The SOE sets out the Government's expectations for APRA including how it manages relationships with key stakeholders and issues of **transparency and accountability**. APRA formally responded to the Government's SOE with a Statement of Intent (SOI). The SOI establishes APRA's intention to meet Government requirements and expectations concerning transparency and accountability. Both the SOE and SOI were published on APRA's website in September 2018.

Like other Commonwealth entities, APRA's performance framework and governance and accountability requirements are set out

in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In 2017, APRA set out an overview of accountability requirements on its website to give greater visibility to these mechanisms.

The majority of respondents to APRA's 2017 Biennial Stakeholder Survey **attested positively** to the helpfulness and responsiveness of APRA to requests from regulated entities, the clarity of the prudential framework; and the value of APRA's supervision in protecting the financial well-being of the Australian community and financial strength of regulated entities.

Supporting evidence



Clarification of expectations, intent and services

As mentioned above, APRA's refreshed SOE and SOI were published on APRA's website in September 2018.

In addition, APRA's Service Charter that explains how APRA carries out its role, and what those who deal with APRA as the prudential regulator can expect, is also publicly available on its website.



Availability of information on APRA's prudential role, key frameworks and processes

APRA's website has clear, up-to-date and comprehensive information on APRA's role, mandate, prudential framework and processes. APRA's website was refreshed during the year to improve access to key prudential information. Registered stakeholders were notified of the upgrade and as new material was published throughout the year.



APRA's helpfulness and responsiveness

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

Your APRA supervision team (how useful)?

- 84% of survey respondents stated very useful or extremely useful;
- 12% were moderately useful; and
- 4% slightly useful or not useful at all.

APRA's resolution of your entity's technical and supervisory requests is satisfactory?

- 72% of survey respondents agreed or strongly agreed;
- 12% were neutral; and
- 4% disagreed or strongly disagreed.

APRA's resolution of your entity's technical and supervisory requests is timely?

- 71% of survey respondents agreed or strongly agreed;
- 18% were neutral; and
- 1% disagreed or strongly disagreed.



Value created from APRA's prudential activities

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

APRA's supervision of your industry helps protect the financial well-being of the Australian community?

- 95% of survey respondents agreed or strongly agreed;
- 5% were neutral; and
- 0% disagreed or strongly disagreed.

APRA's supervision of your industry enhances the financial strength of your entity?

- 80% of survey respondents agreed or strongly agreed;
- 15% were neutral; and
- 5% disagreed or strongly disagreed.



Consultation packages are understandable

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

APRA's consultation packages are readily understood?

- 84% of survey respondents agreed or strongly agreed;
- 14% were neutral; and
- 2% disagreed or strongly disagreed.



APRA staff demonstrate accountability

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

Accountability (staff demonstrate)?

- 80% of survey respondents stated staff demonstrate to significant extent, or always demonstrate;
- 16% stated staff demonstrate to some extent, or never demonstrate.



Parliamentary committee appearances

Avenues through which APRA is accountable to the Parliament include appearances at Parliament's ad hoc and standing committees and other inquiries, and specific references on legislation or issues of particular interest to parliamentary committees.

During 2017/18, APRA Members and officers made themselves available for 10 public hearings before a range of Senate and House of Representatives committees and/or inquiries.



Performance measurement & reporting

APRA is committed to appropriate transparency in the pursuit of its mandate, and does so through a number of methods including publications, reporting, speeches and appearances before Parliament.

As with other Commonwealth entities, APRA's performance framework and governance and accountability requirements are set out in the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The PGPA Act requires APRA to prepare an Annual Performance Statement, to be included in its Annual Report to Parliament, to report on performance against its rolling four-year Corporate Plan. In doing so, APRA draws on a range of indicators and qualitative information relevant to each of its core functions, capabilities and strategic initiatives. APRA's Annual Performance Statement, together with other information included in its Annual Report, provides an informative summary to Parliament and the public on APRA's performance and how it continues to strengthen its ongoing ability to meet its mandate.

During 2017/18, APRA complied with PGPA Act requirements relating to its **Annual Performance Statement and Corporate Plan**. APRA's 2017-21 and 2018-2022 Corporate Plans were published in August 2017 and August 2018 respectively.

