



**Australian Government**

**The Treasury**



**APRA**

**PROPOSED FINANCIAL INDUSTRY LEVIES FOR  
2014-15**

**THE TREASURY**

**AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY**

## **INTRODUCTION**

The purpose of this paper is to seek industry views on the proposed Financial Institutions Supervisory Levies ('the levies') that will apply for the 2014-15 financial year. The levies are set to recover the operational costs of the Australian Prudential Regulation Authority (APRA), and other specific costs incurred by certain other Commonwealth agencies and departments.

The paper, prepared by Treasury in conjunction with APRA, sets out information about the total expenses for the activities to be undertaken by APRA and certain other Commonwealth agencies and departments in 2014-15 to be funded through the commensurate levies revenue to be collected in 2014-15.

The paper also reflects on the outcomes of the 2013 to 2014 review of the methodology underpinning the collection of the levies and presents two options for levies collection in 2014-15 using parameters developed during the methodology review.<sup>1</sup> Looking forward to the 2015-16 financial year, the paper also models the collection of the SuperStream component of the levies on a member rather than an asset basis, based on feedback collected from stakeholders during the methodology review.

## **AUSTRALIAN GOVERNMENT COST RECOVERY**

In December 2002, the Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of cost recovered activities and promote the efficient allocation of resources. Cost recovery involves government entities charging individuals or non-government organisations some or all of the efficient costs of a specific government activity. This may include goods, services or regulation, or a combination of these. The Australian Government Cost Recovery Guidelines (CRGs) set out the overarching framework under which government entities design, implement and review cost recovered activities. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the CRGs.

The Department of Finance is currently finalising a whole-of-Government review of the CRGs as part of the Government's deregulation agenda. It is proposed that following the release of the revised CRGs the activities which are funded through the levies will be further examined. This is in line with the conclusions of Treasury's methodology review. It is envisaged that this process will inform the 2015-16 levies determination process.

In addition, a Cost Recovery Impact Statement will be released by APRA by 30 June 2014, which will support transparency around the cost of APRA's activities.

## **POLICY AND LEGISLATIVE BASIS FOR THE LEVIES**

APRA's costs, and the costs of additional consumer protection functions in the financial system, are funded through levies on those industries that are prudentially regulated by APRA.

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<sup>1</sup> See [www.treasury.gov.au/ConsultationsandReviews/Consultations/2013/Financial-Industry-Supervisory-Levy-Methodology](http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2013/Financial-Industry-Supervisory-Levy-Methodology).

Essentially, the levies are imposed to ensure that the full cost of regulation is recovered from those who benefit from it (that is, institutional categories that are regulated).

The legislative framework for these levies is established by the *Financial Institutions Supervisory Levies Collection Act 1998*, which prescribes the timing of payment and the collection of levies. A suite of imposition Acts impose levies on regulated institutions, set a CPI-indexed statutory upper limit and provide for the Minister to make a determination as to certain matters such as the percentages for each restricted and unrestricted levy component, the maximum and minimum levy amounts applicable to each restricted levy component, and the date at which the entity's levy base is to be calculated.

Annually, the Minister makes a separate determination under each of the following Acts to provide the legal basis to impose a levy:

- *Authorised Deposit-taking Institutions Supervisory Levy Imposition Act 1998*;
- *Authorised Non-operating Holding Companies Supervisory Levy Imposition Act 1998*;
- *Life Insurance Supervisory Levy Imposition Act 1998*;
- *General Insurance Supervisory Levy Imposition Act 1998*;
- *Retirement Savings Account Providers Supervisory Levy Imposition Act 1998*;
- *Superannuation Supervisory Levy Imposition Act 1998*; and
- *First Home Saver Account Providers Supervisory Levy Imposition Act 2008*.<sup>2</sup>

The Government has also provided authority to APRA to recover other specific costs incurred by certain Commonwealth agencies and departments. The Minister's determination in this regard, under the *Australian Prudential Regulation Authority Act 1998*, is to recover the costs of:

- providing certain market integrity and consumer protection functions, which are undertaken by the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO);
- administering claims for the early release of superannuation benefits on compassionate grounds by the Department of Human Services (DHS); and
- implementing the SuperStream initiative.

The total funding for all agencies raised under the levies is set through the Budget process and finalised prior to the release of this paper.

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2 Despite the abolition of the First Home Saver Account Scheme in the 2014-15 Commonwealth Budget, the associated levy will remain in effect until 30 June 2015, after which the accounts formally cease to exist.

## METHODOLOGY REVIEW FOR THE LEVIES

In 2013 and early 2014 Treasury and APRA conducted a review of the methodology underpinning the levies. As part of this review, a discussion paper was released in April 2013 seeking submissions on the design and operation of the methodology.

On 16 April 2014, Treasury released a paper responding to the submissions received. The five conclusions and their justifications are summarised below:

1. It should be clarified when a levy is being used to recover costs consistent with the Government's cost recovery guidelines and when they are not.

- The majority of activities funded by the levies meet the definition of cost recovery under the CRGs, however, concerns were raised about the consistency of some activities with the cost recovery framework. This issue should be considered further after the expected release of the CRGs in 2014-15.

