



Australian Government

The Treasury



APRA

**PROPOSED FINANCIAL INDUSTRY LEVIES FOR
2015-16**

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 2015-16 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 2015-16 to be funded through the commensurate levies revenue to be collected in 2015-16.

The paper also reflects on the proposed transfer of the Private Health Insurance Administration Council's functions to APRA and the amounts to be recovered from this industry in 2015-16.

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.

In June 2014, the Department of Finance finalised a whole-of-Government review of the CRGs as part of the Government's deregulation agenda. In the 2014-15 discussion paper on the Financial Institutions Supervisory Levies it was proposed that, following the release of the revised CRGs and in line with the conclusions of Treasury's 2013 methodology review, the activities which are funded through the levies would be further examined.

As a consequence of this process, it has been determined that the levies to fund the activities of the Australian Securities and Investments Commission (ASIC), the Department of Human Services (DHS), and the Australian Taxation Office (ATO) have not been collected in a manner wholly consistent with the CRGs.

As a result, in the 2015-16 Budget the Government formally agreed to recover the full costs of administering: the Early Release of Superannuation Benefits programme; the Unclaimed Superannuation Moneys programme; and the Lost Member Register from the superannuation industry from 2015-16. This decision will align the levies charged for these activities with their cost to the Government, ensuring compliance with the CRGs.

Finally, an updated Cost Recovery Implementation Statement will be released by APRA by 30 June 2015, which will provide further 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. 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*; and the
- *Superannuation Supervisory Levy Imposition Act 1998*.

From 2016-17, the Minister will also make a determination under the *Private Health Insurance Supervisory Levy Imposition Act 2015*, subject to its passage through Parliament.

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 ASIC and the ATO;
- administering claims for the early release of superannuation benefits on compassionate grounds by DHS; and
- implementing the SuperStream initiative.

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

SUPERVISORY LEVY ON THE PRIVATE HEALTH INSURANCE INDUSTRY

In the 2014-15 Budget, the Government announced the cessation of the Private Health Insurance Administration Council (PHIAC) from 1 July 2015, with responsibility for the prudential regulation of the private health insurance industry to be transferred to APRA.

Currently, the costs incurred by PHIAC in their supervision of the private health insurance industry are recovered through a quarterly administrative levy on private health insurers. This was authorised by the *Private Health Insurance (Council Administration Levy) Act 2003*, with the calculation mechanism to determine the amount payable specified by the Health Minister in the *Private Health Insurance (Council Administration Levy) Rules 2007*.

From 1 July 2015, it is intended that APRA will recover the costs of supervising the private health insurance industry under the *Private Health Insurance Supervisory Levy Imposition Act 2015*, with a Treasury Minister to make an annual determination (from 2016-17) specifying the rate at which the levy will be payable. This rate will continue to be applied to the number of single and joint health insurance policies held by insurers however the levy will be collected annually rather than quarterly to maintain consistency with other APRA supervised industries.

In 2015-16, APRA will calculate the levy payable by each private health insurer using the mechanism outlined in the *Private Health Insurance (Council Administration Levy) Rules 2007*. While over time the transfer of PHIAC's functions to APRA will generate a reduced levy for private health insurers (as a result of back office and other efficiencies), these savings will not be immediately realised due to transitional costs that must be borne by APRA¹. It is currently expected that these savings will be realised by industry in 2017-18.

METHODOLOGY REVIEW OF 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 on the methodology review and its conclusions informed last year's discussion paper on the levies to be imposed in 2014-15. In the 2014-15 discussion paper, industry was further asked to provide Government with their views in relation to whether:

1. The 2014-15 levies should be calculated in the same way as the 2013-14 levies (Option 1), or;
2. For the 2014-15 levies, the costs of all activities, except for APRA's prudential supervision, should be allocated to the unrestricted levy component with the maximum cap for superannuation funds lowered to reflect the cost of SuperStream being met from

¹ These transitional costs include: staff redundancies and transfers, general relocation costs, and the migration / development of new IT systems.

the unrestricted component, and Pooled Superannuation Trusts to be levied at a lower rate to reflect the lower intensity of regulation required (Option 2).

