SUPERVISORY CREDIBILITY --
HARD LESSONS FROM AN INTEGRATED SUPERVISOR

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I. INTRODUCTION

I am pleased and honoured to give the Keynote Address this morning at your 5th Conference on Financial Development and Stability, hosted by Chile's nearly new integrated supervisory authority, the Financial Market Commission (CMF). I had been hoping to return to the spectacular city of Santiago but it was not to be.

You will be wondering why you are hearing an Australian accent at this Conference! The short answer is that I was a member of an IMF technical assistance mission that visited Santiago a little over two years ago to advise on the integration of the superintendency for banking supervision, the SBIF, into the CMF. The longer answer is that I have had an extensive association with the development and operation of Australia's integrated supervisory agency, the Australian Prudential Regulation Authority (APRA). Firstly, as a senior Reserve Bank of Australia official, arguing against the separation of banking supervision from the central bank, and then – having lost that argument – sitting on APRA's first board in an *ex officio* capacity. Subsequently, after a major failure on APRA's watch and dismissal of the board, as APRA's Executive Chairman, a position I held for 11 years.

The CMF's establishment as an integrated prudential and conduct authority was enshrined in legislation in June last year. However, the journey began several years earlier and its constituent members – the SBIF, and the superintendency for securities and insurance (SVS) – both have long histories. Chile has joined other countries in Latin America, and around the globe, in embracing an integrated approach to the supervision of prudential risks, although there are many variants of the integrated model.

The rationale for an integrated supervisory authority is well known. In principle, integration promotes consistency of supervisory approaches, optimises scarce supervisory resources, eliminates duplicate functions, and enables like risks

across different regulated industries to be supervised in a like manner. Its particular strength lies in the supervision of financial conglomerates, by enabling supervisors to take a consolidated view and assess group-wide risks that may not be apparent at an entity level. In addition, an authority that combines prudential regulation and conduct of business regulation under one roof, as does the CMF, can resolve any potential conflicts between these two functions in-house, although experience elsewhere has shown that this does not ensure that both functions always receive appropriate priority and resourcing.

Note that I said “in principle”. Because we learned from the global financial crisis that no one supervisory model worked consistently better across countries. An integrated model may well provide the foundations for a consistent approach to supervision, but it does not guarantee effective supervision. As the Basel Committee’s *Core Principles for Effective Banking Supervision* emphasise, achieving desired supervisory outcomes requires the supervisory authority – however organised – to have a high degree of independence, strong accountability, a clear mandate, adequate skills and resourcing, and the regulatory capacity to respond in a timely and effective manner to emerging risks.

And it must have credibility. Credibility that has been earned, not merely claimed. Earned through a good track record based on supervisory judgments that are accurate, timely and robust; on skilled and confident staff who understand their industry and changing market conditions; and on willingness to act, often in the face of industry and other pushback.

Credibility takes time to build, but it can be eroded quickly. I know this from APRA’s experience. Even though APRA is acknowledged as a strong supervisor, particularly through the global financial crisis, this hasn’t always been so.

All supervisory agencies have their histories, their “war stories” – episodes that have shaped their character, their supervisory style and their reputation. In APRA’s case, there are three episodes that have had a significant impact on its

credibility and its approach to supervision. That have been very character forming! Two of these episodes happened in its early days. The third, however, is current and is confronting supervisory authorities around the globe – namely, the erosion of community trust in financial institutions as a result of persistent poor conduct.

I want to share APRA's experience with you because I believe it provides general and, I hope, valuable insights into the challenges facing supervisory agencies, particularly newer ones, in building a strong, effective and respected supervisory function. In gaining "street cred", so to speak.

II. APRA'S EARLY "CHARACTER FORMATION"

But first, a little background. APRA was formed in 1998 as one of the first in a new wave of integrated prudential supervisors established globally around that time. It brought together 11 Federal and state government predecessor bodies that had been involved in the supervision of banking institutions, insurance companies and pension funds. APRA started life with great ambitions to be a world-class integrated supervisor but, unavoidably, with a supervisory culture that was inherited and patchwork.

A little over two-and-a–half years later, in March 2001, HIH Insurance, Australia's second largest property and casualty insurance company, collapsed, on APRA's watch.

The HIH failure remains, to this day, Australia's largest financial corporation collapse. The failure caused considerable personal and community hardship; it led to substantial disruption to the building and construction industry where HIH was a significant insurance provider; and it extracted a high human toll on individuals involved with HIH – 10 criminal convictions, some carrying jail sentences up to eight years, and disqualifications and other sanctions for a further 19 people. This was no minor financial disaster.

