

## Australian Business Economists



Dr John Laker, Chairman  
Australian Prudential Regulation Authority

*The Australian banking system under stress?*

09 June 2010, Sofitel Sydney



APRA

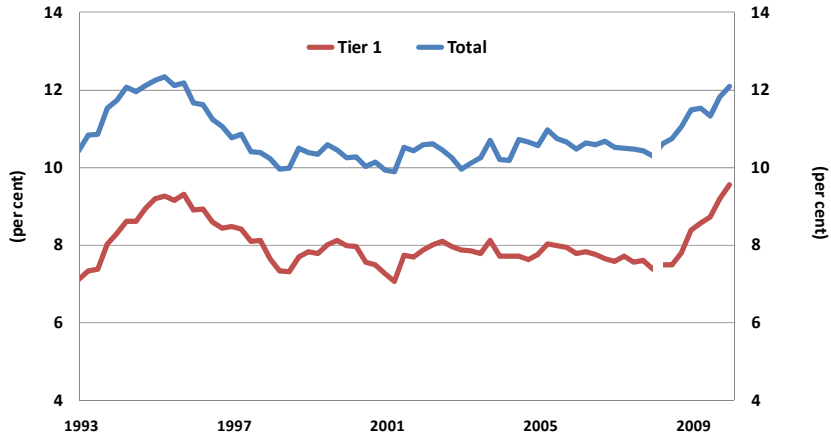
# THE AUSTRALIAN BANKING SYSTEM UNDER STRESS?

John F Laker  
Chairman



### ADI capital

as a percentage of risk-weighted assets

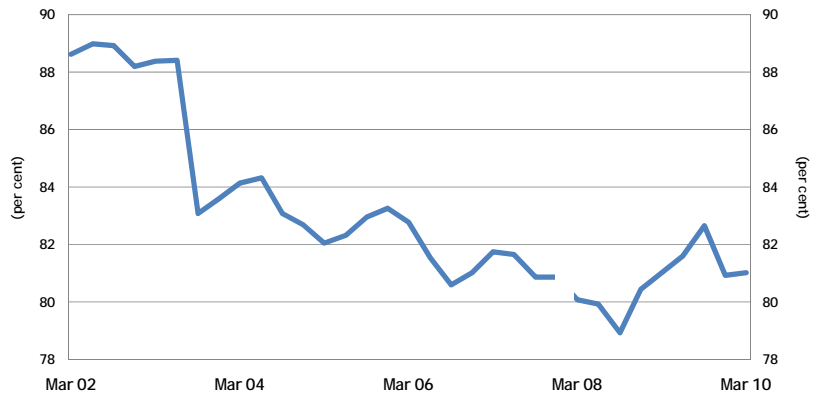


Break in March 2008 due to the introduction of Basel II.  
Sources: APRA; RBA



### ADI Net Fundamental Tier 1

as a percentage of total Tier 1 capital



Break in March 2008 due to the introduction of Basel II.  
Source: APRA

## The role of stress-testing



- three main techniques
- top-down vs bottom-up
- importance of right operating environment

## Stress-testing during the crisis



### Basel Committee criticisms:

- not well integrated in risk governance
- inadequacies in methodologies
- inappropriate scenario selection
- inadequate coverage of key risks

## Stress-testing by ADIs



- self-assessment against Basel Committee *Principles*
- better practices identified, especially board engagement
- work underway to improve coverage, resourcing, IT support and documentation

## Stress-testing by APRA

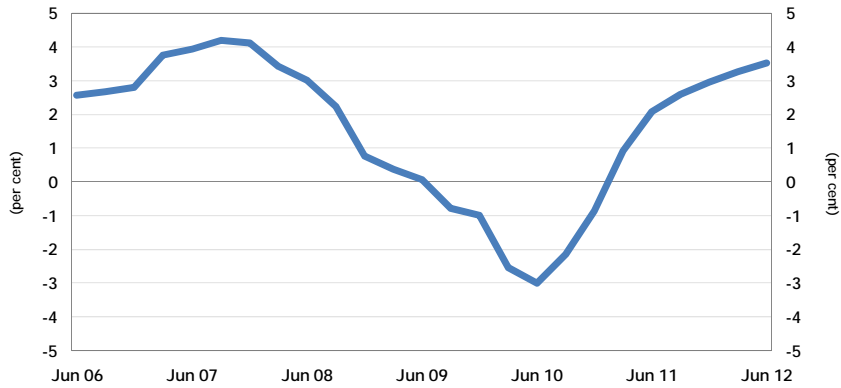


### Comprehensive industry-wide stress tests:

- reliance of housing loan portfolios (2002/03)
- FSAP macroeconomic stress-test (2005/06)
- APRA macroeconomic stress-test (2009/10)



