



Australian Banking
Association



Insurance Council
of Australia

29 April 2022

Ms **Redacted**
Executive Director Policy and Advice Division
Australian Prudential Regulation Authority
Level 12, 1 Martin Place
Sydney NSW 2000

By email: **Redacted**
CC: **Redacted**

Dear Ms Roberts,

Crisis resolution – Policy development

We are writing to you on behalf of the Australian Banking Association (**ABA**) and the Insurance Council of Australia (**ICA**) in relation to the manner in which the Australian Prudential Regulation Authority (**APRA**) is developing the policy framework (*draft Prudential Standard CPS 900 Resolution Planning (CPS 900)*) within which it will apply its crisis resolution powers.

The banking and insurance industries are supportive of APRA's objective to establish this policy framework. We recognise the desirability of the orderly resolution of a regulated entity in the extremely rare event of its business failure and that any losses should preferably fall on debt and equity investors.

However, we feel that the process by which APRA's resolution policy framework is being developed should be modified to allow for greater industry engagement, to reduce uncertainties and to reduce the regulatory burden, particularly of entities selected in future pilot exercises.

The banking and insurance industries are concerned that the current policy development process:

- provides limited opportunity for the two industries to meaningfully engage in the development of CPS 900, this is largely due to a lack of detail, including on key terms, such as 'critical functions';
- is likely to disproportionately burden entities selected for future pilot exercises and builds in inefficiencies which could be minimised by first developing elements of the framework that are common to all regulated entities. Furthermore, the approach could generate competitive distortions by incentivising entities to exit particular market segments or products to avoid being captured under CPS 900; and
- implements an untested single one-size fits all approach for all financial services industries, which has not been implemented globally and is arguably not international best practice.

In our view, the current process does not align with APRA's stated intention of seeking to "minimise "peacetime" cost and disruption"¹.

¹ Roberts, R. (2022) [Failing to plan is a plan to fail](#), Speech to Risk Management Institute of Australasia Annual Conference 2022, 31 March



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To reduce these avoidable negative outcomes and to allow the banking and insurance industries to more constructively engage in the policy development process, the ABA and ICA strongly recommend that APRA:

- 1) revise its policy development and industry engagement process, for example, consulting on the draft guides alongside the draft Standards;
- 2) develop its policy position on elements of the framework that are common to all regulated entities, before engaging additional entities in pilot exercises; and
- 3) consider developing industry specific Standards and Guides.

Separately, the ABA has provided more detailed feedback on CPS 190 and CPS 900 as a part of the *Strengthening Crisis Preparedness* consultation.

If you require further information or would like to discuss any of the content of this letter, please do not hesitate to contact **Redacted**

Regards,

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Brendon Harper
Policy Director
Australian Banking Association

Aparna Reddy
General Manager, Policy – Regulatory Affairs
Insurance Council of Australia

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

About the ICA

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 95% of private sector general insurers. As a foundational component of the Australian economy the general insurance industry employs approximately 60,000 people, generates gross written premium of \$59.2 billion per annum and on average pays out \$148.7 million in claims each working day (\$38.8 billion per year).