2. The pre-budget submission process should be used by Government to elicit industry views about the total amount collected through the levies and the related activities. The annual consultation process should be limited to the application of the levies.

- Currently the annual consultation process focuses on the distribution of the levies among regulated institutions, rather than the total level of funding required (which is determined as part of the Budget process).

3. There should be increased transparency of how a regulatory activity is recovered through the levies process.

- Greater detail could be provided on how the unrestricted and restricted components of the levies are calculated. The release of APRA's updated Cost Recovery Impact Statement (CRIS) by 30 June 2014 will contribute to this objective.

4. The lower supervisory activity required for prudentially regulating pooled superannuation trusts (PSTs) could be recognised through lower levy rates compared to other superannuation entities.

- The assets of PSTs are included in the asset base calculation for superannuation funds, which sees these members being levied twice on the same assets (once on the total assets in the fund, and once on the assets in the PST).

5. The 2014-15 annual levies consultation process should give consideration to modelling the use of the number of superannuation fund members (instead of asset value) as the levy base for SuperStream to gain further feedback from industry.

- Some stakeholders expressed a desire for the SuperStream levy to be collected on a member basis. Subject to industry views, the earliest that this could be implemented would be in 2015-16 due to the need to change APRA's billing infrastructure.

## **APRA'S 2014-15 ACTIVITIES**

APRA's supervisory activities in 2013-14 have been conducted against a backdrop of a continued firming in sentiment in global financial markets, reflecting further improvements in the condition of major banking systems and the ongoing recovery in major advanced economies. Nonetheless, fragilities in the euro area remain. In addition, expected tighter global financial conditions as the US begins to normalise its monetary policy, along with other idiosyncratic factors, has triggered a reassessment of some emerging market economies with pre-existing domestic vulnerabilities. Geopolitical tensions in Ukraine have also weighed on market sentiment. The Australian financial system remained in a relatively strong position, supported by the continued (albeit slower) momentum of the Australian economy and signs of a renewed appetite for housing debt by Australian households. APRA has maintained its heightened level of supervisory intensity throughout this period and implemented key elements of its prudential policy agenda.

APRA's activities will continue at a high tempo in 2014-15. Its supervisory oversight will focus on how regulated institutions respond to emerging risks as the Australian economy adapts to the ending of the minerals investment boom. APRA will pay particular attention to housing lending standards in the current context of aggressive competition and strong price pressures in some housing markets. On the policy front, APRA will focus on finalising a new prudential framework for conglomerate groups and a simplified framework for securitisation, and monitoring the impact of the various prudential reforms APRA has introduced since the global financial crisis began.

In 2014-15, APRA's main strategic objectives are to:

- conduct effective, ongoing supervision of all APRA-regulated institutions in accordance with a consistent APRA-wide supervisory approach;
- consolidate the prudential framework by completing the remaining elements of its prudential policy agenda, including global reform initiatives endorsed by the G20 and overseen by the Financial Stability Board;
- continue to enhance the efficiency and effectiveness of APRA's supervisory tools, systems and infrastructure through better integration of and greater analytical support for its risk-rating systems, including workflow and document management;
- enhance APRA's effectiveness by continuing to ensure it recruits and retains the right people for the job, develops the skills and knowledge of its staff and deploys them where they are most needed in APRA; and
- remain well prepared for a crisis affecting APRA's own operations, a financial crisis in a regulated institution or a systemic crisis.

Some of APRA's activities are not funded by the levies. Rather, the costs are recovered by direct user charges or through direct Government funding. For 2014-15 the cost of various activities such as the following will not be recovered through the levies:

- accreditation of ADIs with sophisticated risk management systems to adopt the 'advanced' approaches for determining capital adequacy permitted under the Basel II Framework, and ongoing specialised supervision of accredited ADIs;

- accreditation of general insurers with robust internal models to use these models to meet capital adequacy requirements; and
- the provision of statistical reports to the Reserve Bank of Australia, the Australian Taxation Office and the Australian Bureau of Statistics that are recovered through a fee for service arrangement.

## SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2014-15

### APRA's 2014-15 levy funding requirements

APRA's net funding requirements under the levies for 2014-15 are shown in Table 1. The budgeted total cost for APRA for 2014-15 is \$122.6 million, a \$7.8 million (6.0 per cent) decrease relative to budget for 2013-14. \$6.1 million of these costs will be met through other sources of APRA revenue (referred to as net cost offsets) and Government appropriations, including a special levy for the National Claims and Policies Database (NCPD).

Taking into account \$0.4 million in under-collected 2013-14 levies to be recouped from industry (discussed below), APRA's underlying net levies funding requirement is \$116.9 million, an increase of \$1.3 million (1.1 per cent) relative to budget for 2013-14.

