



Regulation: Responding to Market Change or Driving it?

Actuaries Institute *Banking on Change* Seminar

Sydney, 16 September 2015

Wayne Byres
Chairman
Australian Prudential Regulation Authority

Responding to or driving change?



Regulation both drives change and responds to it

- intended to drive behaviour
- must respond to market development

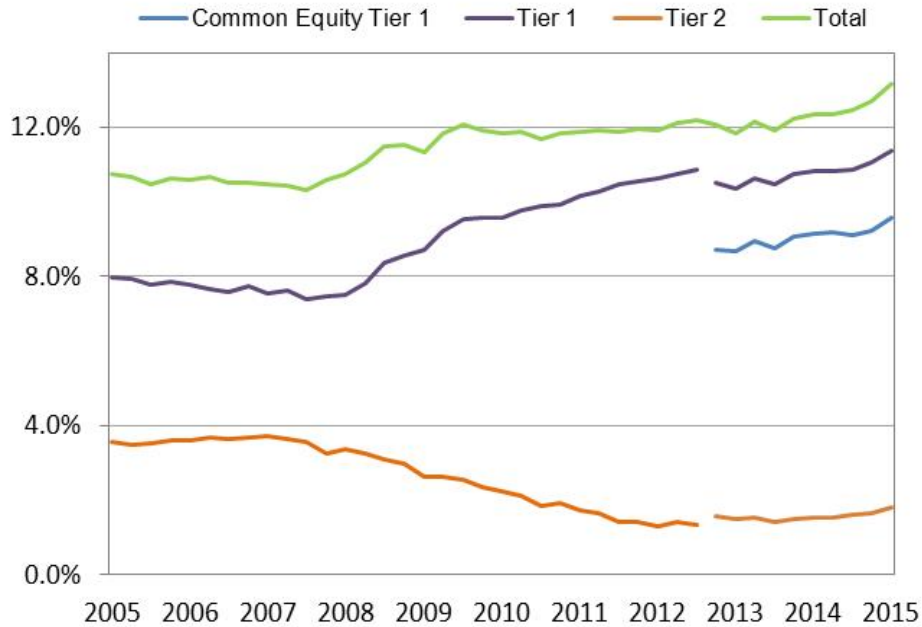
International reforms and FSI have similar goals

- resilient/unquestionably strong ADIs able to withstand stress
- act as shock absorber; don't exacerbate problems

Capital strength

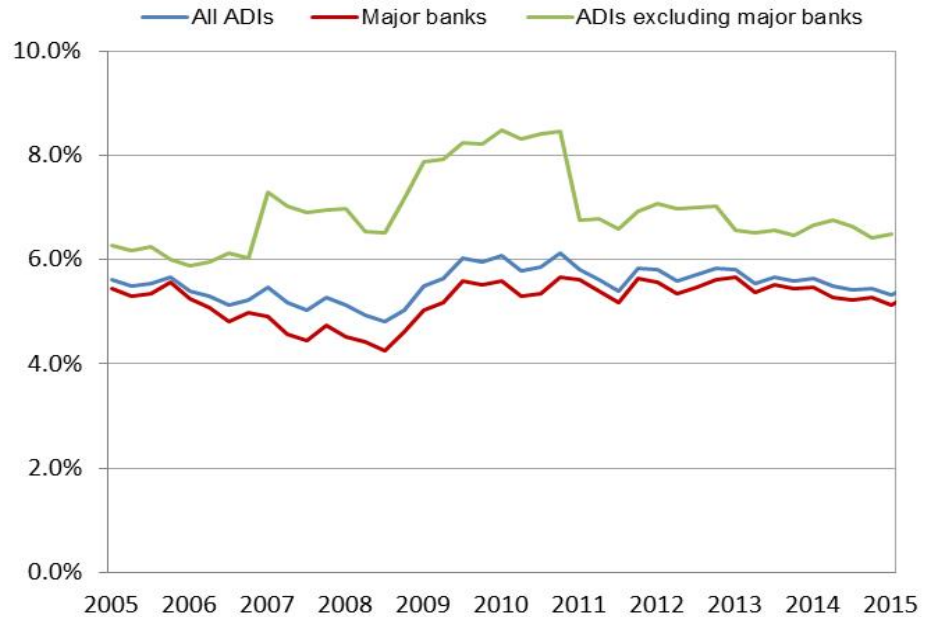


ADIs' capital ratios



Excludes 'other ADIs'

