

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 7

Plugging the Gaps

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SUMMARY PAPER

The Australian Experience

Summary

- This presentation will focus on how Australia applies its experience in plugging regulatory gaps by outlining:
 - Australia's regulatory philosophy and objectives;
 - key elements of the regulatory framework, including governance and risk management;
 - the importance of international engagement; and
 - future challenges for Australia.

Australia's regulatory philosophy and objectives

- Australia's retirement income system has three pillars:
 - voluntary superannuation and other private savings;
 - compulsory superannuation savings through the Superannuation Guarantee contributions; and
 - a means tested Age Pension and associated social security arrangements.
- Over the last decade, the total assets held by Australian financial institutions have tripled, while the assets of superannuation funds have more than doubled. Superannuation is now a dominant financial asset for individuals and a significant part of the household balance sheet.
- The regulatory arrangements applying to superannuation are therefore crucial to the wellbeing of Australians.
- Australia takes a principles-based approach to the prudential supervision of the financial sector, including superannuation trustees and their entities. The Australian Prudential Regulation Authority (APRA), as the prudential regulator, has adopted a proactive, preventative role, centred on close monitoring of risk management, resource adequacy and effective governance arrangements.
- This approach aims to ensure that superannuation entities have the organisational culture and systems that allow them to mitigate investment risk.

Prudential framework

- Australia's prudential framework applies to banks and other authorised deposit-taking institutions and general and life insurers, as well as superannuation entities. It has the dual aims of ensuring that these entities:

- are managed prudently so that they can meet their financial promises to consumers; and
 - give consumers adequate information about the nature and performance of their investments.
- This regulatory framework is intended to ensure that the entity has systems for identifying, measuring and managing risks to minimise the risk of failure.
 - The prudential framework is important to community confidence in the stability of investment institutions and expectations about the safety of investments.
 - Individuals benefit in saving for an adequate income in retirement, while the government benefits from a reduced demand on the age pension.
 - The major elements of this principles-based approach to prudential regulation are a trust structure with minimum entry requirements, investment management requirements, and regulator scrutiny and enforcement.

Overseas engagement

- Treasury and APRA engage with international groups and forums pursuing reforms to international regulatory frameworks and meet with supervisory agencies from a number of countries.
- APRA undertakes a range of activities in the Asia-Pacific region targeted at the development of financial sector regulatory architecture and capacity building for domestic prudential supervisors.
- APRA is a foundation member of the International Organisation of Pension Supervisors, which has developed principles of private pension supervision that will facilitate international comparisons between member states that adopt them.

Future challenges

- Future challenges for Australia include:
 - reviewing the success of the licensing framework now that it has been in place for two years, particularly in light of the recent market turbulence;
 - ensuring that the regime continues to keep pace with market developments;
 - addressing complexity.