**Table 1: APRA — levies funding required**

	2013-14	2014-15	Change (\$m)	Change (%)
	Budget (\$m)	Budget (\$m)		
APRA — operating expenses	124.7	122.4	(2.3)	(1.8)
APRA — capital expenditure	5.7	0.1	(5.6)	(98.1)
<b>Budgeted total cost</b>	<b>130.4</b>	<b>122.6</b>	<b>(7.8)</b>	<b>(6.0)</b>
Net cost offsets (Table 2)	(8.0)	(6.1)	1.9	(24.1)
Unspent 2012-13 expenses re-phased into 2013-14	(3.6)	-	3.6	-
Under/(over) collected revenue (Table 3)	(3.2)	0.4	3.6	(113.8)
<b>Net funding met through industry levies</b>	<b>115.6</b>	<b>116.9</b>	<b>1.3</b>	<b>1.1</b>

Table 2 outlines the other sources of APRA revenue (or net cost offsets) available to partially fund APRA expenditures.

**Table 2: Net cost offsets**

Net cost offsets	2013-14	2014-15	Change (\$m)	Change (%)
	Budget (\$m)	Budget (\$m)		
Appropriations — NCPD	(0.7)	(1.0)	(0.2)	32.9
— Other	(3.1)	(3.1)	0.0	(1.1)
Sale of goods and services	(4.2)	(2.1)	2.1	(51.0)
<b>Total</b>	<b>(8.0)</b>	<b>(6.1)</b>	<b>1.9</b>	<b>(24.1)</b>

### Adjustment for under-collected APRA levies revenues

To ensure that industry does not pay any more or less than the cost of prudential regulation and to maintain the integrity of the levies funding mechanism, APRA's levies funding requirement is adjusted by over- and under-collected levies from prior periods.

Based upon 2013-14 expected collections, there will be an under-collection of APRA levies of \$0.4 million that will be recouped through the 2014-15 levies (Table 3).

**Table 3: (Under)/Over-collected APRA levies**

Source of revenue	2013-14 Budget (\$m)	2013-14 Forecast (\$m)	2013-14 Difference (\$m)	Difference to be refunded to (recovered from) industry.			
				ADI (\$m)	LI (\$m)	GI (\$m)	Super (\$m)
Supervisory levies	118.8	118.3	0.5	-	(0.1)	-	0.6
Levy waivers and write-offs	(3.3)	(3.2)	(0.1)	-	-	-	(0.1)
<b>Total</b>	<b>115.6</b>	<b>115.2</b>	<b>0.4</b>	-	<b>(0.1)</b>	-	<b>0.5</b>

### SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2014-15

The total funding required under the levies in 2014-15 for all relevant Commonwealth agencies and departments is \$228.7 million. This is a \$30.2 million (11.7 per cent) decrease on the 2013-14 requirement. The components of the levies are outlined below (Table 4).

**Table 4: Total levies funding required**

	2013-14	2014-15		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
APRA	115.6	116.9	1.3	1.2
ASIC	32.2	28.5	(3.7)	(11.6)
ATO	7.3	7.1	(0.2)	(2.5)
DHS	4.4	4.5	0.1	3.1
SuperStream	99.5	71.7	(27.8)	(27.9)
<b>Total</b>	<b>259.0</b>	<b>228.7</b>	<b>(30.2)</b>	<b>(11.7)</b>

### Australian Securities and Investments Commission Component

A component of the levies is collected to partially defray the expenses of ASIC in relation to consumer protection, financial literacy, regulatory and enforcement activities relating to the products and services of APRA-regulated institutions as well as the operation of the Superannuation Complaints Tribunal (SCT). In addition, the levies are used to offset the cost of a number of Government initiatives including the *Stronger Super — MySuper* initiative, the over the counter (OTC) derivatives market supervision reforms and ASIC's MoneySmart Teaching programmes.

ASIC will be recovering \$28.5 million through the levies in 2014-15.

## **Australian Taxation Office Component**

Funding from the levies collected from the superannuation industry includes a component to cover the expenses of the ATO in administering the Superannuation Lost Member Register (LMR) and Unclaimed Superannuation Money (USM) frameworks. The estimated total cost to the ATO of undertaking these functions in 2014-15 is \$40.2 million, of which \$7.1 million will be recovered through the levies. The difference reflects changes to the administration of the LMR and USM over time, most of which have been funded independently to the levies.

The majority of this funding supports the ATO's activities, which include:

- the implementation of strategies to reunite individuals with lost and unclaimed superannuation money including promotion of the ATO On-Line Individuals Portal and targeted SMS/e-mail campaigns;
- working collaboratively with funds to engage members being reunited with their super, including Super Match and providing funds with updated contact information about their lost members;
- processing of lodgements, statements and other associated account activities;
- processing of claims and payments, including the recovery of overpayments;
- reviewing and improving the integrity of data on the LMR and in the USM system; and
- reviewing and improving data matching techniques, which facilitates the display of lost and unclaimed accounts on the ATO On-Line Individuals Portal.

The funding also supports the ongoing upkeep and enhancement of the ATO's administrative system for USM and the LMR and for continued work to improve efficiency and automate processing where applicable.

## **Department of Human Services Component**

The Department of Human Services administers the early release of superannuation benefits on compassionate grounds. The compassionate grounds enable the Regulator (the Chief Executive of Medicare) to consider the early release of a person's preserved superannuation in specified circumstances.