And, of course, the failure was a body blow to a new supervisory agency that, from the outset, had prided itself on its professionalism and the dedication of its staff.

HIH failed because it did not provide adequately for future claims and did not price properly for risks. But the cause was more fundamental – it was badly governed and managed and its culture was poor. The words of the Royal Commission enquiring into HIH's collapse are damning:

'There was blind faith in the leadership that was ill equipped for the task. There was insufficient ability and independence of mind in and associated with the organisation to see what had to be done and what had to be stopped or avoided. Risks were not properly identified and managed. Unpleasant information was hidden, filtered or sanitized. And there was a lack of skeptical questioning and analysis when and where it mattered most.' (p xvii)

The key protagonists in this sorry saga were, on the one side, a dominant chief executive who ran the company as his fiefdom and was unrivalled in terms of authority and influence. On the other, a weak board led by an ineffective chairman that was unduly deferential to the chief executive and failed to challenge him even as his business judgment faltered. At board level, there was little if any analysis of the long-term strategy of the company, meaning that the board did not appreciate the risks being taken by an opportunist chief executive. The board had no stated risk appetite, nor did it pose and follow through on the right questions on risk.

And where was APRA through all this? APRA certainly began to have serious misgivings about the company: it was also badly misled about the integrity of HIH's accounts. Nonetheless, APRA was far too passive. In the blunt findings of the HIH Royal Commission: 'APRA's performance in supervising HIH was not good. It missed many warning signs, was slow to act, and made misjudgments about some vital matters.' In the eyes of many commentators, APRA was the watchdog that didn't bark or bite.

The HIH failure taught APRA some salutary lessons. It lacked an effective radar to detect early warning signs of distress. It lacked early intervention powers in insurance. It lacked adequate staffing levels and skills. And, the point I would draw out here, it lacked an open and constructive working relationship with the institution itself. Indeed, when it came to dealings with the HIH board and its chief executive, it had *no* relationship. APRA never once met with the HIH board and it is doubtful whether the board ever saw any APRA correspondence. APRA met only once with the HIH chairman, very late in the piece. It met only occasionally with the chief executive. At the only formal prudential consultation, the chief executive gave what was no more than a sales pitch and then, disdainfully, left the meeting without taking questions. A low point!

APRA's passivity was reflective of a new supervisory culture it had begun to introduce for the supervision of large and complex institutions. This involved a 'consultative' off-site regime supported by targeted on-site visits to confirm the effectiveness of risk controls, and by attestations from directors and auditors. Enforcement action was seen as a last resort. The fundamental premise was that large financial institutions were sophisticated, well managed and well controlled, with ready access to capital markets and subject to robust market discipline. The HIH failure proved this premise false.

The HIH Royal Commission explicitly rejected this 'light touch' supervisory culture and urged APRA to develop a '… more skeptical, questioning and, where necessary, aggressive approach' to prudential supervision. These words became seared into APRA's consciousness.

As I mentioned earlier, the credibility of a supervisory authority has to be earned. It would be very tempting for a wounded supervisor, as APRA then was, to hit the steroids and try to go from skinny weakling on the beach to the bully kicking sand at people to make its presence felt. APRA resisted that temptation. Under new leadership, APRA set about the long task of absorbing the lessons from the HIH failure, rebuilding its reputation and strengthening its supervisory techniques, its powers and its resources.

What helped APRA in this task was a second financial drama that unfolded at the end of 2003, less than nine months after the HIH Royal Commission reported. This was the discovery of a significant fraud in the foreign currency options trading activities of a major Australian bank, National Australia Bank (NAB).

The fraud was committed by four aggressive options traders, who had taken the wrong positions on NAB's foreign currency options portfolio and chose to conceal their true positions, and protect their reputations and bonuses, through fictitious options trades. That this was possible was, first and foremost, due to the collusive behaviour of the traders themselves, which succeeded in suppressing many of the bank's early warning signals. However, it was also attributable to an operating environment characterised by lax and unquestioning oversight by line management, poor adherence to risk management systems and controls, and weaknesses in internal governance procedures. Internal control systems failed at every level to detect and shut down the irregular trading activity; what looked good on paper simply did not function in practice.

