Australian Government

The Treasury

APRA

PROPOSED FINANCIAL INDUSTRY LEVIES FOR 2012-13

THE TREASURY

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

INTRODUCTION

The purpose of this paper is to seek industry views on the proposed financial industry levies that will apply for the 2012-13 financial year. The financial industry levies are set to recover the operational costs of the Australian Prudential Regulation Authority (APRA), and other specific costs incurred by certain Commonwealth agencies and departments.

The paper, prepared by APRA in conjunction with Treasury, sets out information about the total expenses for the activities to be undertaken by APRA and certain other Commonwealth agencies and departments in 2012-13 to be funded through the commensurate levy revenue to be collected in 2012-13 and an explanation of the cost drivers resulting in the change in the total levy revenue from 2011-12 to 2012-13.

AUSTRALIAN GOVERNMENT COST RECOVERY

In December 2002, the Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of cost recovery arrangements and promote the efficient allocation of resources. The underlying principle of the policy is that agencies set charges to recover all the costs of a product or service where it is efficient and effective to do so, where the beneficiaries are a narrow and identifiable group and where charging is consistent with Government policy objectives. The cost recovery policy is administered by the Department of Finance and Deregulation and outlined in the Australian Government Cost Recovery Guidelines.

The policy applies to all *Financial Management and Accountability Act 1997* (FMA Act) agencies and to relevant *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies that have been notified. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the Cost Recovery Guidelines.

POLICY AND LEGISLATIVE BASIS FOR FINANCIAL INDUSTRY LEVIES

The Australian Government agreed that APRA and the cost of additional consumer protection functions in the financial system will be funded through levies on those industries that will be 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 (i.e. institutional categories that are regulated).

The legislative framework for 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 levy percentages for the restricted and unrestricted levy component, the maximum and minimum levy amounts applicable to the 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*.

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 Authority Act 1998*, is to recover the costs of:

- providing certain market integrity and consumer protection functions undertaken by the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO);
- administering claims for early release of superannuation benefits on compassionate grounds by the Department of Human Services (DHS); and
- implementing the *Stronger Super* - *SuperStream* initiative[1].

APRA'S 2012-13 ACTIVITIES

APRA's supervisory activities in 2011-12 have been conducted against a backdrop of renewed turbulence in global financial markets as the global financial crisis that had begun in 2007 entered a new phase. In the first half of this period, in particular, markets rapidly lost confidence that policymakers in the United States and a number of European countries had the capacity to restore their public finances and, in the European case, their banking systems to a more sustainable footing within a reasonable timeframe. Global growth forecasts were wound back as a consequence. More recently however, global market sentiment has improved in response to monetary and fiscal initiatives in Europe and more positive growth signals emerging from the United States, although sentiment remains fragile.

The Australian financial system has been well placed to deal with the more adverse global environment in 2011-12 and it has continued to display underlying strength. APRA has maintained its heightened level of supervisory intensity throughout this period and has also pursued a substantial prudential policy agenda.

APRA's activities will continue at this tempo in 2012-13. Its supervisory oversight will focus, in particular, on how regulated institutions adapt to the continued caution of households and much of the business sector. This will test the strategic ambitions of regulated institutions accustomed to more buoyant conditions.

[1] The amendment bill, Superannuation Legislation Amendment (Stronger Super) Bill 2012 is scheduled for introduction into Parliament by the end of May.

On the policy front, APRA will be implementing major reforms in ADI capital adequacy and liquidity, as part of the global response to the G-20 Declaration *Strengthening the Financial System* (April 2009). In addition, APRA will be implementing relevant aspects of the Government's *Stronger Super* reforms and updating and harmonising capital standards in the general and life insurance industries.

In 2012-13, 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 enhancing prudential standards where appropriate, in line with the global reform initiatives endorsed by the G-20 and overseen by the Financial Stability Board;
- enhance the efficiency and effectiveness of APRA's supervisory tools and systems 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 response to any potential crisis affecting APRA's own operations, a financial crisis in a regulated institution or a systemic crisis.

To sustain APRA's supervisory capacity and enable it to meet its strategic objectives, the Government has provided additional funding of $82.4 million over four years, commencing in 2012-13. Of this total, $75.4 million is for operating expenditure and $6.9 million for capital expenditure, the latter funding for major project work in APRA'S supervisory systems. This additional funding is to be met by increased financial industry levies. The previous supplement of $45.5 million (over four years) to strengthen APRA's capacity to manage issues associated with the global financial crisis was funded by an appropriation from general revenue. This funding concluded in 2011-12.