ADIs' shareholders' funds as a porportion of total assets

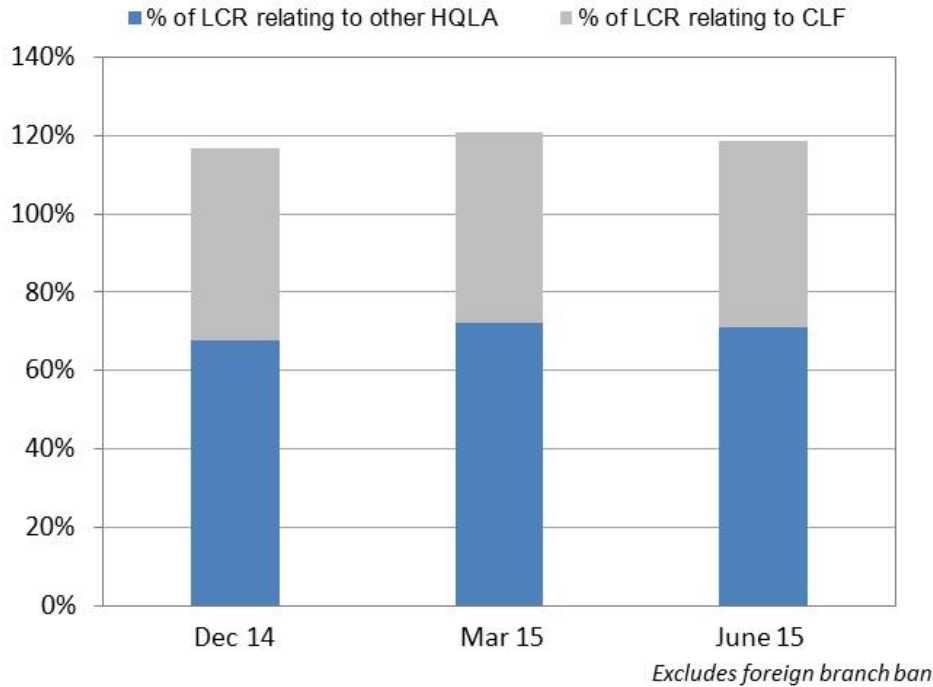


Excludes foreign branch banks and 'other ADIs'