These control failures were not a simple consequence of poor design. As with HIH Insurance, risk culture – reflected in the attitudes displayed by key decision-makers to principles of risk management, transparency and candour – was at the heart of the problem. In the trading area, risk management controls were seen as trip-wires to be negotiated rather than a genuine constraint on risk taking. And the highly regimented culture acted to mollify the message when it involved acknowledging concerns or difficulties at operational level. Bad news did not travel upwards.

The financial cost of closing out the options positions was substantial, though not life threatening, but the reputational loss to NAB was probably more damaging and longer lasting. And the human cost was also high – the four options traders went to prison and the fallout within NAB saw the departure of the chairman, the chief executive, the chief risk officer, the chief financial officer, the head of

institutional banking, the head of internal audit and several other senior executives.

In contrast to the HIH failure, however, APRA emerged from the NAB episode with its reputation intact and – in the eyes of some commentators – enhanced.

APRA did not discover the fraudulent activity. It had identified a number of control weaknesses in the management of market risk, but its warnings to the chairman were not shared with the board and were treated dismissively by the chief risk officer at the board audit committee. Our orange warning light was ignored.

What strengthened APRA's standing was the extensive inquiry it conducted after the fraud was discovered, and the remedial actions it required. An 88-page report to the NAB board, which the board chose to publish, highlighted a number of failings in corporate governance and organisational culture that allowed the fraudulent trading activity to go undetected for so long. Publication gave industry and the wider community a window into the day-to-day work of a supervisory agency, and its expectation for good governance and robust risk management. The remedial program, with over 80 separate requirements, was tough, and APRA closed the currency options desk until substantial progress was made. Some in the media labeled the remedial program 'overkill' but other bank boards took the report as a benchmark for best practice and commissioned their own reviews of their trading desks.

III. LEARNING THE INITIAL LESSONS

Shaped by the experience of these two financial dramas, APRA moved away from its high-level 'consultative' approach to the supervision of large and complex institutions. 'Light touch' was not what the Parliament or the community wanted. APRA became a more hands-on and proactive supervisor – an intrusive one when necessary – with a greater emphasis on financial analysis designed to

challenge the *status quo* and the backing of a program of regular on-site visits. To use the IMF's language, APRA became 'a presence that is felt continuously'.

Central to APRA's tougher supervisory approach was a sharper focus on the authority of the risk management function, and greater engagement with boards and senior management.

APRA has always been conscious that financial institutions take on risks to earn a living; its task is the oversight of risk management, not risk minimization. Prudential supervision cannot substitute for sound risk management in institutions; rather, its role is to ensure that the risk management function is up to the task and not overborne by an excessive drive to grow the business. APRA became very active in promoting quality risk appetite statements, and strong and independent risk management functions that have the stature, skills and authority to ensure risk-taking remains within the board's risk appetite. The function must be an effective counterweight against overheated ambitions but not a dead weight on sensible business decisions.

APRA also began to develop a range of formal requirements on boards that set out minimum foundations for good governance. These addressed board size and composition; the independence of the chair; the role of the board remuneration committee; and board renewal and the assessment of board performance. While some viewed these requirements as overly prescriptive, APRA sees them as empowering boards to achieve the outcomes they might otherwise have difficulty achieving. In important ways, the interest of boards and APRA are strongly aligned.

Reinforcing the emphasis on good governance has been more active, face-to-face dealings with boards and senior management – a sharp contrast to APRA's distant relationship with HIH.

Meetings with the board and its risk, audit and remuneration committees give APRA the opportunity to reinforce its expectations of board performance and

form first-hand impressions of whether these expectations are understood and accepted by directors. Discussions across the table ensure that the board can be in no doubt about any prudential concerns APRA may have. In turn, directors can explore with APRA staff ways these concerns can be addressed and how the institution is faring compared to its peers. These exchanges are the best way to "cut to the chase", as we say in English. Greater engagement with boards also provides APRA with insights into the balance of authority between the board and management — that is, the strength of the board's "constructive challenge".

APRA also had to rethink the way it organised its supervisory resources. APRA had inherited three distinct supervisory siloes – banking, insurance and pension funds – with their own cultures and approaches, and it began almost immediately to break up those siloes by grouping institutions by complexity rather than type. Hence, two front-line supervisory divisions were established, one for large and complex entities and the other for monolines, and supervisory staff were expected to cover any type of entity within their divisions.