Some of APRA's activities are not funded by levies. Rather, the costs are recovered by direct user charges or through direct Government funding. For 2012-13 the cost of the following activities will not be recovered through the financial institutions supervisory 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 and the Australian Bureau of Statistics that are recovered through a fee for service arrangement.

SUMMARY OF APRA SUPERVISORY LEVY FUNDING REQUIREMENTS FOR 2012-13

APRA's 2012-13 levy funding requirements

APRA's expenditure and net levy funding requirements for 2012-13 are shown in Table 1. The budgeted total cost for APRA for 2012-13 is $125.2 million, a $5.6 million (4.7 per cent) increase over the budget for 2011-12. An amount of $9.2 million of these costs will be met through cost offsets and government appropriations, including a special levy for the National Claims and Policies Database (NCPD). Taking into account an amount of $3.1 million in over-collected 2011-12 levies to be returned to industry, APRA's net levy funding requirement is $112.9 million.

Table 1: APRA - levies funding required ($ million)

	2011-12	2012-13		
	Budget ($)	**Budget ($)**	**Change ($)**	**Change (%)**
APRA – operating expenses	119.6	120.4	0.8	0.7
APRA – capital expenditure	-	4.8	4.8	n/a
Budgeted total cost	**119.6**	**125.2**	**5.6**	**4.7**
Net cost offsets (Table 2)	(22.4)	(9.2)	13.2	58.9
Under/(over) collected revenue (Table 3)	2.0	(3.1)	(5.1)	n/a
Net funding met through industry levies	**99.2**	**112.9**	**13.7**	**13.8**

Table 2 outlines the other sources of APRA revenue, referred to as net cost offsets, available to partially defray APRA expenditures.

Table 2: Net cost offsets ($ million)

Net cost offsets		2011-12	2012-13		
		Budget ($)	**Budget ($)**	**Change ($)**	**Change (%)**
Appropriations	- GFC	12.8	0.0	(12.8)	(100.0)
	- NCPD	0.7	0.7	-	-
	- Other	4.3	3.3	(1.0)	(23.3)
Sale of goods and services		4.6	5.2	0.6	13.0
Total		**22.4**	**9.2**	**(13.2)**	**(58.9)**

Adjustment for over-collected APRA levy 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 levy funding mechanism, APRA's levy funding requirement is adjusted by over and under-collected levies from prior periods.

Based upon 2011-12 expected collections, there will be an over-collection in APRA levies of $3.1 million that will be refunded through the 2012-13 levies (Table 3).

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

Source of revenue	2011-12 Budget	2011-12 Forecast	2011-12 Difference	Difference to be refunded to (recovered from) industry.			
				ADI	LI	GI	Super
Supervisory levies	99.9	103.3	3.4	0.9	-	2.6	(0.1)
Levy waivers and write-offs	(0.7)	(1.0)	(0.3)	-	-	0.1	(0.4)
Total	**99.2**	**102.3**	**3.1**	**0.9**	**-**	**2.7**	**(0.5)**

SUMMARY OF TOTAL FINANCIAL INDUSTRY LEVY FUNDING REQUIREMENTS FOR 2012-13

Total financial industry levy funding required in 2012-13 for all relevant Commonwealth agencies and departments is $266.4 million. This is a $139.3 million (109.6 per cent) increase on the 2011-12 levy requirement. The components of the additional levies are outlined below. Table 4 provides details.

Table 4: Financial industry levy funding required ($ million)

Levy determinants	2011-12 Budget ($)	2012-13 Budget ($)	Change ($)	Change (%)
APRA supervisory levy	99.2	112.9	13.7	13.8
ATO	7.2	7.1	(0.1)	(1.4)
ASIC	20.7	20.7	-	-
DHS	-	4.2	4.2	n/a
SuperStream	-	121.5	121.5	n/a
Total	**127.1**	**266.4**	**139.3**	**109.6**

ATO Component

Funding from levies collected from the superannuation industry includes a component to cover the expenses of the ATO in administering the Superannuation Lost Member Register (LMR).

Partly in response to a recommendation in the Australian National Audit Office's 2011 report on the administration of the LMR, the ATO now undertakes comprehensive costing of the LMR function and the estimated expenditure for 2012-13 is $7.1 million, a decrease of $0.1 million (or 1.4 per cent) over the 2011-12 levy.

ASIC Component

An additional component of the levies is collected to cover the expenses of ASIC in relation to consumer protection, regulatory and enforcement activities relating to the products and services of APRA-regulated institutions.

Funding for the ASIC component of levies, which includes the Superannuation Complaints Tribunal (SCT), is $20.7 million in 2012-13, in line with the 2011-12 levy.

