



Inquiry probes bank supervision

The House of Representatives Economics Committee is investigating the operations of the prudential regulator of Australia's banks, the Australian Prudential Regulation Authority (APRA).

The investigation, which is separate from matters raised in the collapse of insurer HIH, is building on work done by the Australian National Audit Office (ANAO).

In a report to Parliament this year (*Report 42: Bank Prudential Supervision – Australian Prudential Regulation Authority*) the ANAO raised a number of issues regarding APRA's supervisory practices.

In its inquiry, the House Economics Committee, chaired by David Hawker (Member for Wannan, Vic), will seek to expand on the ANAO's audit report, reviewing, among other things, APRA's:

- levy arrangements;
- resourcing;
- risk-based supervisory methodology; and
- compliance with international standards for prudential supervision.

The inquiry dovetails with the Committee's standing reference into APRA.

In the Committee's last report on the regulator, it expressed concerns about many of the same things now of concern to the audit office (see *Who will guard the guardians?*, tabled November 2000).

These concerns included:

- the adequacy and quality of APRA staff (particularly in the areas of superannuation and insurance regulation);
- increasing the acceptance and understanding of APRA's risk-based approach to the supervision of financial institutions; and
- the need for APRA to be more publicly accountable for its activities, which includes continuing its work on developing clear indicators of its performance.

For more information:

Visit: www.apr.gov.au/house/committee/efpa/apraaudit/index.htm

Call: (02) 6277 4587

Email: efpa.reps@apr.gov.au

What's an APRA?

The Australian Prudential Regulation Authority (APRA) was established on 1 July 1998 as the prudential regulator of:

- banks and other Authorised Deposit-taking Institutions (ADIs);
- life insurance companies (including friendly societies);
- general insurance companies;
- superannuation funds; and
- retirement savings accounts.

The establishment of APRA was a direct result of the recommendations of the Wallis Inquiry into Australia's financial system, which released its report in 1997.

Prior to APRA's establishment, prudential supervision was conducted by the Reserve Bank of Australia.

APRA is funded by appropriations based on levies from the institutions it regulates. In 1999–2000, some \$27.1 million was collected from banks. In that year, APRA budgeted to spend \$10.4 million on direct supervision of banks, with the remaining funds budgeted to be spent on the development of prudential policies and standards, administrative support and the consumer protection functions of the Australian Securities and Investments Commission (ASIC).

What's prudential supervision?

Prudential supervision aims to protect individual depositors by ensuring that financial institutions adopt prudent risk management practices to ensure their continuing solvency and liquidity.

Maintaining the stability of the financial system is of high importance to the economy as a whole, because major disturbances in financial markets, or the failure of financial institutions, can involve considerable costs to economic growth and costs to the taxpayer.

About the banks

At the commencement of ANAO's audit, there were 50 banks licensed to operate in Australia, comprising 15 Australian-owned banks, 10 subsidiaries of foreign banks and 25 branches of foreign banks. As at December 2000, \$760 billion in assets were on the Australian books of banks operating in Australia, with the four major banks representing \$510 billion or 67% of this amount, followed by other Australian-owned banks (17%), foreign bank branches (10%) and foreign bank subsidiaries (6%).