The HIH failure highlighted that this model had spread supervisory skills and industry knowledge too thinly. In insurance supervision, a significant amount of corporate memory had left APRA on its formation and new staff lacked understanding of the unique characteristics and complexities of insurance companies. In response, APRA tilted back towards more of an industry focus by grouping institutions into supervisory branches with a bias to particular industries – for example, an 'insurance heavy' branch. This rebalancing did not mean that APRA was retreating from the integrated supervisor model. Rather, it recognised that integrated supervision was more about establishing teams of people with the right mix of skills to deal with large and complex institutions, than about expecting supervisory staff to be able to apply their skills across each and every industry.

As I will explain later, the wheel has come full circle on this organisational issue.

IV. THE GLOBAL FINANCIAL CRISIS

The building of a stronger supervisory culture in APRA paid dividends in the global financial crisis. The Australian banking system went into the crisis in solid financial shape, with strong profitability, capital levels and asset quality, and it weathered the crisis and its subsequent aftershocks safely. Not a single cent of public funds was needed to support ailing banks in Australia. Indeed, there were no ailing banks! Only a very small number of Australian-owned banks or foreign bank subsidiaries incurred red ink once the crisis struck.

That said, we had our scares. Our four major banks were much more heavily reliant on global funding markets, particularly for short-term funding, than retail banking systems elsewhere, and they succumbed to the market dislocations of September 2008 when their wholesale funding dried up. It took a Commonwealth Government guarantee on banks' wholesale funding in October 2008 to provide the circuit breaker. The Government also introduced a generous guarantee on bank deposits, converting a depositor preference regime to an explicit deposit insurance scheme.

Australian banks continued to prosper after the crisis. Core earnings were strong, non-performing loans ratios remained low, returns on equity were world leading and capital was not a challenge for the major banks. Their risk-based capital ratios rose to twice what they were before the crisis. All in all, it would seem, a positive story of strength and resilience for Australian banks (and one, incidentally, that has enabled banks in Australia to support the Australian community through the COVID-19 pandemic by offering repayment holidays to households and small business).

APRA came through the global financial crisis with an enhanced standing, in the eyes of its global and Australian peers, the entities that it regulates, and the community more generally. Certainly, industry perceived it as a 'strong' supervisor and readily acknowledged that the Australian banking system was well regulated and supervised before and during the crisis. APRA's conservative

approach to capital and other prudential standards, and its intrusive, pre-emptive supervisory culture, were widely acknowledged. Though it had acquired stronger enforcement powers and had clearly signaled a willingness to use them, they were not needed during the crisis. This was taken as a mark of APRA's enhanced credibility and the respect it had earned through its painstaking work behind the scenes. As I will explain shortly, the fact that APRA had not used its legal powers, a positive assessment at the time, later came back to haunt it!

V. THE TRUST DEFICIT

Against such a positive background, why has APRA's supervisory credibility come under the spotlight again? What has happened since the crisis that is challenging APRA's standing and effectiveness?

The answer – and this is the third episode I wish to discuss – is the serious erosion in trust in Australian banks, and in other financial institutions, over recent years. Not trust that banks will keep customers' money safe – that level of trust remains high – but trust that banks and other institutions are acting fairly and in customers' best interests. Failings in the provision of financial advice, dubious lending practices, mis-selling of financial products, shortcomings in the setting of benchmark interest rates, unfair handling of insurance claims, and compliance breaches have undermined community trust, drip by corrosive drip. One report showed that nearly half of customers surveyed did not trust their own financial services provider, particularly if it was a bank, to treat them fairly.

Community and political frustration culminated in the setting-up of a Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, a judicial inquiry with extensive investigative powers. The Commission shone a very harsh and unforgiving spotlight on industry behaviours. Known episodes of misconduct were forensically and publicly re-examined and new egregious examples – charging fees for no advice, charging fees to the dead, withholding information from regulators – came to light. The final report of the Royal Commission was published in February last year.

The erosion of trust in banking institutions is not, of course, an Australian phenomenon. Failures of culture – the excessive and reckless risk-taking, the gross misconduct, the glittering rewards for short-term success, the loss of sight lines to customers – were at the heart of the global financial crisis and the subsequent loss of community trust. There was, simply put, an absence of ethical responsibility. And for all the energy and resources subsequently committed by policy makers, regulators, boards and individuals to strengthen cultures and lift ethical standards, community trust in banks globally has been slow to recover.

For a time, we in Australia thought our financial system might have been immune from these various scandals. Sadly, this has not been the case.