The ASIC component includes $1.1 million for the continuation of work supporting the Government's *Stronger Super - MySuper* initiative. In total, $3.7 million will be levied on the superannuation industry from 2011-12 to 2014-15 inclusive, to support ASIC's work relating to the introduction of the *MySuper* initiative.

DHS Component

Following amendments to the *Superannuation Industry (Supervision) Act 1993*, the *Retirements Savings Accounts Act 1997* and other subordinated legislation, the DHS assumed responsibility for the administration of early release of superannuation benefits on specific compassionate grounds (EROB) in November 2011. Therefore, the operating budget has been re-allocated to DHS. In line with the cost recovery principles, the annual EROB administration costs, previously allocated to APRA, were estimated at $4.2 million. These costs will be recovered in 2012-13 by a levy on the superannuation industry. The DHS and APRA will conduct a review of EROB-related activities with the intention of leveraging DHS' operational scale and infrastructure to reduce future annual levies.

SuperStream Component

Announced as part of the 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 administrative processes when dealing with employers and other funds and through functionality that will facilitate the matching and consolidation of superannuation accounts.

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

The costs associated with the implementation of the SuperStream reforms are $121.5 million in 2012-13, $111.1 million in 2013-14, $83.1 million in 2014-15, $69.3 million in 2015-16, $41.2 million in 2016-17 and $40.9 million in 2017-18.

Estimates undertaken by the Superannuation industry have identified that SuperStream will save in the order of $1 billion each year in processing costs. Averaged over the approximate 33 million accounts existing today, this saving is in the order of $30 per account each year.

The cost of implementing the SuperStream reforms is $467 million in total over 7 years to be paid for by a temporary SuperStream levy on APRA-regulated funds. If you average the full levy increase of $121 million to apply in 2012-13 across the approximately 33 million accounts existing today, the cost is roughly in the order of $4 per account.

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

ADIs and life insurers may provide FHSA facilities under existing APRA authorisations. A trustee of a superannuation entity that is authorised under section 92 of the *First Home Savers Accounts Act 2008* is able to offer FHSA facilities through a designated trust.

The amount of levy payable by a FHSA entity is subject to the Minister's determination. Considering the limited number of approved FHSA entities (17 ADIs and one superannuation trustee) and the small amount of FHSA deposit balances held ($278 million) at 31 December 2011, APRA will recommend to the Minister that no separate FHSA levy be charged in 2012-13.

SUMMARY OF SECTORAL LEVY ARRANGEMENTS

The levies framework for the APRA supervisory levies consists of two components: one based on cost of supervision (the restricted component) and the other on system 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 63 per cent and 37 per cent of APRA's overall supervisory effort, respectively.

To reduce the volatility in levies charged to industry, APRA smooths supervision costs through use of a moving average. The four-year averages of APRA's costs are used to derive the 2012-13 levy 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	2009-10	2010-11	2011-12	2012-13	2012-13 4-yr average
	Actual	Actual	Forecast	Estimate	
Restricted component - % of time					
ADIs	43	46	47	45	45
Life insurance/Friendly societies	9	9	9	9	9
General insurance	20	18	19	19	19
Superannuation	28	27	25	27	27
Total	**100**	**100**	**100**	**100**	**100**
Unrestricted component – % of time					
ADIs	41	43	43	43	42
Life insurance/Friendly societies	12	11	10	11	11
General insurance	23	23	23	21	23
Superannuation	24	23	24	25	24
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 supervisory levy requirement

Table 6 illustrates APRA's 2012-13 levy funding required for both levy components from each industry and compares this with the levy funding required from each industry for 2011-12. The higher restricted component of the superannuation levy results from an increase in the cap on that component to accommodate the separate SuperStream component – see later for further details.

Table 6: Estimated levies by industry for APRA's levy requirement ($ million)

Industry	2011-12 Restricted component	2011-12 Unrestricted component	2011-12 Total	2012-13 Restricted component	2012-13 Unrestricted component	2012-13 Total
ADIs	25.0	15.7	40.7	**30.3**	**16.6**	**46.9**
Life insurance/ Friendly societies	6.1	4.6	10.7	**6.2**	**4.4**	**10.6**
General insurance	10.7	8.3	19.0	**11.2**	**8.2**	**19.4**
Superannuation	16.1	12.7	28.8	**23.5**	**12.5**	**36.0**
Total	**57.9**	**41.3**	**99.2**	**71.2**	**41.7**	**112.9**

Total supervisory levy requirement

Table 7 itemises the total supervisory levy requirement by industry.