Industry was also asked to provide Government with their views on whether the SuperStream levy payable should continue to be calculated on a net assets basis or with reference to the number of superannuation fund members.

Following industry consultation, the Government elected to determine the levies payable in 2014-15 using the methodology outlined in Option 2. This methodology will be used to determine the levies payable in 2015-16.

Feedback from industry has also led the Government to decide that the SuperStream component of the levies will continue to be collected on a 'net assets' basis. This is as a result of the inequitable outcomes that would arise under a 'per member' model for 'rollover' funds and other superannuation funds with a large number of members with a low average fund balance.

APRA'S 2015-16 ACTIVITIES

APRA will continue to adopt a risk-focussed approach in 2015-16. 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. In the ADI sector, APRA will pay particular attention to housing lending standards in the current context of robust competition and strong price pressures in some housing markets. In insurance, competitive pressures in commercial lines, and adverse outcomes in group life business, will attract further scrutiny. In the area of superannuation, APRA's focus will continue to be on the effectiveness of the industry's adoption of new prudential standards introduced in recent years. On the policy front, APRA will focus on responding to the recommendations of the Financial System Inquiry, implementing a new prudential framework for conglomerate groups, finalising a simplified framework for securitisation, and on monitoring the impact of the various prudential reforms APRA has introduced since the global financial crisis began.

In the 2014-15 Budget, the Government announced the cessation of the Private Health Insurance Administration Council (PHIAC) as part of its measures to reduce duplication and increase efficiency in how public funds are used to deliver services to the community. PHIAC's prudential regulation of private health insurers will be merged into APRA following the passing of relevant enabling legislation which is expected to be passed prior to 30 June 2015.

In 2015-16, APRA's main strategic objectives are to:

- identify and understand significant risks at both industry and institution level so timely and proportionate action can be taken to protect beneficiary interests;
- maintain a robust prudential framework that sets requirements for prudent behaviour of regulated institutions and their boards and which is consistent with relevant international standards;
- strengthen failure and crisis preparedness;

- have highly skilled and engaged people, guided and supported by strong leaders within an open, values-aligned culture;
- have more robust and efficient organisational processes and infrastructure which support core functions; and
- enhance transparency in communication, engagement with stakeholders and accountability for performance.

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 2015-16 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 2015-16

APRA's 2015-16 levy funding requirements²

APRA's net funding requirements under the levies for 2015-16 are shown in Table 1. The budgeted total cost for APRA for 2015-16 is \$125.1 million, a \$2.7 million (2.2 per cent) increase relative to budget for 2014-15. \$6.6 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 \$1.0 million in projected over-collected 2014-15 levies to be returned to industry (discussed below), APRA's underlying net levies funding requirement for 2015-16 is \$117.5 million, an increase of \$0.6 million (0.5 per cent) relative to budget for 2014-15.

² APRA's 2015-16 funding requirements do not include funding associated with the prudential supervision of the private health insurance industry. These amounts are separately reported by the Department of Health.

Table 1: APRA — levies funding required

	2014-15	2015-16		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
APRA – operating expenses	122.4	125.1	2.7	2.2
APRA – capital expenditure	0.1	-	(0.1)	(100.0)
Budgeted total cost	122.6	125.1	2.6	2.1
Net cost offsets (Table 2)	(6.1)	(6.6)	(0.5)	8.5
Under/(over) collected revenue (Table 3)	0.4	(1.0)	(1.5)	(330.9)
Net funding met through industry levies	116.9	117.5	0.6	0.5

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	2014-15	2015-16		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
Appropriations - NCPD	(1.0)	(0.4)	0.5	(55.8)
- Other	(3.1)	(3.1)	(0.0)	0.4
Sale of goods and services	(2.1)	(3.1)	(1.0)	50.2
Total	(6.1)	(6.6)	(0.5)	8.5

Adjustment for over-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 2014-15 expected collections, there will be an over-collection of APRA levies of \$1.0 million that will be returned to industry through the 2015-16 levies (Table 3).