The conclusion reached by the Royal Commission was stark. To the rhetorical question of why the misconduct has happened in Australia, the Royal Commissioner replied: 'Too often, the answer seems to be greed – the pursuit of short term profit at the expense of basic standards of honesty'.

Could it be that the success story of our major banks is a root cause of this sort of behaviour? This was the question that an independent Prudential Inquiry into governance, accountability and culture in the Commonwealth Bank of Australia (CBA) sought to answer. The Inquiry was established by APRA and conducted by a three-person panel, which I chaired. Our report was published in May 2018.

Let me explain that CBA is a financial icon in Australia, built on its long history, its size and undoubted soundness, and its innovation in customer-facing technology. As Australia's largest financial institution, CBA touches a wide range of Australians. Hence, the community holds high expectations of the institution. Nonetheless, it too had a succession of conduct and compliance issues, the most notable being legal action for significant breaches of Australia's AML/CTF legislation, which subsequently resulted in what was then the largest civil penalty in Australia's corporate history.

The searing conclusion of the Prudential Inquiry was that CBA's continued financial success had indeed "dulled the senses" of the institution. This dulling

was most apparent in CBA's management of its non-financial risks. There were a number of telltale markers, such as inadequate oversight and challenge by the Board and its gatekeeper committees of emerging non-financial risks; unclear accountabilities; overly complex and bureaucratic decision-making processes; and badly designed remuneration arrangements that had little sting for senior management when poor risk or customer outcomes materialised.

Industry fall-out from the erosion of community trust has been extensive – share prices were punished, some Board directors and senior executives have gone, accountability and remuneration frameworks have been toughened. Remediation and compensation costs have been running in the billions of (US) dollars and have been eating away at profitability. Significant structural changes are also underway. Three of the four major banks are now unwinding their bancassurance models and exiting from wealth management and insurance, largely reversing a conglomeration process over the past two decades that had promised 'one-stop-shopping' for financial consumers, but with inherent conflicts of interest that have now been laid bare.

Just as community trust in Australia's financial services has diminished, so too has trust in its financial regulators. But why APRA? After all, APRA's focus is on risks to the financial safety of regulated institutions and on financial system stability. Under Australia's 'twin peaks' model, regulation of conduct that impinges on the rights and interests of individual consumers is the responsibility of the Australian Securities and Investments Commission (ASIC).

The answer, of course, is that the conduct of an institution goes to the very heart of its purpose, governance and culture. Conduct risk (the risk of conduct that falls short of expected standards, including legal, professional, internal conduct and ethical standards) can impinge on the financial soundness of the institution and its ability to meet the promises it has made, and on community trust more generally. Hence, it is an appropriate focus of prudential supervision.

The Royal Commission and two subsequent independent reviews of APRA have been a blow to its credibility in two areas – its supervision of culture in institutions and its approach to enforcement. Let me take each of these in turn.

Supervision of organisational culture

Organisational culture has not been seen as the natural stamping ground for a prudential supervisor. Culture does not easily lend itself to quantification and metrics, or to prudential requirements. Supervisors would be the first to admit that a good culture cannot simply be mandated by regulation or imposed by supervision. Nonetheless, what supervisors can do is hold a mirror up to culture and challenge institutions whose organisational culture is likely to allow, or even drive, misconduct. Institutions can be blind to their own faults, particularly those with the most problematic culture. Supervisors are also focusing on key foundational elements of culture – prudent incentive structures and clear accountabilities for outcomes.

APRA itself has introduced prudential requirements for executive accountability and is developing enhanced requirements for remuneration; it has also been building its capacity to supervise non-financial risks (which include conduct risk and culture). However, a recent independent review of APRA's capabilities noted that it might be behind its international peers. The review acknowledged that APRA was an impressive and forceful regulator in matters of traditional financial risks, but that its tolerance for operating beyond those risks has been low. APRA appeared to have developed a culture that was unwilling to challenge itself, slow to respond and tentative in addressing issues that do not entail traditional financial risks. This is a strong judgment! The review concluded that developing a culture that supervises non-financial risks as rigorously as traditional financial risks should be one of APRA's priorities. This would require new skills, additional resources and the harnessing of external experts.