In 2012-2013, the Early Release of Superannuation Benefits programme received 18,024 applications. This was a 3.6 per cent increase in volume compared with the previous year. In 2013-2014, the Early Release of Superannuation Benefits programme is forecast to receive approximately 20,000 applications. This will represent an approximate increase in volume of 11 per cent compared with the previous year.

The department's estimated cost to administer the early release of superannuation benefits on compassionate grounds for 2014-2015 that will be recovered under the levies is \$4.5 million.

## **SuperStream Component**

Announced as part of the former Government's *Stronger Super* reforms, SuperStream is a collection of measures that are designed to deliver greater efficiency in back-office processing across the superannuation industry. Superannuation funds will benefit from standardised and simplified data and payment administration processes when dealing with employers and other



funds and from easier matching and consolidation of superannuation accounts. The costs associated with the implementation of the SuperStream measures are to be collected as part of the levies on superannuation funds. The levies will recover the full cost of the implementation of the SuperStream reforms and are to be imposed as a temporary levy on APRA-regulated superannuation entities from 2012-13 to 2017-18 inclusive. The levy payable is subject to the Minister's determination.

The costs associated with the implementation of the SuperStream reforms are estimated to be \$71.7 million in 2014-15, \$61.7 million in 2015-16, \$35.5 million in 2016-17, and \$32.0 million in 2017-18.

Further information on the break-down of funding to support the implementation of SuperStream is contained at Attachment A.

### **First Home Saver Accounts**

The *First Home Saver Account Providers Supervisory Levy Imposition Act 2008* came into effect from 1 July 2009. The Act refers to three types of entities that provide First Home Saver Account (FHSA) facilities: ADIs, life insurers and trustees of public offer superannuation entities.

The Government has abolished the FHSA scheme in the 2014-15 Budget, Government co-contributions, tax concessions, and income and asset test exemptions for Government benefits associated with these accounts will all have ceased to exist by 1 July 2015. As a result, this is the final year in which this levy will be consulted on.

The levy payable by a FHSA entity is subject to the Minister's determination. Considering the limited number of approved FHSA entities (18 ADIs and one superannuation trustee) and the small amount of FHSA deposit balances held (\$521.5 million at 31 December 2013) it is proposed that no separate FHSA levy be charged in 2014-15.

## SUMMARY OF SECTORAL LEVIES ARRANGEMENTS FOR 2014-15

The levies consists of two components: one based on the cost of supervision (the restricted component) and the other on systemic impact (the unrestricted component). APRA's activities and the time spent on them are first allocated into one of the two levy components. Each component is then apportioned across the different industries based on the total resources APRA dedicates to each industry. Currently, the restricted and unrestricted components account for 67 per cent and 33 per cent of APRA's overall supervisory effort, respectively.

To reduce the volatility in levies charged to industry, APRA smooths supervision costs through the use of a moving average. The four-year averages of APRA's costs are used to derive the 2014-15 levies allocations for each industry.

For each of the two components, Table 5 provides a comparison of the time spent by APRA to supervise each industry as a share of the total.

**Table 5: APRA's supervisory effort by industry**

Industry sector	2011-12	2012-13	2013-14	2014-15	2014-15
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4 yr average (%)
<b>Restricted component — % of time</b>					
ADIs	47	44	45	45	45
Life insurance/Friendly societies	9	11	12	11	11
General insurance	18	19	17	18	18
Superannuation	26	26	26	26	26
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Unrestricted component — % of time</b>					
ADIs	43	42	43	43	43
Life insurance/Friendly societies	11	11	11	11	11
General insurance	22	21	20	21	21
Superannuation	24	26	26	25	25
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

The average percentage of time spent supervising industries for each levy component is then used to apportion APRA's estimated costs to each industry.

## APRA'S LEVIES REQUIREMENT

Table 6 illustrates APRA's 2014-15 levies funding required for both levy components from each industry and compares this with the levies funding required from each industry for 2013-14.

**Table 6: Estimated levies by industry for APRA's levy requirement**

Industry	2013-14	2013-14	2013-14	2014-15	2014-15	2014-15
	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)
ADIs	33.4	15.7	49.1	<b>33.3</b>	<b>15.7</b>	<b>49.0</b>
Life insurance/ Friendly societies	7.3	4.0	11.3	<b>8.1</b>	<b>4.0</b>	<b>12.1</b>
General insurance	13.4	7.7	21.1	<b>13.3</b>	<b>7.6</b>	<b>21.0</b>
Superannuation	23.3	10.8	34.1	<b>23.6</b>	<b>11.3</b>	<b>34.9</b>
<b>Total</b>	<b>77.4</b>	<b>38.2</b>	<b>115.6</b>	<b>78.3</b>	<b>38.6</b>	<b>116.9</b>

## TOTAL SECTORAL LEVIES ARRANGEMENTS FOR 2014-15

Table 7 itemises the total levies requirement by industry.