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

Source of revenue	2014-15 Budget	2014-15 Forecast	2014-15 Difference	Difference to be recovered from / (refunded to) industry.			
				ADI	LI	GI	Super
Supervisory levies	116.8	117.5	(0.7)	0.1	0.1	0.1	(1.0)
Levy waivers and write-offs	(0.4)	(0.0)	(0.4)	-	-	-	(0.4)
Total	116.4	117.4	(1.0)	0.1	0.1	0.1	(1.3)

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2015-16

The total funding required under the levies in 2015-16 for all relevant Commonwealth agencies and departments is \$230.0 million. This is a \$1.3 million (0.6 per cent) increase on the 2014-15 requirement. The components of the levies are outlined below (Table 4).

Table 4: Total levies funding required

	2014-15		2015-16	
	Budget	Budget	Change	Change
	(\$m)	(\$m)	(\$m)	(%)
APRA	116.9	117.5	0.6	0.5
ASIC	28.5	28.2	(0.3)	(1.1)
ATO	7.1	17.9	10.8	151.4
DHS	4.5	4.7	0.2	3.9
SuperStream	71.7	61.8	(9.9)	(13.9)
Total	228.7	230.0	1.3	0.6

Australian Securities and Investments Commission Component

A component of the levies is collected to partially offset 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 over the counter (OTC) derivatives market supervision reforms and ASIC's MoneySmart programmes.

\$28.2 million will be recovered for ASIC through the levies in 2015-16.

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 \$18.3 million, of which \$7.1 million was recovered through the levies. In 2015-16, it is estimated that the total cost to the ATO in undertaking these functions will be \$17.9 million with the full amount to be recovered through the levies in line with the requirements of the Government's CRGs.

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 2013-14, the Early Release of Superannuation Benefits programme received 19,286 applications. This was a 7 per cent increase compared with the previous year. In 2014-15, the Early Release of Superannuation Benefits programme is forecast to receive approximately 20,500 applications. This will represent an approximate increase in volume of 6.3 per cent compared with the previous year.

The programme is expected to cost the Government \$4.7 million in 2015-16 and, in line with the CRGs, this amount will be recovered in full through the levies.

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 \$61.8 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.

SUMMARY OF SECTORAL LEVIES ARRANGEMENTS FOR 2015-16

APRA's annual supervisory levies are made up 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 68 per cent and 32 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 2015-16 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	2012-13	2013-14	2014-15	2015-16	2015-16
	Actual (%)	Actual (%)	Forecast (%)	Estimate (%)	4-yr average
Restricted component - % of time					
ADIs	44	46	48	46	46
Life insurance/Friendly societies	11	11	10	11	11
General insurance	19	16	16	17	17
Superannuation	26	27	26	26	26
Total	100	100	100	100	100
Unrestricted component – % of time					
ADIs	42	43	42	42	42
Life insurance/Friendly societies	11	11	10	11	11
General insurance	21	20	21	21	21
Superannuation	26	26	27	26	26
Total	100	100	100	100	100

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 2015-16 levies funding required for both levy components from each industry and compares this with the levies funding required from each industry for 2014-15.

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

Industry	2014-15	2014-15	2014-15	2015-16	2015-16	2015-16
	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)
ADIs	33.3	15.7	49.0	37.2	16.0	53.1
Life insurance / Friendly societies	8.1	4.0	12.1	8.9	4.2	13.1
General insurance	13.3	7.6	21.0	13.8	8.0	21.8
Superannuation	23.6	11.3	34.9	20.1	9.4	29.5
Total	78.3	38.6	116.9	79.9	37.6	117.5

TOTAL SECTORAL LEVIES ARRANGEMENTS FOR 2015-16

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 2015-16 (\$m)	Total 2014-15 (\$m)	Increase (decrease) (\$m)
ADIs	53.1	-	11.0	-	-	64.2	58.9	5.2
Life insurance / friendly societies	13.1	-	3.0	-	-	16.1	14.8	1.3
General insurance	21.8	-	3.9	-	-	25.7	24.9	0.8
Superannuation	29.5	17.9	10.2	4.7	61.8	124.0	130.1	(6.1)
Total	117.5	17.9	28.2	4.7	61.8	230.0	228.7	1.3

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values at December 2013 and December 2014. The equivalent of these assets at the relevant levy dates are used to determine the levies for 2015-16. Asset values used for estimating the levies will differ from the assets used to invoice the levies, since more up-to-date information will be available at the time of invoicing.

