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The Treasury
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Dear Sir/Madam

PROPOSED FINANCIAL INDUSTRY LEVIES FOR 2015-2016

The Insurance Council of Australia (Insurance Council) welcomes the opportunity to comment on the Financial Industry Levies (the levies) proposed for 2015-2016. As indicated in our previous submissions on the annual levy process, the Insurance Council considers that it is essential to have an appropriate framework in place to ensure regulators deliver value for money. We note that the total levies apportioned to the general insurance sector for the 2015-16 financial year total approximately \$25.7 million, of which \$21.8 million is allocated for supervision of the sector by the Australian Prudential Regulation Authority (APRA).

The Insurance Council is concerned that industry is responding to the consultation process in the absence of the cost recovery impact statement from APRA. Further, there remains a lack of detail, beyond internal estimates of resource utilisation by sector, on the way in which resources will be allocated. Given industry's strong support for well-targeted regulatory activities that reduces systemic and consumer risks, we consider there is a need for greater transparency and improved industry understanding of regulatory priorities. We remain concerned that key requirements of the Government's cost recovery policy are still not being met, despite the issue being raised in our previous submissions on the annual levy process.¹

In order to comment meaningfully on the appropriate level of funding, industry requires adequate dialogue with regulators on how they see the current regulatory landscape and their proposed priorities for the upcoming year. It remains unclear how the cost impact to insurers can be assessed in isolation from regulators consulting with industry and in absence of an activity specific breakdown of total funding costs.

The Insurance Council recognises the link between portfolio budget resourcing being issued through the budget process and the consultation process beginning soon afterwards. However, we would appreciate the Government further encouraging regulators to release

¹ The Australian Government's formal cost recovery policy requires: a high degree of transparency about what costs are recovered and to demonstrate that charges reflect the cost of government goods and services, including regulation, provided to specific individuals, organisations or groups; that there needs to be a close relationship between the amount raised and the amount spent on cost recovered activities; and that cost recovery charges should have a high degree of consultation to ensure only efficient costs are being recovered.

their cost recovery impact statement at the commencement of the levies consultation process, rather than at the conclusion.

The Insurance Council considers that, early in the budget development process, industry should be given an opportunity to provide feedback on the specifics of a regulator's work program planned for the year ahead, strategic priorities and the associated level of proposed resourcing. In line with the Government's ongoing commitment to red tape reduction, this could also be an opportunity for the regulators and industry to discuss the scope for further deregulatory and efficiency initiatives. Once account had been taken of industry views, the final regulator budget and the relevant levies could be submitted to Government, with a summary of the feedback received from industry and the regulator's response.

The Insurance Council also wishes to raise again the Australian National Audit Office (ANAO) report on the determination and collection of financial industry levies (2013). The report specifically recommended the need for:

“... a formal opportunity at an early stage in the financial year for APRA and relevant stakeholders to discuss issues relating to the levies processes. This could involve the establishment of a stakeholder panel, potentially led by the Treasury, and including all Australian Government agencies with responsibilities for financial industry levies”.

We strongly support the ANAO's recommendation and urge Treasury to consider its adoption.

We would appreciate the opportunity to provide further comment after release of the cost recovery impact statement by APRA.

If you have any questions or comments in relation to our submission, please contact John Anning, the Insurance Council's General Manager Policy, Regulation Directorate, on tel: (02) 9253 5121 or email: janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director and CEO