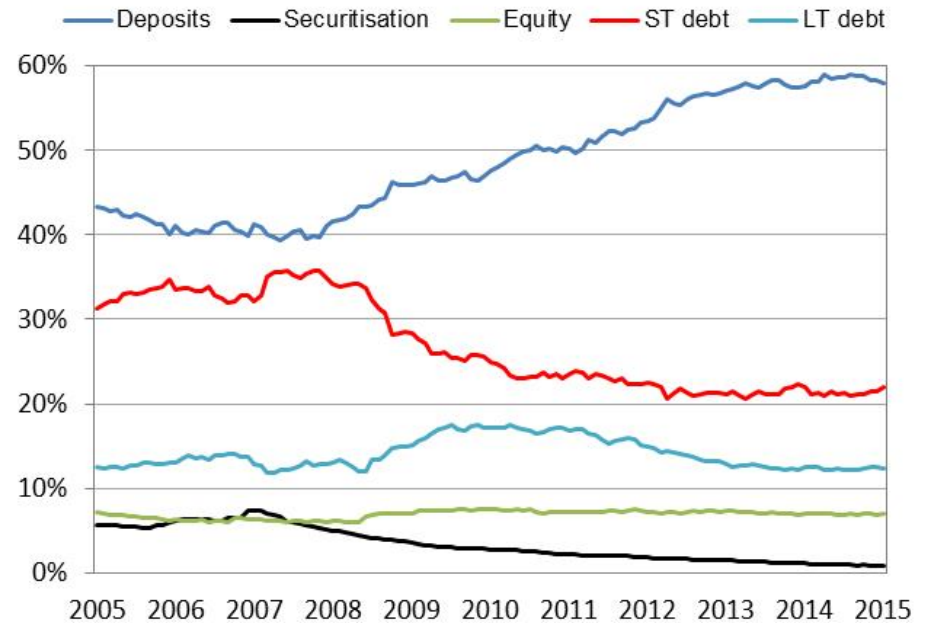
Liquidity and funding



ADIs' Liquidity coverage ratio



Banks' funding composition, % total funding



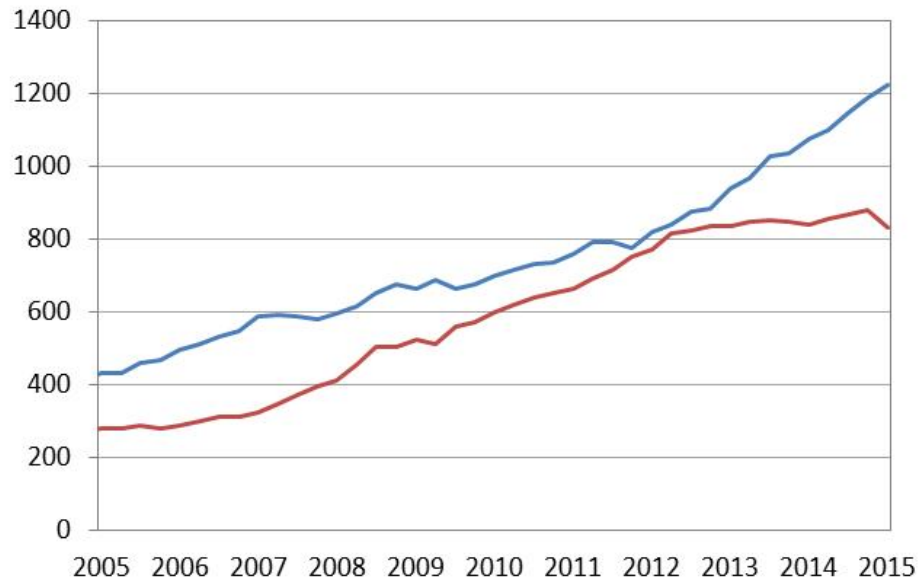
Source: APRA, RBA

Liquidity and funding



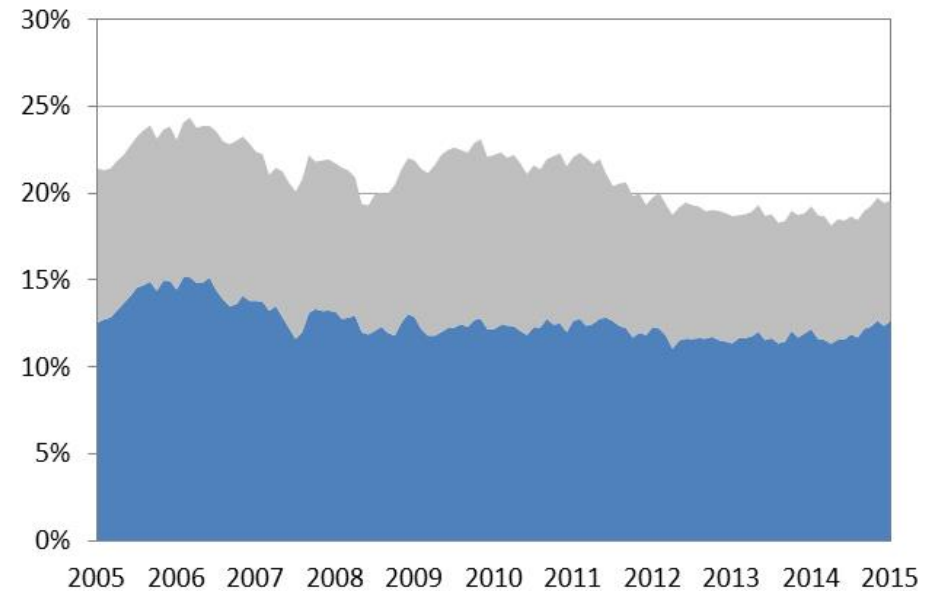
Banks' deposits, \$bn

— At call deposits — Term deposits