External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI5 that APRA is '**open and transparent in their dealings with regulated entities**'.

Specific feedback included:

- [We have] *enjoyed an excellent working relationship with APRA.*
- *We consider that APRA has maintained open and transparent supervisory processes and has been generally effective in actively contributing to the continuous improvement of prudential regulation frameworks. Looking forward, [we] encourage APRA to continue its transparent approach on initiatives such as the recently announced review of APRA's enforcement strategy.*
- *With regard to APRA's more direct communications with its stakeholders ...our members appreciate APRA's support for ... [our industry] Conference and [our] Policy Roadshow ...APRA's presentations were well received and appreciated by the Roadshow attendees.*
- *I think an important tool for APRA is the Biennial Stakeholder Survey and APRA shouldn't shy away from asking more pointed questions about performance.*

KEY PERFORMANCE INDICATOR 6



Regulators actively contribute to the continuous improvement of regulatory frameworks

Measures of good regulatory performance

6(i)

Regulators establish cooperative and collaborative relationships with stakeholders to promote trust and improve the efficiency and effectiveness of the regulatory framework.

6(ii)

Regulators engage stakeholders in the development of options to reduce compliance costs. This could include industry self-regulation, changes to the overarching regulatory framework, or other strategies to streamline monitoring and compliance approaches.

6(iii)

Regulators regularly share feedback from stakeholders and performance information (including from inspections) with policy departments to improve the operation of the regulatory framework and administrative processes.

APRA specific measures

6.1

Development of standards includes a consultation process consistent with the Office of Best Practice principles including preparing Regulation Impact Statements, public release of stakeholder submissions and a response to submissions.

6.2

Feedback mechanisms are available and made known to all stakeholders.

6.3

Feedback is collected and publicly reported from biennial stakeholder surveys.

APRA's self-assessment against KPI 6

APRA continued to deliver reforms to the prudential framework across all regulated industries during the year through a thorough and consultative policy development process consistent with OBPR requirements.

APRA maintained cooperative and collaborative relationships with key stakeholders and adopted a thorough consultation process to gather feedback as part of continuously evolving the prudential framework across all regulated industries.

APRA also played an active role in relevant domestic and international groups and forums to remain informed on, and contribute to, best practice regulatory developments.

APRA regularly engages with stakeholders on suggestions for improvement. APRA has conducted comprehensive biennial stakeholder surveys since 2009 covering a broad range of stakeholders. The last survey was conducted in 2017 with results published on APRA's website on 10 October 2017. Survey feedback received from APRA's key stakeholders is a valuable input to the evolution of APRA's regulatory frameworks and practices.

In 2017/18, the IMF commenced its Financial Sector Assessment Program (FSAP) which includes an assessment of compliance with international best practice principles. The 2018 Australian FSAP was completed in November 2018 with the IMF expected to publicly release its final reports in early 2019. APRA, together with other Council of Financial Regulator (CFR) agencies look forward to receiving the IMF's independent assessments and recommendations. APRA views the FSAP process as an opportunity for improvement, which is consistent with the 2017 stakeholder survey results where around **75 per cent** of respondents considered the alignment of APRA's prudential standards with international best practice standards as important.

Supporting evidence



Prudential framework enhancements

APRA released or significantly progressed a number of enhancements to the prudential framework during the year. Key developments included:

- the calibration of benchmarks for 'unquestionably strong' capital ratios for authorised deposit-taking institutions (ADIs);
- proposed revisions covering capital, large exposures and counterparty credit risk for ADIs;
- risk management prudential requirements for private health insurers; and
- industry consultation on strengthening the focus on member outcomes by superannuation entities.

In recognition of the growing threat posed by cyber-crime to financial institutions, APRA introduced a new prudential standard on information security management to apply across all regulated industries. The new standard was finalised in November 2018 and comes into affect from 1 July 2019.

APRA provided input to the Australian Government across a range of other legislative initiatives throughout the year designed to strengthen the prudential framework, including the new Banking Executive Accountability Regime (BEAR) and various reforms in superannuation.

APRA also worked closely with Treasury to progress the *Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018* to strengthen APRA's crisis management powers which are critical to its ability to plan for, and act promptly to effectively deal with, failures and crises in a manner that protects beneficiaries and promotes financial system stability.



