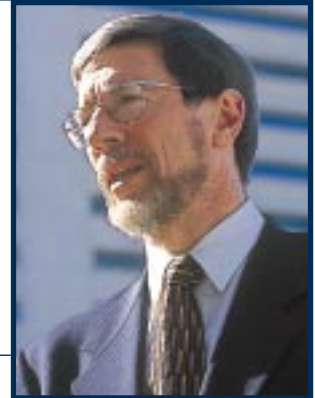


Our first year has been very much devoted to laying the foundations for APRA's long-term structure and role. We have achieved an enormous amount in a relatively short time – an investment in planning and preparation that will be repaid many times in the future.



Graeme Thompson, Chief Executive Officer

It has been a demanding year for our staff. True, we inherited experienced and professional people from the Insurance and Superannuation Commission and the Reserve Bank. But the transition to the new organisation was not easy for many of them – particularly for people who had enjoyed long and stable careers with their previous employer, and for those whose jobs were to move from the former ISC's headquarters in Canberra to APRA's head office in Sydney.

We have also had to build afresh much of the infrastructure that mature organisations take for granted – accounting and finance systems, budgeting, payroll, personnel policies and basic office administration. Sydney staff had to settle into a new building in November. Some staff from other cities have made this move since.

To ease the transition load, we initially carried across most of the employment terms and conditions that staff had before APRA's formation. We also took across large parts of the organisation structures that had existed in the ISC and the RBA's bank supervision department. Everyone recognised that these structures had to be changed, to become more integrated – and understood that employment terms had to be harmonised across all APRA staff. However, until we had detailed plans for doing this, uncertainty about future changes added to other transition pressures.

For most of the year it was also unclear when responsibility for supervising credit unions, building societies and friendly societies would come to APRA.

New APRA

At the end of 1998/99, the picture was much sharper. Details of our organisation reform were announced in March, along with the main features of our new employment terms and conditions. By July we were well advanced on filling roles in the new structure and staff were being engaged on Australian Workplace Agreements or contracts. Against earlier doubts, the State-based financial institutions did transfer to us on 1 July 1999 as originally scheduled. With this, another 80 staff joined APRA and began to take up positions. By mid-August our people were working in the same offices in all capital cities but one.

The size of our planning task, and its urgency, meant we could not consult as widely on the broad features of the organisation and employment terms as we would otherwise have done. However, once the Board endorsed management's proposals, there was extensive consultation with staff on the details and practical implementation.

At the end of August 1999 our new organisation structure was in operation. There is more information about this later in the Report, but a few words are in order here.

In line with the reasons for APRA's creation we have opted to group our front-line supervisory staff not on an industry basis, but in two Divisions according to the complexity or diversity of the institutions they supervise. A third Division will be our policy development engine and also provide specialised consulting services to all the supervisors.

This arrangement will promote the building of generic supervisory skills in APRA. It will also help us harmonise supervisory approaches across the financial system. And it will make for more effective supervision of conglomerate groups because we will be looking at them in their entirety, rather than as aggregations of separate entities. This should reduce compliance burdens over time as well.

With a year of building behind us, the future is now bright and exciting for APRA

The future

Our new structure poses some challenges. The first is for staff to build the skills and knowledge that they will need in working with unfamiliar industries and institutions. We have commenced a major cross-skilling and team-building program to tackle this. I am confident that financial institutions which have experienced major internal change of their own in recent years will bear with us through this phase.

Another challenge is to preserve our specialist expertise on important industry issues. I know some industry groups are worried about this, but I believe we can deal with it.

We tackle these tasks with a very strong core of experienced and expert people. We have, however, lost some experienced staff who were not able to follow roles that moved from other cities to Sydney or who chose not to stay with APRA for other reasons. We will, as a high priority, replace those skills through internal training and development, and by recruiting.

We have worked hard to establish APRA's name and credentials with industry and internationally. For example we instituted a program of high-level liaison meetings with all the major industry groups and hosted the first conference of integrated supervisors from other countries. These initiatives will be continued.

In the year ahead we also plan major enhancements to our public affairs activities – including the issue of a new quarterly 'flagship' publication containing statistics and commentaries.

And we will continue to work hard on cooperation with other agencies – particularly the Australian Securities and Investments Commission and the Reserve Bank.

With a year of building behind us, the future is now bright and exciting for APRA.

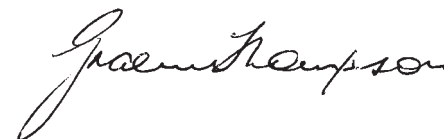
I am very much aware that our success as a prudential supervisor will be assessed not only by the soundness of Australia's financial system, but also by its efficiency and creativity in serving the long-term needs of the community. I am confident we can meet this challenge.

Thanks

I would like to commend all APRA employees for their patience and professionalism in trying times and for their enthusiasm about our future.

The other members of the Executive Committee – Tom Karp, Les Phelps and Brian Gray – have carried heavy loads and helped lead the way. A special mention for David Knott who, as Chief Operating Officer, was responsible for assembling the nuts and bolts of APRA and made a major contribution to the broader task of setting our course. I wish him every success in his new role as Deputy Chairman of ASIC.

Finally, I would like to thank Jeffrey Carmichael and the rest of the Board for their valuable support and guidance during 1998/99.



Graeme Thompson
Chief Executive Officer