Banks' wholesale offshore funding, % total funding

■ Short-term offshore ■ Long-term offshore

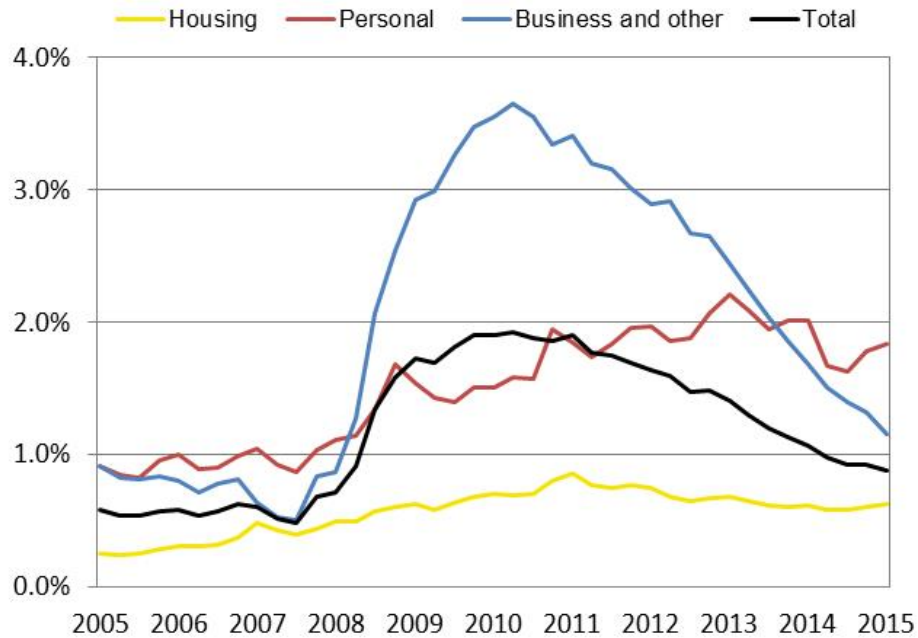


Source: RBA

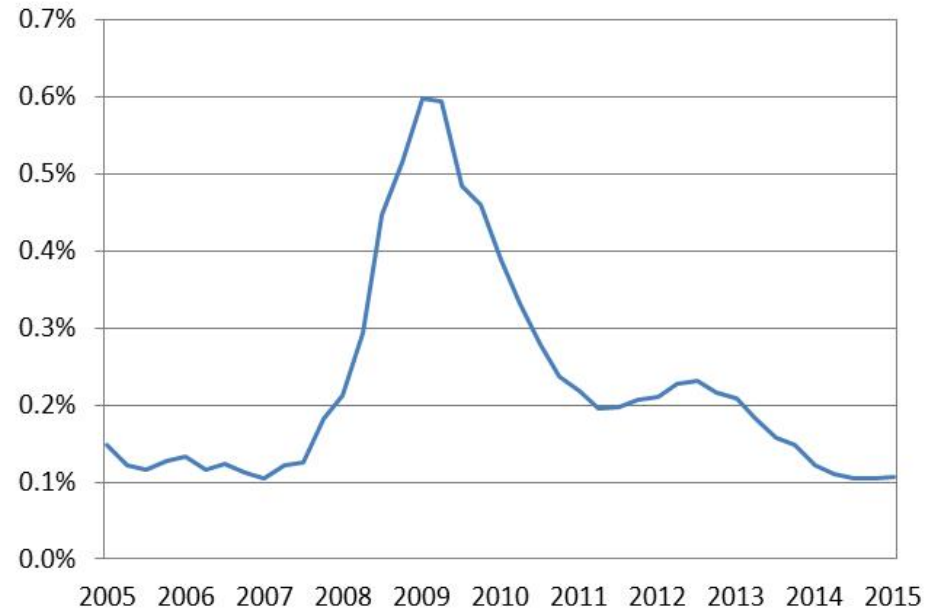
Asset quality



Banks' non-performing loans by portfolio, % of total



ADIs' charge for bad or doubtful debts (% of total assets)