**Table 7: Total levies required by industry**

Industry	APRA (\$m)	ATO (\$m)	ASIC (\$m)	DHS (\$m)	Super Stream (\$m)	Total 2014-15 (\$m)	Total 2013-14 (\$m)	Increase (decrease) (\$m)
ADIs	49.0	-	10.1	-	-	58.9	61.3	(2.4)
Life insurance/ friendly societies	12.1	-	2.7	-	-	14.8	14.2	0.6
General insurance	21.0	-	3.9	-	-	24.9	25.3	(0.4)
Superannuation	34.9	7.1	11.8	4.5	71.7	130.1	158.2	(28.1)
<b>Total</b>	<b>116.9</b>	<b>7.1</b>	<b>28.5</b>	<b>4.5</b>	<b>71.7</b>	<b>228.7</b>	<b>259.0</b>	<b>(30.3)</b>

## INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values used to determine the levies for 2013-14 with those estimated to apply to 2014-15. Asset values used for estimating the levies may differ from the assets used to invoice the levies, since more up-to-date information may be available at the time of invoicing.

**Table 8: Institutional asset base used for modelling levies**

Industry sector	December 2013		December 2012	
	Number	Total asset base (\$b)	Number	Total asset base (\$b)
ADIs <sup>1</sup>				
Banks	70	3,214.1	67	2,964.7
Building societies	9	23.2	9	22.4
Credit unions	85	41.0	91	47.2
Other ADIs, including SCCIs	7	7.7	7	7.6
Sub-total	<b>171</b>	<b>3,286.0</b>	<b>174</b>	<b>3,041.9</b>
Life insurers	28	273.9	28	247.1
Friendly societies	12	6.5	13	6.2
Sub-total	<b>40</b>	<b>280.3</b>	<b>41</b>	<b>253.3</b>
General insurers	<b>116</b>	<b>112.8</b>	<b>121</b>	<b>115.9</b>
APRA-regulated superannuation entities <sup>2,3</sup>				
Excluding small funds <sup>4,5</sup>	349	1,207.6	392	989.4
Small Funds <sup>6</sup>	3,033	2.1	3,316	1.9
Sub-total <sup>5</sup>	<b>3,382</b>	<b>1,209.6</b>	<b>3,708</b>	<b>991.4</b>
Total	<b>3,709</b>	<b>4,888.8</b>	<b>4,044</b>	<b>4,402.5</b>

**Notes:**

1. The ADI classification does not include representative offices of foreign banks.
2. This data excludes superannuation entities that APRA does not regulate, that is, exempt public sector superannuation schemes and Australian Taxation Office regulated self-managed superannuation funds.
3. Superannuation figures for December 2013 are reported under the new reporting framework. Prior figures are based on the previous reporting framework. The change in total assets reflects, to some extent, the effects of transition to the new reporting framework and should be used with caution.
4. Excluding small funds consist of public offer funds, non-public offer funds, multi-member approved deposit funds, eligible rollover funds and PSTs.
5. For the purpose of levies modelling PST assets are included in the sub-total for superannuation entities. For APRA's statistical publications PST assets are not included in asset totals as these assets are already recorded in other superannuation categories.
6. Small funds consist of small APRA funds and single-member approved deposit funds.

**SUMMARY OF THE IMPACT ON EACH INDIVIDUAL INDUSTRY****Authorised deposit-taking institutions (ADIs)**

The ADI industry comprises large and small banks as well as building societies, credit unions, Purchased Payment Facilities (PPF) and Specialist Credit Card Institutions (SCCI). Total levies funding of \$58.9 million consists of \$49.0 million for APRA's supervision of the ADI industry and \$10.1 million to fund the financial literacy and consumer protection work undertaken by ASIC (Table 7).

The total compares to \$61.3 million in 2012-13. Excluding the SuperStream levy, which is not borne by the ADI industry, levies funding from ADIs in 2014-15 represents 37.6 per cent of the total levies, compared with 38.4 per cent in 2013-14.

The funding will support APRA's supervisory activities in the ADI industry and enhancements to the prudential framework, including the bedding down of the Basel Committee reforms on liquidity and capital, and new prudential requirements for conglomerate groups and securitisation.

In 2014-15, the levy for SCCI's and providers of PPF's will be subject to a minimum of \$10,300 for the restricted component and to half the restricted maximum amount as other ADIs. These entities are subject to the same unrestricted levy rate as other ADIs.

### **Life insurance/Friendly societies**

Total levies funding of \$14.8 million consists of \$12.1 million for APRA's supervision of the life insurance industry and \$2.7 million for ASIC costs (Table 7).

The total compares to \$14.2 million in 2013-14. Excluding the SuperStream levy, which is not borne by this industry, levies funding from life insurers/friendly societies in 2014-15 represents 9.4 per cent of the total levies, compared with 8.9 per cent in 2013-14.

In 2014-15, APRA will continue its focus on the performance and capital adequacy of life insurers and friendly societies given the ongoing uncertainty in investment markets and the adverse trends in claims experience and lapse rates in risk insurance business.

### **General insurance**

Total levies funding of \$24.9 million consists of \$21.0 million for APRA's supervision of the general insurance industry (Table 7) and \$3.9 million for ASIC costs.

The total compares to \$25.3 million in 2013-14. Excluding the SuperStream levy, which is not borne by this industry, levies funding from general insurers in 2014-15 represents 15.8 per cent of the total levies, compared with 15.9 per cent in 2013-14.