Table 8: Institutional asset base used for modelling levies

Industry sector	December 2014		December 2013	
	Number	Total assets (\$b)	Number	Total assets (\$b)
ADIs ¹				
Banks	72	3,575.5	70	3,217.6
Building societies	8	22.8	9	23.2
Credit unions	81	41.2	85	41.0
Other ADIs, including SCCIs	7	7.4	7	7.5
Sub-total	168	3,646.9	171	3,289.3
Life insurers	28	291.1	28	273.9
Friendly societies	12	6.7	12	6.5
Sub-total	40	297.8	40	280.4
General insurers	115	114.7	116	112.8
APRA-regulated superannuation entities ²				
Excluding small funds ^{3,6}	309	1,310.8	349	1,186.1
Small Funds ⁴	2,476	2.2	3,033	2.0
Sub-total ⁵	2,785	1,313.0	3,382	1,188.1
Total	3,108	5,372.4	3,709	4,870.6

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 entities excluding small funds consist of public offer funds, non-public offer funds, multi-member approved deposit funds, eligible rollover funds and pooled superannuation trusts.
- 4 Small funds consist of small APRA funds and single-member approved deposit funds.
- 5 For the purpose of levies modelling pooled superannuation trust assets (of \$129.4m in 2014) are included in the sub-total for superannuation entities. For APRA's statistical publications pooled superannuation trust assets are not included in asset totals as these assets are already recorded in other superannuation categories.

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 and Purchased Payment Facilities (PPF). Total levies funding of \$64.2 million consists of \$53.1 million for APRA's supervision of the ADI industry and \$11.0 million to fund the financial literacy and consumer protection work undertaken by ASIC (Table 7).

The total compares to \$58.9 million in 2014-15. Excluding the SuperStream levy, which is not borne by the ADI industry, levies funding from ADIs in 2015-16 represents 38.1 per cent of the total levies, compared with 37.6 per cent in 2014-15.

The funding will support APRA's supervisory activities in the ADI industry and ongoing enhancements to the prudential framework, including further reforms generated by the Financial System Inquiry and the Basel Committee, and new prudential requirements for conglomerate groups and securitisation.

In 2015-16, the levy for 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 \$16.1 million consists of \$13.1 million for APRA's supervision of the life insurance industry and \$3.0 million for ASIC costs (Table 7).

The total compares to \$14.8 million in 2014-15. Excluding the SuperStream levy, which is not borne by this industry, levies funding from life insurers/friendly societies in 2015-16 represents 9.6 per cent of the total levies, compared with 9.4 per cent in 2014-15.

In 2015-16, 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 \$25.7 million consists of \$21.8 million for APRA's supervision of the general insurance industry and \$3.9 million for ASIC costs (Table 7).

The total compares to \$24.9 million in 2014-15. Excluding the SuperStream levy, which is not borne by this industry, levies funding from general insurers in 2015-16 represents 15.3 per cent of the total levies, compared with 15.8 per cent in 2014-15.

In 2015-16, 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 2015-16. 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 2015-16 is \$0.4 million, compared to \$1.0 million in 2014-15. The decrease represents the return to industry of an over-collection in 2014-15.

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 2015-16.

Table 9: Parameters for NCPD levy

	2014-15		2015-16	
	Professional indemnity	Public and product liability	Professional indemnity	Public and product liability
Minimum (\$)	5,000	5,000	5,000	5,000
Maximum (\$)	32,000	50,000	32,000	50,000
Rate (%)	0.0250	0.0373	0.0048	0.0060
Runoff amount (\$)	2,500	2,500	2,500	2,500
Total levy (\$m)	0.41	0.54	0.19	0.23

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 \$62.2 million consists of \$29.5 million for APRA's supervision of the superannuation industry and \$32.8 million for ongoing ASIC, ATO and DHS costs. This total compares to \$58.4 million in 2014-15.