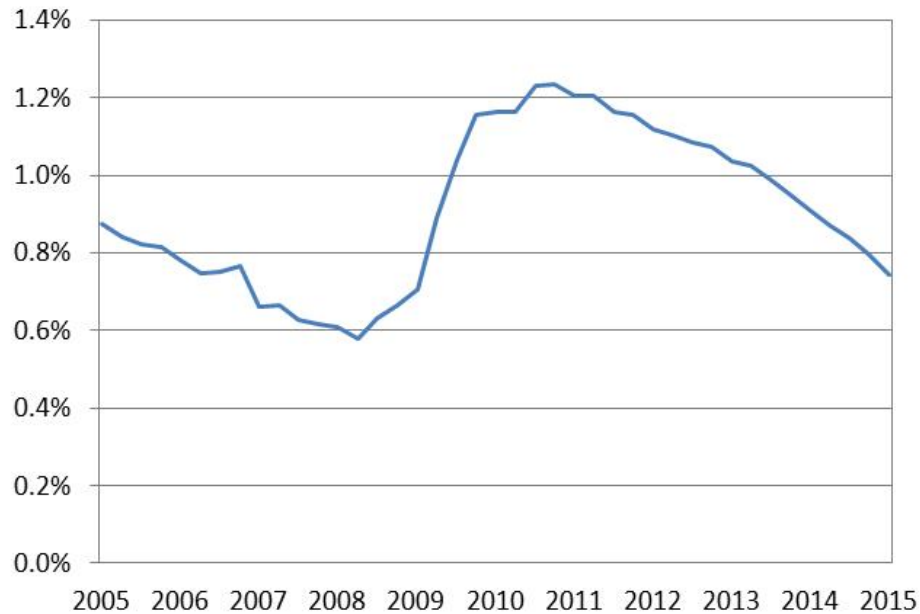


Excludes 'other ADIs'

Asset quality

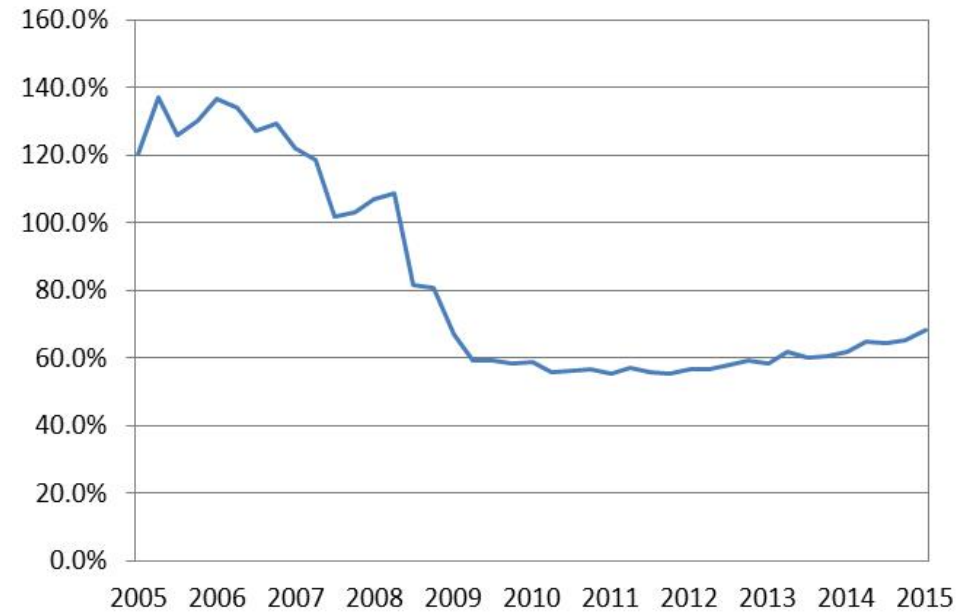


ADIs' lending provisions to gross loans and advances



Excludes 'other ADIs'