In particular, and taking as its precedent the CBA Prudential Inquiry, the review recommended that APRA embrace such inquiries of individual institutions as an ongoing tool in this area. The aim would be to make institutions more publicly

accountable that their non-financial risk frameworks support high standards of conduct and financial integrity. As it turned out, the CBA Prudential Inquiry had wide-ranging impact in corporate Australia, particularly its insights into the cultural factors that lay at the heart of CBA's shortcomings. Taking a lead from De Nederlandsche's multidisciplinary approach, an organisational psychologist joined the Inquiry team to help identify these factors. Four broad and interlinked cultural traits in CBA stood out:

- a widespread sense of complacency, from the top down, driven by financial success;
- a reactive – rather than proactive and pre-emptive – approach to dealing with risks;
- an insular outlook, with no reflection on or learning from experiences and mistakes (its own and others'); and
- an overly collegial working environment where pursuit of consensus lessened constructive criticism, delayed decision-making and blurred the ownership of risk issues.

APRA subsequently required all major financial institutions to assess their governance, accountability and culture, using the published CBA Report as the template.

In addition, the capability review recommended that APRA should return to its original structure of separate banking, insurance and pension fund divisions. The aim would be to increase senior management's focus and accountability for dealing with industry-specific issues, and to strengthen the development of industry skills. The review acknowledged that APRA did many horizontal (cross-industry) activities and did them well, but feared that the two front-line supervisory divisions had in effect acquired elements of siloes themselves. As a consequence, horizontal activities sometimes proceeded very slowly and risk specialists in other divisions found it difficult to collaborate and get buy-in from the front-line. APRA accepted this recommendation. The wheel has come full circle! One of the factors influencing APRA's response, no doubt, has been its achievement in introducing a range of cross-industry prudential standards that

ensure like risks are regulated and supervised on a like basis. Another factor would be the structural movement away from the bancassurance model, which reduces the priority APRA had previously attached to group-wide supervision.

Enforcement

The second area where APRA's credibility took a blow was its approach to enforcement.

The Royal Commission concluded that, in many examples of misconduct: 'the law has not been obeyed, and has not been enforced effectively'. This states the obvious: institutions must obey the law and regulators must enforce the law. As I explained earlier, following the failure of HIH Insurance, APRA had indicated a greater willingness to flex its enforcement muscle. But several unsuccessful proceedings and overturned decisions, as well as a change in APRA's powers to take actions against individuals, later curtailed APRA's enforcement appetite. The fact that APRA had not taken formal enforcement action for over a decade was not seen as a badge of effectiveness in the Royal Commission's eyes, but as a sign of timidity.

An independent review of APRA's enforcement strategy agreed that APRA's appetite to use enforcement 'primarily … as a last resort and mainly where financial promises or stability are at risk' had been too low. The review recommended, *inter alia*, that APRA should:

- take stronger action earlier where entities and individuals are not open and cooperative;
- give more emphasis to the deterrence benefits of enforcement action and be willing to set public examples through such action; and
- be more innovative in the use of its powers or combinations of powers.

That is, APRA's enforcement appetite should move from a 'last resort' to a 'constructively tough' approach, set out in a publicly available document. This would mean building a more forceful supervisory culture and approach,

emboldened by the tone from the top and management endorsement, to better empower and support supervisors.

APRA accepted these recommendations. Somewhat ironically, however, a recent high-profile action by APRA against a pension fund and certain directors and executives for failing to act in the best interests of members – emblematic of a tougher approach to enforcement – was dismissed by the court.

VI. CONCLUDING THOUGHTS

My remarks today about culture and conduct may seem a far cry from issues of financial safety and stability, the theme of the following panel.

In many jurisdictions, however, the scale and persistence of conduct issues has forced the prudential lens to broaden beyond financial and operational resilience, to a focus on organisational and cultural resilience, which is fundamental to the long-term success and reputation of a financial institution. A recent Group of 30 Report observed that: '… bank conduct and culture are at the centre of a slow, uphill battle for trust'. As APRA's experience testifies, prudential supervisors that are not seen as fully joined in this battle can jeopardise their hard-won credibility.

The onus, of course, is on institutions themselves to nurture an effective, ethical and customer-focused culture. The starting point for articulating their culture and core values is the simple but profound question "What are we for?" If an institution's answer, its statement of purpose, does not emphasise sustainable results and the balancing of *all* relevant stakeholder interests, supervisors have their work cut out!

On that note, I hope the Conference, even in its shortened form, will both inform and challenge you. And I wish the CMF success and good luck as it grows into its broader responsibilities. As I have learned over many years, strong supervisory authorities are vital to financial development and stability, in whatever part of the world!