Prudential framework consultations

During 2017/18, APRA progressed 31 separate consultation packages covering enhancement to the prudential framework. The spread across regulated industries is provided in the table below.

ADI	Life Insurance	Private health Insurance	Superannuation	Cross Industry
12	5	2	6	6

APRA's consultation process included public release of non-confidential stakeholder submissions and responses to submissions on APRA's website.

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

APRA's consultation packages provide a good base for consultation with industry?

- 84% of survey respondents agreed or strongly agreed,
- 14% were neutral and
- 2% disagreed or strongly disagreed.



Post implementation reviews

Case example: Superannuation prudential framework

APRA is undertaking a comprehensive post-implementation review of the superannuation prudential framework introduced in 2013, following the review into the governance, efficiency, structure and operation of Australia's superannuation system, referred to as Stronger Super. The purpose of review is to determine whether the prudential and reporting standards (and related guidance material) have achieved their objectives and remain fit for purpose.

Consultation with stakeholders is a key part of the post-implementation review. During the consultation period, stakeholders have the opportunity to lodge written submissions, attend roundtable discussions and engage in formal and informal bilateral meetings. APRA expects to release the outcomes of the review by early 2019.



Prudential best practice

In delivering policy reforms, APRA continued to play an active role in relevant domestic and international groups and forums for banking, insurance and superannuation throughout the year to bring an Australian perspective to efforts to strengthen the global financial system, to remain informed on (and contribute to) best practice international developments and to determine how they should be applied in the Australian context.

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statement of relevance.

The alignment of APRA's prudential standards with international best practice standards for your industry is important for your entity?

- 74% of survey respondents agreed or strongly agreed;
- 25% were neutral and
- 1% disagreed or strongly disagreed.



Regulatory liaison activities

Domestically, APRA has strong working relationships with Australia's key financial regulatory agencies. ASIC, APRA, RBA and Treasury cooperate on a multilateral basis through their shared membership of the Council of Financial Regulators (CFR).

In addition to collaborating with other CFR agencies, APRA actively engaged with a range of other agencies/ bodies throughout the year including AUSTRAC and the Australian Competition and Consumer Commission (ACCC). Engagements are typically guided by a Memorandum of Understanding (MoU) which, although not legally binding, signifies a commitment to cooperate and establishes practical arrangements for sharing information of mutual interest.

As at June 2018, APRA had MoUs and letters of exchange with nineteen domestic and 33 international agencies.

APRA is one of 68 signatories to the International Association of Insurance Supervisors (IAIS) multilateral MoU arrangements that now cover agencies supervising insurers which write around 72 per cent of global premiums.

During 2017/18, APRA:

- was a member of 12 prudential-related international organisations;
- liaised with / assisted 8 prudential-related international organisations; and;
- received visits from 37 international delegations from 17 countries, most commonly from South Korea and Indonesia.



Demonstration of APRA's core 'values' including collaboration

APRA's 2017 Biennial Stakeholder Survey asked stakeholders to rate their level of agreement with the following statements of relevance.

Collaboration (staff demonstrate)?

- 82% of survey respondents stated staff demonstrate to a significant extent, or always demonstrate; and
- 17% stated staff demonstrate to some extent, or never demonstrate.

Integrity (staff demonstrate)?

- 96% of survey respondents stated staff demonstrate to a significant extent, or always demonstrate;
- 3% stated staff demonstrate to some extent, or never demonstrate.

Professionalism⁶ (staff demonstrate)?

- 94% of survey respondents stated staff demonstrate to a significant extent, or always demonstrate;
- 6% stated staff demonstrate to some extent, or never demonstrate.

Post the 2017 Biennial Stakeholder Survey, APRA refreshed its core 'values' (**Integrity, Collaboration, Accountability, Respect** and **Excellence**) to underpin its organisational culture.