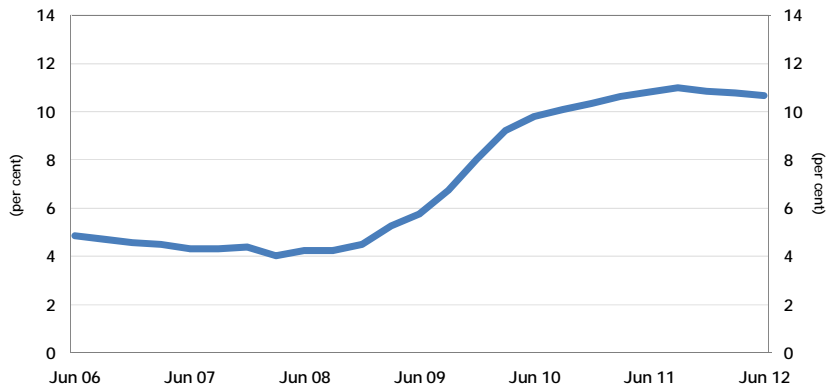
Projected GDP



Year-ended growth  
Source: ABS



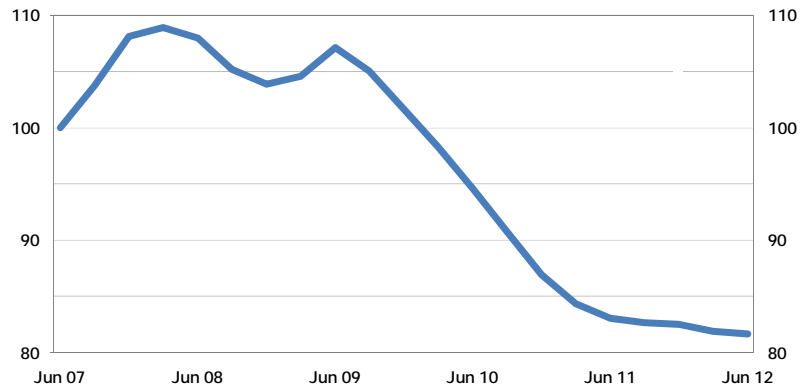
Unemployment rate



Source: ABS



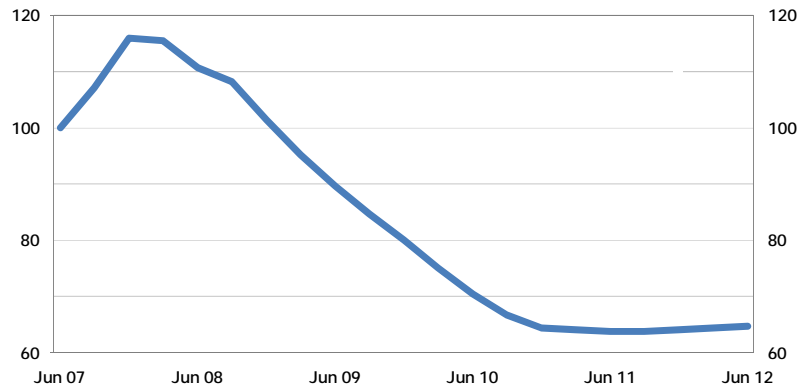
House prices index



June 2007 = 100  
Source: ABS



Office commercial property prices - national index



June 2007 = 100  
Source: ABS



Main results for 20 largest ADIs:

- no ADI would have failed
- no ADI would have breached minimum (four per cent) Tier 1 capital requirement
- weighted average fall in Tier 1 capital ratios of 3.1 percentage points.



Overall message:

- a tough stress-test
- a resilient Australian banking system!



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