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APRA targets bank culture and remuneration

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APRA chairman Wayne Byres has revealed that the prudential regulator is adopting a 'focused and intensive' approach to concerns with the culture of Australia's banks.

Speaking at a Centre for International Finance and Regulation workshop on the Financial System Inquiry's final report in Sydney last week, Mr Byres said the regulator will examine how remuneration might be driving bad behaviour.

"We would much rather [have] bank management and bank boards run themselves in a way that was more focused on long-term sustainability than 'Can I meet my earnings target for the next quarter?'," he said.

"Ultimately, if we are to avoid problems repeating, cultural change is actually at the heart of it and incentives are at the heart of cultural change – so that is where we need to look.

"I don't want to suggest that means regulators have to start setting prescriptive incentive frameworks, but certainly we are now prodding and trying to push people to look harder at these issues."

Mr Byres added that lenders should not expect regulators to "come along and ensure everything will be okay if industry doesn't choose to take that and do something itself".

The APRA chairman's comments follow those made by his deputy chairman, Ian Laughlin, who spoke at length about the importance of risk culture in Australian financial institutions last year.

Speaking at the 31st Governance Institute of Australia national conference in Brisbane in December, Mr Laughlin said APRA is giving "increasing attention" to the culture, values and behaviour of Australian lenders.

"It is generally accepted that inappropriate culture was at the root of many of the problems that emerged in the GFC (such as the packaging of poor quality mortgages into AAA securities and the way they were sold)," he said.