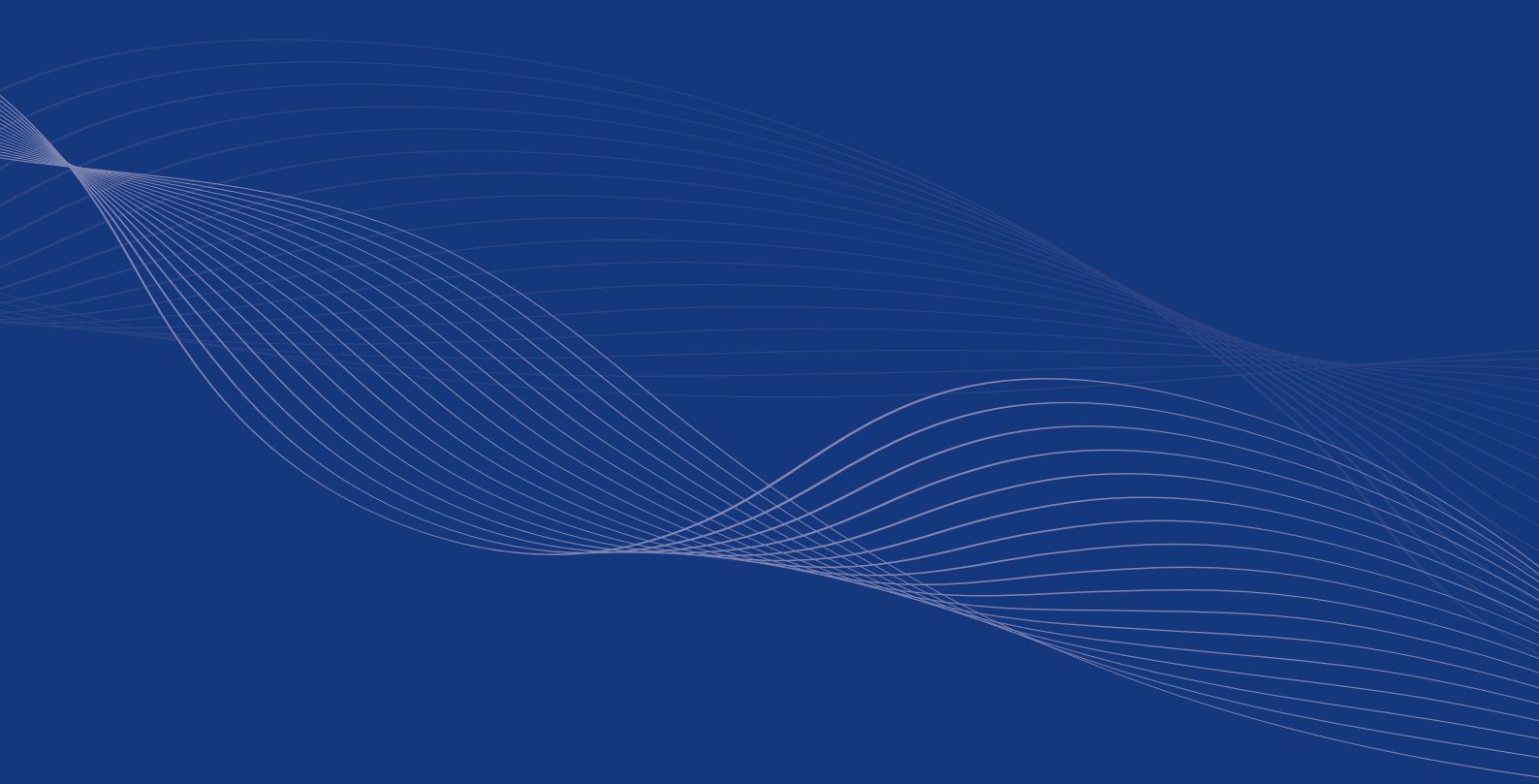
External stakeholder validation

In the validation process, industry associations generally agreed with APRA's self-assessment for KPI6 that APRA '**actively contribute to the continuous improvement of regulatory frameworks**'.

Specific feedback included:

- *The transition by APRA to the new CPS 220 risk standards represents a high watermark for successful and effective consultation ... Respectful and highly effective engagement between industry and APRA has resulted in new standards ... that will serve in the best interests of consumers long into the future.*
- *There are many instances where APRA has enhanced the efficient operation of regulated entities through its ongoing and constructive engagement.*

6. Professionalism⁶ was one of APRA's core organisational values when the 2017 biennial stakeholder survey was conducted.



 **APRA**