ADIs' lending provisions to non performing loans

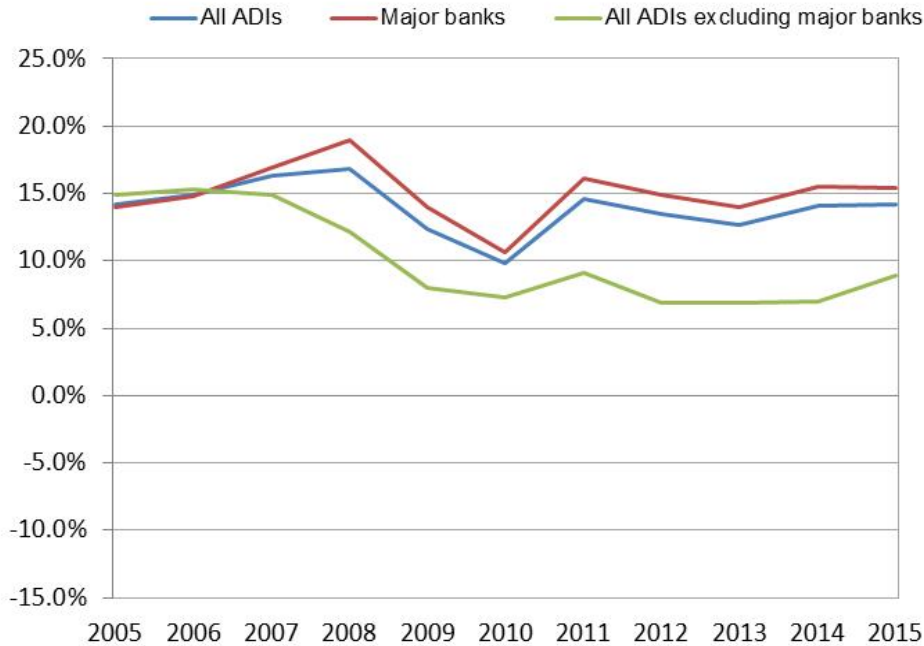


Excludes 'other ADIs'

Earnings

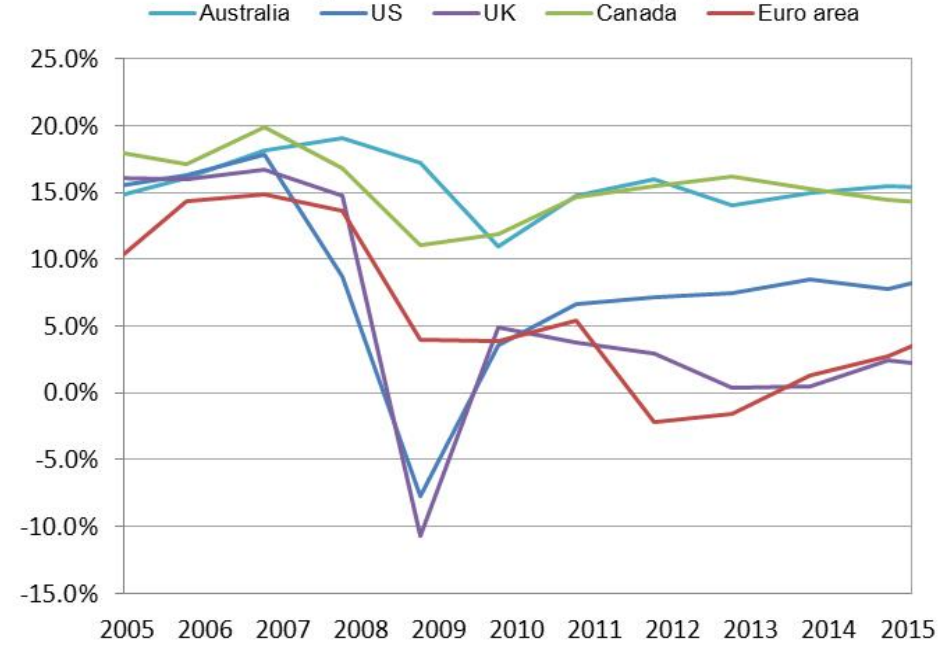


ADIs' return on equity



Excludes foreign branch banks and 'other ADIs'

Large banks' return on equity



Return on equity after tax and minority interests. Adjusted for significant merges and acquisitions; reporting periods vary across jurisdictions

Source: RBA



Qualitative factors

Governance and culture

- traditional focus on governance and risk management
- increased prominence of culture and remuneration
- critical to ensuring financial strength not eroded

Preparedness for the worst

- greater emphasis in post-crisis period
- ADIs to have recovery plans
- official sector resolution plans if recovery plans not enough

In both cases, more to do

Concluding remarks



Measuring resilience (and unquestionably strong) requires judgement

- more than just capital

Health and resilience of Australian banking sector has improved

- and has been able to adjust to changes in orderly manner

More change coming



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