In 2014-15, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover.

### **National Claims and Policies Database special levy**

In addition to the levies for general insurers, a separate levy to cover the costs of operating the National Claims and Policies Database (NCPD) will continue in 2014-15. The NCPD collects policy and claims information relating to public/product liability (PL) and professional indemnity (PI) insurance from institutions within the general insurance industry. The total amount of the NCPD levy for 2014-15 is \$1.0 million, compared to \$0.7 million in 2013-14. The increase is due to a more accurate reflection of the annual costs to APRA to run the NCPD.

The NCPD levy is based on gross earned PL and PI premium. General insurers that no longer write policies in those two categories but still receive claims relating to previously written policies are classified as 'runoffs', and are subject to a flat rate for each category of insurance. Table 9 summarises the minimum and maximum levies and the rates to be used for 2014-15.

**Table 9: Parameters for NCPD levy**

	2013-14		2014-15	
	Professional indemnity	Public and product liability	Professional indemnity	Public and product liability
Minimum (\$)	5,000	5,000	<b>5,000</b>	<b>5,000</b>
Maximum (\$)	32,000	50,000	<b>32,000</b>	<b>50,000</b>
Rate (%)	0.0158	0.0201	<b>0.0250</b>	<b>0.0373</b>
Runoff amount (\$)	2,500	2,500	<b>2,500</b>	<b>2,500</b>
Total levy (\$m)	0.31	0.41	<b>0.41</b>	<b>0.54</b>

Following consultation in 2012-13, the prescribed NCPD levy for a general insurer that issues both PL and PI products is calculated as the simple addition of the PL and PI levy components.

### Superannuation

Excluding the SuperStream levy, levies funding of \$58.4 million consists of \$34.9 million for APRA's supervision of the superannuation industry and \$23.5 million for ongoing ASIC, ATO and DHS costs.

This total compares to \$58.7 million in 2013-14. Excluding the SuperStream levy, levies funding in 2014-15 represents 37.2 per cent of total levies, compared with 36.8 per cent in 2013-14.

In 2014-15, APRA's supervisory activities in the superannuation industry will cover a range of issues, including governance and risk management issues, data integrity and the liquidity of superannuation funds. APRA will also devote considerable resources to the bedding down of relevant aspects of the previous Government's *Stronger Super* initiatives.

Separately, \$71.7 million is required to fund the continued implementation of SuperStream, bringing the total 2014-15 levy to \$130.1 million.

The levy amount for Small APRA Funds (SAFs) is maintained at a flat rate of \$590 per fund.

### Non-operating holding companies

Authorised non-operating holding companies (NOHCs) will continue to contribute to the levies at a flat fee of \$10,000 per institution.

## LEVIES COMPARISON BETWEEN PREVIOUS YEARS AND 2014-15

While the above section presents the estimated total cost of the levies for 2014-15 for each industry, there are a number of ways in which the levies can be apportioned. This section presents two options for determining the levy payable by an entity in 2014-15. These options are:

- Option 1: No change in methodology from 2013-14.
- Option 2: In line with the conclusions of the methodology review, all activities, except APRA's prudential supervision, are allocated to the unrestricted levy component. The maximum cap for superannuation funds is lower to reflect the cost of SuperStream

being met from the unrestricted component, and PSTs will be levied at a lower rate to reflect the lower intensity of regulation required.

Table 10 illustrates the allocation of activities under both Option 1 and Option 2. Submissions on this consultation paper are invited to express a preference for either Option 1 or Option 2 when determining the levies payable for 2014-15.

**Table 10: Allocation of Levies Components under Option 1 and Option 2**

Activity	Option 1 — Levies Allocations		Option 2 — Levies Allocations	
	Restricted (%)	Unrestricted (%)	Restricted (%)	Unrestricted (%)
APRA — prudential regulation	67	33	67	33
ASIC — financial literacy	0	100	0	100
ASIC — OTC derivatives*	0	100	0	100
ASIC — regulatory and enforcement activities	100	0	0	100
ASIC — Superannuation Complaints Tribunal^	0	100	0	100
ATO (and others) — SuperStream^	65.5	34.5	0	100
ATO — unclaimed and lost superannuation^	100	0	0	100
DHS — early release of superannuation^	67	33	0	100

\*levied on ADI's only. ^levied on APRA-regulated superannuation entities only.

The prospective restricted rates, minimum, maximum, and unrestricted rates for each option are listed in Table 11, and compared to the actual parameters from 2013-14.