This increase is primarily as a result of the Government's decision to recover the full costs of the Department of Human Services' 'Early release of superannuation benefits' programme, as well as the ATO administered 'Lost member Register' and unclaimed superannuation moneys programmes. This decision builds on the conclusions of Treasury's response to the 2013-14 methodology review of APRA's supervisory levies (that found that 'there is a need to clarify when levies are being used to recover costs in a manner consistent with the Government's Cost Recovery Guidelines') as well as the publication of the Government's revised cost recovery guidelines in July 2014.

Through these processes, it was identified that the Government had not been recovering the full costs of these programmes from the superannuation industry. In the 2015-16 Budget, the Government acted to ensure that the costs of these activities would be recovered in line with the CRGs in the future. This will result in an additional \$46.9 million in supervisory levies being collected from the superannuation industry between 2015-16 and 2018-19.

Excluding the SuperStream levy, levies funding in 2015-16 represents 37.0 per cent of total levies, compared with 37.2 per cent in 2014-15.

In 2015-16, APRA's supervisory activities in the superannuation industry will cover a range of issues, including continued focus on 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, \$61.8 million is required to fund the continued implementation of SuperStream, bringing the total 2014-15 levy to \$124.0 million.

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

Private Health Insurance

On 1 July 2015 APRA is expected to absorb the majority of the responsibilities and operations of the Private Health Insurance Administration Council (PHIAC). As a result APRA will collect quarterly administration levies from the Private Health Insurers to fund these operations.

For 2015-16 the levies will be collected in conjunction with the Private Health Insurance (Council Administration Levy) Amendment Rules 2013 (No.2), which can be found on the Australian Government Comlaw website: <http://www.comlaw.gov.au/Details/F2013L01504>.

The rules will be adjusted to allow APRA to collect these levies in 2015-16 however no changes to the rates used are envisaged.

The rate for a single policy for each quarter of the financial year mentioned in the following table is the amount in cents worked out using the formula in the table below.

2015-2016	$\frac{155\,775\,000}{\text{single coverage policies} + (2 \times \text{joint coverage policies})}$
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The rate for a joint policy for each quarter of a financial year mentioned in column 2 of the following table is the amount in cents worked out using the formula in the table below:

2015-2016	2 X	$\frac{155\,775\,000}{\text{single coverage policies} + (2 \times \text{joint coverage policies})}$
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In this rule:

single coverage policies means the aggregate number of single policies on issue from all private health insurers on the census day.

joint coverage policies means the aggregate number of all joint policies on issue from all private health insurers on the census day.

The 28th day of the first month of a quarter is specified as the census day for the council administration levy day that occurs in that quarter.

The total amount anticipated to be collected from this levy is \$6.2 million.

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 2015-16

This section presents how the levy payable by an entity will be determined in 2015-16. This will be completed using the same levies allocations used in 2014-15. Table 10 illustrates the allocation of activities under the levies for 2015-16.

Table 10: Allocation of Levies Components in 2015-16

Activity	Restricted (%)	Unrestricted (%)
APRA — prudential regulation	68	32
ASIC — financial literacy	0	100
ASIC — OTC derivatives*	0	100
ASIC — regulatory and enforcement activities	0	100
ASIC — Superannuation Complaints Tribunal^	0	100
ATO (and others) — SuperStream^	0	100
ATO — unclaimed and lost superannuation^	0	100
DHS — early release of superannuation^	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 2014-15.

Table 11: Levy parameters

Industry	Criteria	2014-15	2015-16
		Actual	Forecast
Restricted:			
Authorised deposit-taking institutions - locally incorporated	Rate %	0.00390	0.00408
	Minimum	490	3,000
	Maximum	2,341,000	2,450,000
	Unrestricted rate (%)	0.000774	0.000718
Restricted:			
Authorised deposit-taking institutions - foreign branches	Rate %	0.00195	0.00204
	Minimum	490	3,000
	Maximum	1,170,500	1,225,000
	Unrestricted rate (%)	0.000774	0.000718
Restricted:			
Life insurers / Friendly societies	Rate %	0.00478	0.00536
	minimum	490	3,000
	maximum	1,320,000	1,320,000
	Unrestricted rate (%)	0.002388	0.002371