Table 7: Total levy required by industry ($ million)

Industry	APRA	ATO	ASIC	DHS	Super Stream	Total 2012-13 levy	Total 2011-12 levy	Inc(Dec) ($)
ADIs	**46.9**	-	3.4	-	-	**50.3**	**44.8**	**5.5**
Life Insurance/ Friendly societies	**10.6**	-	2.3	-	-	**12.9**	**12.8**	**0.1**
General insurance	**19.4**	-	2.9	-	-	**22.3**	**22.7**	**(0.4)**
Superannuation	**36.0**	7.1	12.1	4.2	121.5	**180.9**	**46.8**	**134.1**
Total	**112.9**	**7.1**	**20.7**	**4.2**	**121.5**	**266.4**	**127.1**	**139.3**

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values used to determine levies for 2011-12 with those estimated to apply to 2012-13. Asset values used for estimating the levy may differ from the assets used to invoice the levy, 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 2011		December 2010	
	Number	Total asset base ($b)	Number	Total asset base ($b)
ADIs				
Banks	63	2,818.2	56	2,663.6
Building societies	9	21.1	11	25.2
Credit unions	97	53.6	105	51.6
Other ADIs, including SCCIs	7	7.8	8	8.0
Sub-total	**176**	**2,900.8**	**180**	**2,748.5**
Life insurers	31	230.2	31	236.5
Friendly societies	14	6.1	15	6.2
Sub-total	**45**	**236.3**	**46**	**242.7**
General insurers	**124**	**115.6**	**128**	**101.7**
APRA-regulated superannuation entities				
Excluding small funds [1]	413	875.9	454	857.7
Small Funds [2]	3,265	2.0	3,615	2.0
Sub-total [3]	**3,678**	**877.9**	**4,069**	**859.7**
Total	**4,023**	**4,130.6**	**4,423**	**3,952.6**

Notes:

1 - Excluding small funds consist of public offer funds, non-public offer funds, multi-member approved deposit funds, eligible rollover funds and pooled superannuation trusts.

2 - Small funds consist of small APRA funds and single-member approved deposit funds.

3 - For the purpose of levies modelling pooled superannuation trust assets 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 IMPACTS ON INDIVIDUAL INDUSTRIES

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). $46.9 million of APRA's 2012-13 funding requirement will be incurred in supervising the ADI industry (Table 7). An additional $3.4 million is required to fund the consumer protection work undertaken by ASIC.

This brings the total levy to $50.3 million, compared to $44.8 million in 2011-12. Excluding the SuperStream levy, which is not borne by the ADI industry, supervisory levy funding from ADIs in 2012-13 represents 34.7 per cent of total levies, compared with 35.2 per cent in 2011-12.

The funding will support APRA's heightened supervisory intensity of the ADI industry and enhancements to the prudential framework, particularly the Basel Committee reforms on liquidity and capital.

In 2012-13, 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 the same restricted maximum amount and unrestricted levy rate as other ADIs.

Life insurance/Friendly societies

As noted in Table 7, APRA's funding requirement for prudential supervision of the life insurance and friendly societies industry is estimated to be $10.6 million in 2012-13. In addition, $2.3 million is required for ASIC costs. This brings the total levy requirement to $12.9 million, compared to $12.8 million in 2011-12. Excluding the SuperStream levy, which is not borne by this industry, supervisory levy funding from life insurers/friendly societies in 2012-13 represents 8.9 per cent of total levies, compared with 10.1 per cent in 2011-12.

In 2012-13, APRA will continue its focus on the capital adequacy of life insurers and friendly societies given the continued volatility in investment markets and will be implementing fundamental changes to life insurance capital standards.

General insurance

APRA's funding requirement for general insurance supervision is expected to be $19.4 million in 2012-13. An additional $2.9 million is required for ASIC costs. This brings the total levy to $22.3 million, compared to $22.7 million in 2011-12. Excluding the SuperStream levy, which is not borne by this industry, supervisory levy funding from general insurers in 2012-13 represents 15.4 per cent of total levies, compared with 17.9 per cent in 2011-12.

In 2012-13, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover, particularly in view of the recent spate of natural disasters. Prudential policy work will include enhancements to general insurance capital requirements.

National Claims and Policies Database special levy

In addition to the main supervisory levy for general insurers, a separate levy to cover the costs of operating the National Claims and Policies Database (NCPD) will continue in 2012-13. 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 2012-13 is $0.7 million, in line with the prior year.

The NCPD levy, unlike the supervisory levy that is based on asset values of individual institutions, 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 2012-13.

