

APRA'S RESEARCH INTERESTS

APRA is providing the following information to assist researchers, research institutions, and funding bodies to better understand its research interests.

APRA's role and mission

APRA's main role is prudential supervision and regulation of Australian banks, building societies, credit unions, life insurers, general insurers, friendly societies, superannuation funds and other relevant entities. In this role, APRA seeks to ensure that, under all reasonable circumstances, regulated institutions meet their financial promises within a stable, efficient and competitive financial system. Through this work, APRA also promotes financial system stability in Australia.

APRA has two auxiliary missions: it is a national statistical agency for the Australian financial sector and it administers the Financial Claims Schemes in the authorised deposit-taking institution (ADI) and general insurance industries.

Specific research interests

APRA is interested in research that might support its mission. Research on the economics of APRA-regulated industries, and on the effectiveness or otherwise of regulation, are of general interest. However, such research is not often directly relevant to APRA.

The following specific areas are likely to have more useful application for APRA.

Stress testing

APRA has conducted formal stress testing for more than a decade and has found it a very useful supervisory tool. APRA is interested in research that assists it and industry better define and learn from stress tests. Specific areas of interest include:

- procedures for developing macroeconomic and industry stress scenarios that provide robust but reasonable stresses;
- the mathematics of stress testing (e.g. properly accounting for random variables such as default rates and collateral values);
- understanding second-round stress effects (e.g. if the banking sector is stressed, does the resultant credit tightening create second-order stress?);
- stress testing insurance portfolios for both catastrophic and gradual changes in loss rates;
- stress testing insurance and superannuation portfolios for investment loss; and
- stress testing ADIs and superannuation funds for liquidity shocks.

Many of APRA's prudential capital requirements in the ADI and insurance industries rely upon *de facto* stress tests underpinning the capital calculations. APRA is interested in research on the efficacy of these capital models.

Operational risk

Operational risk is relatively under-researched compared to investment risk, credit risk and traded markets risk. For most APRA-regulated institutions, operational risk has the characteristic that a very high proportion of loss events are tractable to estimate and capitalise, but most losses come from a small number of high value, and hard-to-predict, operational failures.

APRA is interested in research that would increase its ability to:

- identify firm characteristics that are associated with increased incidence of large operational losses;
- require appropriate capital for large and unpredictable losses; and
- identify industry or economic circumstances that are associated with increased incidence of operational losses.

APRA has specifically encouraged the general and life insurance industries to increase their understanding of the drivers of operational losses, and this is an emerging issue for superannuation.

Insurance risks

Some insurance risk is captured through stress testing, as noted above.

APRA has encouraged the general and life insurance industries to develop a deeper understanding of risk margins in insurance valuations.

The general insurance industry and associated service providers have undertaken considerable applied work in catastrophe modelling. APRA is interested in seeing this area investigated in a rigorous way through more academic research and more research specifically focussed upon Australasian hazards, both known and potential.

APRA has supported and partially funded research in Australian demographics, particularly morbidity and mortality. Further research in this area would be directly relevant to the life insurance and superannuation industries, and potentially to the ADI industry.

Superannuation

APRA is interested in research that clarifies how current and prospective superannuation fund members might effectively select trustees, funds and investment options, given the data available in Australia. Similarly, research that assists fund members and other parties assess relative and absolute performance, both retrospectively and prospectively, is of interest.

APRA is interested in research on the extent to which the aggregate investment decisions of superannuation fund trustees might impact upon financial system stability in Australia. In particular, would the relatively high asset allocation to equities create procyclical wealth or other effects during a serious economic downturn?

Financial system stability

APRA is interested in research oriented to better characterising the level of systemic risk in the Australian economy and in the ADI, insurance and superannuation industries. APRA is also interested in research that identifies plausible domestic and external shocks to the Australian economy, and potential methods to protect against or remediate these shocks.

APRA sees less value in research oriented to determining the systemic risk associated with individual financial institutions, compared with research on risk across the whole system.

Statistics

APRA's statistical publications and public databases are available to any user, including researchers. APRA is moving to make more of its statistical data publicly available.

Researchers may request assistance from APRA, via statistics@apra.gov.au, to discuss the publicly available material or, in some circumstances, to seek non-public material from APRA's collections. APRA will only provide non-public material when it is satisfied that its confidentiality and public use requirements will be satisfied and that the effort deployed by APRA is justified by the value of the research to APRA's role and mission.

From time to time, APRA revises its statistical collections and publications. APRA welcomes suggestions from researchers on what data should be collected and how such data might be published.

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