Industry	Criteria	2014-15	2015-16
		Actual	Forecast
	Restricted:		
	Rate %	0.01289	0.01328
General insurers	minimum	4,900	7,500
	maximum	1,064,000	1,064,000
	Unrestricted rate (%)	0.010073	0.01006
	Restricted:		
	Rate %	0.00513	0.00331
Superannuation funds	minimum	590	1,000
	maximum	260,000	260,000
	Unrestricted rate (%)	0.009841	0.008716
	Restricted:		
	Rate %	0.00257	0.00164
Superannuation funds - Pooled Superannuation Trusts	minimum	590	1,000
	maximum	130,000	130,000
	Unrestricted rate (%)	0.001758	0.001009

For Pooled Superannuation Trusts the amount recovered by the unrestricted levy includes the APRA unrestricted component and the ASIC unrestricted component (excluding those relating to the SCT, Financial Literacy and OTC derivatives elements).

For the ADI's, the life insurers / friendly societies and the general Insurers the restricted levy minimums have been increased to better match the cost of supervision to the levy collected. Further details on this increase will be available in the APRA CRIS to be published in June 2015.

Table 12 to Table 17 compare the cost of the levies payable in each industry for each relevant asset base between 2013-14 and 2014-15, and the proposed levies payable in 2015-16.

Table 12: Amounts levied on ADIs

Asset base	\$50m (\$'000)	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$100b (\$'000)	\$500b (\$'000)
2013-14	2.9	28.8	288.5	1,442.4	3,116.6	6,218.9
2014-15	2.3	23.4	233.6	1,167.9	3,115.0	6,210.8
2015-16	3.4	24.0	239.7	1,198.7	3,168.4	6,042.1

Table 13: Amounts levied on foreign ADI branches

Asset base	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$50b (\$'000)
2013-14	16.4	163.6	818.2	1,558.3
2014-15	13.6	136.1	680.7	1,361.3
2015-16	13.8	137.8	689.1	1,378.3

Table 14: Amounts levied on life insurers/friendly societies

Asset base	\$3m (\$'000)	\$50m (\$'000)	\$500m (\$'000)	\$3b (\$'000)	\$10b (\$'000)	\$50b (\$'000)
2013-14	0.5	4.7	47.1	282.7	942.4	2,101.7
2014-15	0.6	3.6	35.8	215.1	716.9	2,513.9
2015-16	3.1	4.2	38.6	231.9	772.9	2,505.7

Table 15: Amounts levied on general insurers

Asset base	\$5m (\$'000)	\$25m (\$'000)	\$250m (\$'000)	\$750m (\$'000)	\$3b (\$'000)	\$9b (\$'000)
2013-14	5.2	6.6	55.1	165.3	661.1	1,692.5
2014-15	5.4	7.4	57.4	172.3	689.0	1,970.5
2015-16	8.0	10.0	58.3	175.0	700.1	1,969.4

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

Asset base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$50b (\$'000)
2013-14	0.6	0.7	11.5	57.7	1,154.8	2,708.7	4092.9
2014-15	0.7	0.9	7.5	37.4	748.7	2,228.2	5180.5
2015-16	1.1	1.3	6.0	30.1	601.5	2,003.3	4618.2

Table 17: Amounts levied on PSTs

Asset base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$30b (\$'000)
2013-14	0.6	0.7	11.5	57.7	1,154.8	2,708.7	3170.1
2014-15	0.6	0.6	2.2	10.8	216.4	481.6	657.4
2015-16	1.0	1.0	1.5	6.6	132.6	331.8	432.7

ATTACHMENT A

Impact of the SuperStream levy for 2015-16

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 \$61.8 million in 2015-16 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)
SuperStream funding (Total expenses)	(31.4)	(90.0)	(99.5)	(71.7)	(61.8)	(35.5)	(32.0)
SuperStream levy collection (Total revenue)	0.0	121.5	99.5	71.7	61.8	35.5	32.0
Net Impact	(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; 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.