2 June 2016

Manager
Banking and Capital Markets Regulation Unit
Financial System and Services Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Sir/Madam

Proposed Financial Sector Supervisory Levies for 2016-17

The Friendly Societies of Australia (FSA) appreciates the opportunity to comment on Treasury and APRA's joint Discussion Paper regarding the proposed financial sector levies for 2016-17.

The FSA is the industry association representing Australia's friendly societies regulated by the Australian Prudential Regulation Authority, the majority of which are member-owned mutual organisations.

FSA members provide financial services, healthcare, retirement living, aged and home care services to some 800,000 members. Collectively, our sector manages around $7 billion in funds, and in 2015, paid out more than $675 million in benefits. Australia's largest friendly society is Lifeplan Australia Friendly Society with funds under management of almost $2 billion and 169,000 customers. The smallest is NobleOak Life Limited with about $25 million funds under management, serving approximately 40,000 customers.

The proposed levies for 2016-17 will result in a substantial increase of the amount levied on most friendly societies. This increase is primarily the result of a more than doubling of the unrestricted levy rate from 0.002321 to 0.004774 of total assets and the minimum levy increasing from $3,000 to $5,000. The FSA opposes these increases as they have not been adequately explained and are disproportionally large.

The Financial System Inquiry argued that the cost of regulation should be carried by the entities that created the most need for it. The FSA does not believe that this increase in funding, which disproportionately impacts the FSA, is consistent with this principle.

The FSA provides the following detailed comments.

Increase in the unrestricted levy rate

The FSA opposes the increase in the unrestricted levy rate for friendly societies. The discussion paper explains that for 2016-17 an extra $37 million will be collected from industry as additional ASIC funding. This means, compared to 2015-16, there will be a more than tripling[1] of the amount collected from the life insurance/friendly society sectors for ASIC. The discussion paper notes this extra funding will be raised by increasing the unrestricted levy rate. For friendly societies this means a 105 per cent increase in the unrestricted levy rate.

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[1] See the Proposed Financial Institutions Supervisory Levies for 2015-16, table 7, page 10 and the Proposed Financial Institutions Supervisory Levies for 2016-17, table 7, page 10.

The proposed increase in the unrestricted levy rate is a significant and disproportionately large increase that has not been justified. The paper does not make clear why Friendly Societies should face such a large increase compared to other entities that face smaller unrestricted levy rate increases. The paper also does not indicate how the ASIC levy component is shared across the different industry groups. The FSA opposes this increase and calls for more transparency on levy increases.

The FSA understands that in future years the Government will introduce an ASIC funding model to recover ASIC's costs from all ASIC regulated entities. We understand that the Government will undertake extensive consultation with industry on the model and look forward to engaging with the Government on the matter.

Increase in the minimum levy amount

The consultation paper proposes increasing the minimum levy amount from $3,000 to $5,000 for friendly societies. For smaller friendly societies this will substantially increase the amount of levies they pay.

Before such an increase is made, the Government should make clear why such a change is necessary. The consultation paper explains that "the proposed minimum levy increase will better match the cost of supervision to the levy collected". The paper also notes that further justification will be provided in the Cost Recovery Implementation Statement (CRIS), which will be published before the end of June 2016. It is possible that this consultation will close before the CRIS is released. Without the CRIS it is difficult to determine if this is the case or not.

Previous attempts to justify previous increases have also not been compelling. In 2015-16, the levy minimum was increased from $490 to $3,000. The 2015 CRIS justified this increase by "for life insurers and general insurers [including friendly societies] there may have been scope to slightly reduce the levy maximums and slightly increase the levy minimums". Such an explanation does not address the magnitude of last year's change.

The FSA also notes that such minimum levy increases are part of a multi-year process to better align APRA's costs incurred in its supervisory effort[2]. This is insufficient detail to justify ongoing increases.

For these reasons, the FSA opposes such ongoing increases. Further, before any further minimum levy increases are made the FSA recommends that APRA revise its CRIS and bring forward its release so it can be considered alongside future consultations with industry on proposed financial sector supervisory levies.

Cost increases are in the context of broader regulatory and compliance costs

In additional to recent levy increases, new regulatory obligations like enhanced prudential standards for life insurers, other new prudential regulations, Foreign Account Tax Compliance Act, and new anti-money laundering and counter terrorism funding laws have all significantly increased the level of regulatory costs.

The proposed levy increases must be considered in the broader context of the overall regulatory and compliance cost burden that is currently being borne by financial services providers. This substantial level of regulatory burden and the subsequent cost to business are approaching unsustainable levels. Further, government agencies, that are the source of new regulation and compliance obligations, operate in complete isolation of each other with regard to the level of the overall compliance burden.

Given that the friendly society sector is dominated by member-owned mutual organisations, it is relevant to mention that the Senate Inquiry in into Cooperative, mutual and member-owned firms made the following recommendations:

> Recommendation 12: The committee recommends that the co-operative and mutual sector be considered when the government is preparing a Regulatory Impact Statement that accompanies new regulatory policies.

[2] 2015-16 Cost Recovery Implementation Statement, page 13.

> Recommendation 13: The committee recommends that the Commonwealth Government liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprise aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.

With respect to the proposed APRA levies, in the context of the overall level of regulatory burden, these recommendations of the Senate Inquiry have not been adhered to.

Limited scope to absorb increasing regulatory costs

A number of our member's products were constituted in an environment of significantly less regulatory burden. These products were designed with the assumption of a certain level of regulatory costs. Since that time there has been large increases in regulatory costs (such as the proposed levy increases) along with frequent introduction of new costs.

As discussed above, the levy increases must also be seen in the context of a significantly increased level of regulatory costs more broadly. These new regulatory costs far exceed what was envisaged when the product was created. The constitutional and disclosure constraints that were placed on these older products are not flexible enough to respond to increasing regulatory costs. Nor was the additional cost of the magnitude of subsequent regulation factored into the initial costing of these products. Because of the nature of these products, additional regulatory costs including significant increases in levies, are retrospective costs to be unfairly borne by our business, or not fairly shared across products.

The FSA recommends that before implementing the proposed financial institutions supervisory levies that consideration be given to the ability of older products that were not designed for the current high regulatory environment to be able to adequately respond.

Newer products generally have more flexibility or were constituted with greater flexibility. While outside the scope of this consultation, it does speak to the fact that the substantial increase in proposed levies comes off the back of a range of other changes that have increased costs. The FSA wishes to flag this issue with the Government for future consideration and would like to see an appropriate way being developed that would allow the constitutions of existing older product be amended so that they can respond to increases in regulatory costs in the same way newer products are able to, in order to equitably share cost burdens.

If you have any questions please contact Alex Thrift on (02) 8035 8447 or by email, athrift@coba.asn.au.

Yours sincerely

Matt Walsh
FSA President