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Dear Ms Waterford

## **REGULATOR PERFORMANCE FRAMEWORK**

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to provide feedback to the Australian Prudential Regulatory Authority (APRA) on its proposed evidence metrics in response to the Government's Regulator Performance Framework. We recognise the importance of metrics as a standard of measurement to quantify components of an organisation's performance. This is important in order to determine a base level from which future improvement can be benchmarked against and to determine whether Key Performance Indicators (KPI) are met.

The Insurance Council considers that the evidence indicators under each KPI outlined by APRA could be improved through incorporating more quantifiable measures. We recognise that many of the evidence indicators outlined are processes that APRA largely already has in place. Subsequently, additional metrics to objectively measure and benchmark performance would provide a more rigorous method to test APRA's performance against the Regulator Performance Framework.

We understand that identifying performance metrics for regulatory activities is a difficult exercise as many indicators are hard to measure. However, the Insurance Council considers that there is a great deal of value in measuring APRA's performance to genuinely lower the compliance burden on regulated entities and ensure that APRA optimises the use of resources employed to achieve its regulatory objectives.

The publicly reported biennial stakeholder survey provides a basis on which APRA could develop key performance metrics. However, a survey conducted annually rather than biennially would be more effective at tracking APRA's performance. A more regular survey would enable concerns regarding performance to be identified and acted upon within a more realistic timeframe.

Targets for improved performance need to be set at an appropriate level and regulators held accountable for meeting these targets. As a result, we consider that a publicly reported survey alone is unlikely to drive improved performance. For example, results from the biennial survey show a steady decline in APRA consideration of the costs of regulation imposed on industry. Regarding the question "Changes to APRA's prudential framework consider the costs of regulation imposed on industry", the average survey response was 2.9 in 2009, declining to 2.8 in 2011 and declining further to 2.6 in 2013. This consistent

weakening of scores<sup>1</sup> over a period of six years is particularly concerning and suggests that collecting and publishing stakeholder survey results will not necessarily lead to an improvement in APRA's performance.

In order to meet KPIs, we consider that APRA should demonstrate a measurable annual improvement for related performance indicators until a certain threshold is achieved. We consider that modest improvements each year by a certain number of percentage points would be achievable. Given that APRA's overall expenses were above \$115 million per year for the 2013 and 2014 financial years<sup>2</sup> and largely recovered from industry, we consider that APRA should be accountable for costs ultimately borne by regulated entities.

Metrics to measure APRA's performance could be derived from the results of survey questionnaires, review by an independent third party or data recorded internally. We outline below examples of questions where metrics could be developed under the associated KPI, many of these metrics are already included in the APRA biennial survey.

### **KPI 1: Regulators do not unnecessarily impede the efficient operation of regulated entities**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10). Set an annual increase as a measurable target:*

- APRA enforces its prudential requirements in the most efficient manner possible and adopts materiality levels consistent with APRA's risk assessment approach
- The effort required of your organisation during APRA's prudential reviews is appropriate
- APRA's prudential reviews of your organisation are appropriately spaced apart in their timing
- APRA's prudential reviews are attended by appropriately skilled staff and should usually be limited to no more than five attendees
- The information collected by APRA in the course of supervision is adequate to assess risks in your organisation and in accordance with materiality levels
- APRA has demonstrated improvements to the D2A process
- APRA uses common accounting treatments where possible
- APRA has reasonable thresholds for triggering queries on data returns and adopts appropriate materiality levels
- APRA is timely in response to queries
- APRA is flexible in its arrangements in scheduling prudential reviews (for example, provides a range of dates)

Survey questions could be supplemented by targeted focus groups where required.

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<sup>1</sup> The change is statistically significant between each of the survey periods (sample sizes are n=392, n=369 and n=312 for respective survey periods)

<sup>2</sup> APRA Annual Report 2014

## **KPI 2: Communication with regulated entities is clear, targeted and effective**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10). Set an annual increase as a measurable target:*

- APRA is effective in communicating the findings of supervisory visits to your organisation
- APRA's information requests are concise and targeted
- APRA's written correspondence with regulated entities is clear, targeted and effective
- APRA quickly responds (and appropriately addresses) questions relating to its correspondence with your organisation
- APRA directs correspondence to the appropriate persons, rather than directing all matters (including non-material matters) to main Chairman or Group CEO.
- APRA's correspondence clearly outlines a process to discuss or challenge decisions made by "APRA decision maker"
- APRA adopts reasonable communications standards (for example, same day responses to emails would be considered inappropriate unless on an urgent nature)

*An annual external review by an independent third party:*

- An independent party could review a sample of APRA's communication with regulated entities, and assess it against a benchmark.

## **KPI 3: Actions undertaken by regulators are proportionate to the regulatory risk being managed**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10). Set an annual increase as a measurable target:*

- During prudential reviews, APRA correctly assesses the importance and materiality of issues that are subject to APRA requirements
- In the course of supervision to assess risks in your organisation, APRA does not collect information that is beyond what is reasonably necessary
- APRA takes action only when there is proportionate regulatory risk
- APRA is effective in identifying risks across your industry in general
- APRA is effective in identifying risks in that part of your organisation that APRA regulates

*Internal data recording (appropriate targets set for each):*

- Frequency of visits to regulated entities
- Number APRA staff at each supervisory visit (including explanation / clarification of circumstances in which more than five staff attend a supervisory visit)

*An annual external review by an independent third party*

- An independent party could review APRA's actions (in the context of the regulatory risk being managed), and assess it against a benchmark.

## **KPI 4: Compliance and monitoring approaches are streamlined and coordinated**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10). Set an annual increase as a measurable target:*

- APRA meets its stated approach of being consistent in its supervision

- APRA coordinates and streamlines its compliance and monitoring approaches where possible

*Internal data recording (appropriate targets set for each):*

- Number of repeat information requests made to regulated entities
- Number of documents produced by each regulated entity throughout a calendar year
- Number of APRA only requests for information compared to those where APRA has been able to co-ordinate activity with another regulator or service provider.
- Percentage of inspection visits coordination with other regulators
- Proportion of information gained from other sources, with input not sourced from regulated entities

*An annual external review by an independent third party*

- An independent party could assess APRA's effectiveness of streamlining and coordinating its compliance and monitoring approaches against a benchmark.

#### **KPI 5: Regulators are open and transparent in their dealings with regulated entities**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10). Set an annual increase as a measurable target:*

- APRA is effective in is open and transparent in its dealings with your organisations

*An annual external review by an independent third party*

- An independent party could assess APRA's level of openness and transparency in dealing with regulated entities against a benchmark.

#### **KPI 6: Regulators actively contribute to the continuous improvement of regulatory frameworks**

*Use results from survey questionnaire to determine simple averages (e.g. respondents rate performance on a scale of 1 to 10):*

- APRA meets its stated approach of being forward looking in its supervision
- APRA meets its stated approach that its publications address current and emerging issues or developments in the financial sector in Australia and overseas
- APRA provides advance notice of future publications and targeted publication dates
- APRA has made necessary improvements its regulatory frameworks

If you require further information in relation to this submission, please contact Mr John Anning, Insurance Council's General Manager Policy – Regulation Directorate by email: [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au) or tel: 029253 5121.

Yours sincerely



Robert Whelan  
Executive Director & CEO