**Table 11: Levies scenarios**

Industry	Criteria	2013-14	2014-15	
		Actual	Option 1	Option 2
<b>Authorised deposit-taking institutions — locally incorporated</b>	<b>Restricted:</b>			
	Rate (%)	0.00499	0.00466	0.00390
	Minimum (\$m)	490	490	490
	Maximum (\$m)	2,341,000	2,341,000	2,341,000
	<b>Unrestricted rate (%)</b>	0.000776	0.000659	0.000774
<b>Authorised deposit-taking institutions — foreign branches</b>	<b>Restricted:</b>			
	Rate (%)	0.00250	0.00233	0.00195
	Minimum (\$m)	490	490	490
	Maximum (\$m)	1,170,500	1,170,500	1,170,500
	<b>Unrestricted rate (%)</b>	0.000776	0.000659	0.000774

Industry	Criteria	2013-14	2014-15	
		Actual	Option 1	Option 2
<b>Life insurers/ Friendly societies</b>	<b>Restricted:</b>			
	Rate (%)	0.00786	0.00787	0.00477
	Minimum (\$m)	490	490	490
	Maximum (\$m)	1,320,000	1,320,000	1,320,000
	<b>Unrestricted rate (%)</b>	0.001563%	0.001430%	0.002385%
<b>General insurers</b>	<b>Restricted:</b>			
	Rate (%)	0.01505	0.01766	0.01283
	Minimum (\$m)	4,900	4,900	4,900
	Maximum (\$m)	1,064,000	1,064,000	1,064,000
	<b>Unrestricted rate (%)</b>	0.006983	0.007191	0.010041
<b>Superannuation funds — excluding PSTs</b>	<b>Restricted:</b>			
	Rate (%)	0.01848	0.01175	0.00516
	Minimum (\$m)	590	590	590
	Maximum (\$m)	1,786,000	1,786,000	260,000
	<b>Unrestricted rate (%)</b>	0.004614	0.004047	0.009966
<b>Superannuation Funds — PSTs</b>	<b>Restricted:</b>			
	Rate (%)	0.01848	0.01175	0.00258
	Minimum (\$m)	590	590	590
	Maximum (\$m)	1,786,000	1,786,000	130,000
	<b>Unrestricted rate (%)</b>	0.004614	0.004047	0.001779

Table 12 to Table 17 compare the cost of the levies payable in each industry for each relevant asset base between 2012-13 and 2013-14, and the proposed levies payable in 2014-15 under both Option 1 and Option 2.

**Table 12: Amounts levied on ADIs**

Asset base	\$50m (\$'000)	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$100b (\$'000)	\$500b (\$'000)
2012-13	2.4	23.5	235.3	1,176.5	2,666.0	4,929.9
2013-14	2.9	28.8	288.5	1,442.4	3,116.6	6,218.9
2014-15 (Option 1)	2.7	26.6	266.0	1,329.8	3,000.0	5,636.0
2014-15 (Option 2)	2.3	23.4	233.5	1,167.7	3,114.9	6,210.7



**Table 13: Amounts levied on foreign ADI branches**

<b>Asset Base</b>	<b>\$500m (\$'000)</b>	<b>\$5b (\$'000)</b>	<b>\$25b (\$'000)</b>	<b>\$50b (\$'000)</b>
2012-13	13.2	131.8	659.0	1,318.0
2013-14	16.4	163.6	818.2	1,558.3
2014-15 (Option 1)	14.9	149.5	747.3	1,494.5
2014-15 (Option 2)	13.6	136.1	680.6	1,361.2

**Table 14: Amounts levied on life insurers/friendly societies**

<b>Asset Base</b>	<b>\$3m (\$'000)</b>	<b>\$50m (\$'000)</b>	<b>\$500m (\$'000)</b>	<b>\$3b (\$'000)</b>	<b>\$10b (\$'000)</b>	<b>\$50b (\$'000)</b>
2012-13	0.5	4.4	43.7	262.4	874.6	2,031.1
2013-14	0.5	4.7	47.1	282.7	942.4	2,101.7
2014-15 (Option 1)	0.5	4.7	46.5	279.0	930.0	2,035.0
2014-15 (Option 2)	0.6	3.6	35.8	214.5	715.1	2,512.7

**Table 15: Amounts levied on general insurers**

<b>Asset Base</b>	<b>\$5m (\$'000)</b>	<b>\$25m (\$'000)</b>	<b>\$250m (\$'000)</b>	<b>\$750m (\$'000)</b>	<b>\$3b (\$'000)</b>	<b>\$9b (\$'000)</b>
2012-13	5.3	6.7	50.9	152.7	610.7	1,534.5
2013-14	5.2	6.6	55.1	165.3	661.1	1,692.5
2014-15 (Option 1)	5.3	6.7	62.1	186.4	745.5	1,711.2
2014-15 (Option 2)	5.4	7.4	57.2	171.5	686.2	1,967.7

**Table 16: Amounts levied on superannuation funds (excluding SAFs and PSTs)**

<b>Asset Base</b>	<b>\$1m (\$'000)</b>	<b>\$3m (\$'000)</b>	<b>\$50m (\$'000)</b>	<b>\$250m (\$'000)</b>	<b>\$5b (\$'000)</b>	<b>\$20b (\$'000)</b>	<b>\$50b (\$'000)</b>
2012-13	0.7	0.9	15.4	77.2	1,543.7	3,306.9	5,267.3
2013-14	0.6	0.7	11.5	57.7	1,154.8	2,708.7	4,092.9
2014-15 (Option 1)	0.6	0.7	7.9	39.5	789.9	2,228.4	3,442.5
2014-15 (Option 2)	0.7	0.9	7.2	36.2	723.9	2,282.3	5,270.8

