

Article Information

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APRA applies additional requirements to three major banks in response to self-assessments

APRA has reported that they have ordered major banks to put aside additional capital in response to the self-assessments they produced.

On 11 July 2019 APRA reported that they have ordered Westpac, ANZ and National Australia Bank to put aside an additional \$500 million of capital to address major flaws in their culture and governance.^[1] APRA wrote to each of the banks to advise them that the capital add-on will apply until the banks complete their remediation process, strengthen risk management and close the gaps identified in their self-assessments.^[2]

These self-assessments follow the APRA-initiated Prudential Inquiry into CBA which saw them apply a \$1 billion dollar capital add-on to the bank.^[3] The inquiry was in response to a series of shortcomings that damaged CBA's reputation and found non-financial problems being operational, compliance and conduct problems to be the bank's biggest issues. The Inquiry's Final Report found great complexity, weak incentives and long-standing gaps in the bank's culture. APRA acknowledged that such issues are not unique to CBA and therefore, asked other ADIs, insurers and superannuation licensees to conduct their own-self assessment.

The Final Report identified 35 recommendations based upon five pillars of change:

- more rigorous board and executive committee governance of non-financial risks;
- exacting accountability standards reinforced by remuneration practices;
- a substantial upgrading of the authority and capability of the operational risk management and compliance functions;
- injection of the "should we" question in relation to all dealings with and decisions on customers; and
- cultural change that moves the dial from reactive and complacent to empowered, challenging and striving for best practice in risk identification and remediation. ^[4]

As a result of the inquiry into CBA, APRA ordered three banks and 33 other financial institutions to submit their detailed self-assessments regarding their management governance and culture.^[5] The inquiry resulted in Westpac, ANZ and NAB having to hold additional capital and complete customer remediation programs and fix the problems identified in their self-assessments.^[6] After the self-assessment, Westpac admitted to the culture issues existent within the company as multiple failures in the inner-workings of the bank was uncovered.^[7] Hence, they addressed their need to improve non-financial risk management and oversight. Although some banks chose to publish their self-assessments, an APRA spokeswoman said they would not be publishing them as they were commissioned on a confidential basis.

^[1] APRA, '[APRA applies additional requirements to three major banks in response to self-assessments](#)' (Media release, 11 July 2019).

^[2] Ibid.

^[3] APRA, 'Information Paper - Self-assessments of governance, accountability and culture' (22 May 2019) 4.

^[4] Ibid 7.

^[5] Ibid 4.

^[6] Above n 1.

^[7] James Fernyhough and James Thomson, '[Culture to cost big three banks \\$500m](#)' (Australian Financial Review, 11 July 2019).