**Table 17: Amounts levied on PSTs**

Asset Base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$30b (\$'000)
2012-13	0.7	0.9	15.4	77.2	1,543.7	3,306.9	3,960.4
2013-14	0.6	0.7	11.5	57.7	1,154.8	2,708.7	3,170.1
2014-15 (Option 1)	0.6	0.7	7.9	39.5	789.9	2,228.4	2,633.1
2014-15 (Option 2)	0.6	0.6	2.1	10.5	210.1	534.0	728.5

## MODELLING THE USE OF THE NUMBER OF SUPERANNUATION FUND MEMBERS AS THE LEVY BASE FOR SUPERSTREAM

Submissions to the methodology review indicated that there is a desire among some representatives of the superannuation industry to calculate the SuperStream component of the levies on a per-member basis. Currently, the levy is collected as a percentage of a superannuation entity's assets, which can result in superannuation entities paying different levies despite having the same number of fund members.

Table 18 presents two scenarios. Under Option 2, levies are raised on superannuation funds through a restricted and unrestricted component (consistent with Table 10). The unrestricted component includes the SuperStream component of the levy. Under Option 2A, the calculation of the restricted component is unchanged but the calculation of the unrestricted component has been split to be partly calculated on a per member basis (the SuperStream component) and partly on an institution's asset base (the non-SuperStream component).

Submissions on this consultation paper should specifically express a preference for calculating the SuperStream levy using either the number of members or the value of assets as the levy base.

If this new framework was supported by industry the earliest that it could be implemented would be in 2015-16. This is because APRA's billing systems would require substantial changes that could not be completed before the start of the 2014-15 financial year.

**Table 18: Modelling the SuperStream levy using a per-member levy base and an asset value base**

Industry	Criteria	2014-15	
		Option 2	Option 2A
		SuperStream included in unrestricted levy	SuperStream recovered on a per-member basis
	<b>Restricted:</b>		
	Rate %	0.00516%	0.00516%
<b>Superannuation funds</b>	Minimum (\$m)	590	590
	Maximum (\$m)	260,000	260,000
	<b>Unrestricted rate (%)</b>	0.009966%	0.003155%
	<b>SuperStream Levy rate per member</b>	-	\$2.47

## ATTACHMENT A

### Impact of the SuperStream levy for 2014-15

SuperStream is a package of reforms that will move Australia's \$1.8 trillion superannuation industry from largely paper-based processing of contributions and rollovers to mandatory electronic transactions, and introduce standardised simplified administrative processes for routine functions. These reforms will ultimately yield significant reductions in costs across the industry and make the system easier to use.

Analysis undertaken by the superannuation industry suggests that savings of \$1 billion per year will be achieved in efficiency gains across the industry. Commonwealth funding of the SuperStream measures will be \$71.7 million in 2014-15 and \$421.8 million across the period 2011-12 to 2017-18.

Commonwealth costs associated with the implementation of the SuperStream measures are paid for by a SuperStream levy imposed on APRA-regulated funds.

Table 1 provides an overview of the total amount of Commonwealth funding that will be directed to implementing the SuperStream measures, and the total amount of SuperStream levy that is to be collected over the period 2012-13 to 2017-18.

**Table 1: Total amount of SuperStream funding and SuperStream levy collection 2011-12 to 2017-18**

	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)	2014-15 (\$m)	2015-16 (\$m)	2016-17 (\$m)	2017-18 (\$m)
<b>SuperStream funding</b> (Total expenses)	(31.4)	(90.0)	(99.5)	(71.7)	(61.7)	(35.5)	(32.0)
<b>SuperStream levy collection</b> (Total revenue)	0.0	121.5	99.5	71.7	61.7	35.5	32.0
<b>Net Impact</b>	(31.4)	31.4	0.0	0.0	0.0	0.0	0.0

The activities funded by the SuperStream levy include:

- data and e-commerce support facilities;
- development and inclusion of superannuation terms in the Standard Business Reporting (SBR) taxonomy, since SBR will be used as the platform for elements of SuperStream transactions;
- enhanced matching of member information to accounts by the ATO to aid account consolidation;
- provision of an interactive online portal by the ATO for members to view their superannuation accounts, including active accounts;
- enhancement of systems by the ATO to facilitate re-report of superannuation accounts by funds;

- provision of a TFN validation service by the ATO for funds and employers; and
- extension of the VANguard authentication service to support the use of the AUSkey functionality — this provides for user authentication when accessing online services or making online transactions.

The majority of these functions will be carried out by the ATO. The other activities, and the levy's allocation, are attributable to the following agencies:

- \$1.9 million of the 2014-15 levy will be provided to the Department of Industry. This relates to the cost of extending the VANguard authentication service to support the use of the AUSkey functionality in business-to-business transactions. VANguard, together with AUSkey, is the government's preferred authentication solution for secure business-to-government and government-to-government transactions. Further information on VANguard is available at [www.vanguard.gov.au](http://www.vanguard.gov.au); and
- \$0.1 million of the 2014-15 levy will be provided to Treasury. The funding will be used to fund work incurred relating to SuperStream policy setting and evaluation of the SuperStream initiative.