Table 9: Parameters for NCPD levy

	2011-12		2012-13	
	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 (%)	0.0154	0.0192	0.0155	0.0172
Runoff amount ($)	2,500	2,500	2,500	2,500
Total levy ($m)	0.31	0.41	0.32	0.40

In December 2011, APRA and the Treasury completed a review of the PL and PI insurance section of the General Insurance Supervisory Levy Imposition Determination (the determination). The prescribed levy, for a general insurer that issues both PL and PI products, is calculated as the weighted average of each of the PL and PI levy components. It is proposed that, effective from the 2012-13 levy year, an amendment be made to the determination to make the prescribed levy the simple addition of the PL and PI levy components.

Superannuation

APRA's funding requirement for the prudential supervision of the superannuation industry is $36.0 million in 2012-13. An additional $23.4 million is required for ongoing ASIC, ATO and DHS costs. This brings the underlying supervisory levy to $59.4 million, compared to $46.8 million in 2011-12. Excluding the SuperStream levy, supervisory levy funding from superannuation in 2012-13 represents 41.0 per cent of total levies, compared with 36.8 per cent in 2011-12.

In 2012-13, APRA's supervisory activities in the superannuation industry will cover a range of issues, including the liquidity of superannuation funds, valuation practices for unlisted assets and the solvency of defined benefit schemes. APRA will also devote considerable resources to the implementation of relevant aspects of the Government's *Stronger Super* initiatives.

Separately, $121.5 million is required to fund the implementation of SuperStream, bringing the total 2012-13 levy to $180.9 million.

The levy amount for Small APRA Funds (SAFs) is increased for 2012-13 to a flat rate of $590 per fund ($570 in 2011-12).

Non-operating holding companies

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

SUPERVISORY LEVY COMPARISON BETWEEN 2011-12 AND 2012-13

Review of the maximum amount - restricted levy component

To ensure continued vertical equity in the levies applied to individual institutions, adjustments to the maximum parameters for the restricted levy component are made annually. These adjustments ensure a fairer sharing of the levy burden in each industry by requiring those institutions that are nearing the maximum amount to continue contributing to the increased cost of supervision.

Table 10 compares the restricted component of levies between 2011-12 and 2012-13[2], based upon the second scenario outlined below. A three per cent indexation factor has been applied to the maximum amounts for 2012-13. Minimum amounts have also been adjusted in 2012-13 to ensure smaller entities continue to contribute to the ongoing cost of supervision. The maximum amount for the superannuation levy has increased to $1.0 million in 2012-13 to accommodate the separate SuperStream component.

Table 10: Levy parameters for restricted component

Industry	2011-12			2012-13		
	Min	**Max**	**Rate**	**Min**	**Max**	**Rate**
	$	$'000	%	$	$'000	%
ADIs - locally incorporated	470	1,700	0.00396	490	1,752	0.00496
- foreign branches	470	850	0.00198	490	876	0.00248
Life insurance/Friendly societies	470	1,070	0.00644	490	1,103	0.00689
General insurers	4,700	860	0.01594	4,900	887	0.01316
Superannuation (excluding SAFs)	570	260	0.01264	590	1,000	0.05659

Table 11 summarises the rates for the unrestricted component of levies.

Table 11: Levy parameters for unrestricted component

Industry	2011-12	2012-13
	Rate %	Rate %
ADIs – local and foreign	0.000573	0.000566
Life insurance/Friendly societies	0.001945	0.001856
General insurers	0.008138	0.007195
Superannuation (excluding SAFs)	0.001534	0.006535

Tables 12 to 16 compare the impact of the levy payable for different asset values in each industry between 2011-12 and 2012-13.

[2] Excluding NCPD levy

Table 12: Levy amounts on ADIs ($'000)

Asset base	$5m	$50m	$500m	$5b	$25b	$100b
2010-11	0.5	2.3	23.2	232.3	1,161.5	2,150.8
2011-12	0.5	2.3	22.6	226.4	1,132.1	2,272.6
2012-13	0.5	2.8	27.6	276.2	1,380.9	2,318.0
Change (%) 11-12 v 10-11	0.7	(2.5)	(2.5)	(2.5)	(2.5)	5.7
Change (%) 12-13 v 11-12	3.9	22.0	22.0	22.0	22.0	2.0

Table 13: Levy amounts on foreign ADI branches ($'000)

Asset Base	$500m	$5b	$25b	$50b
2010-11	12.9	128.7	643.4	1,075.4
2011-12	12.8	127.5	637.7	1,136.3
2012-13	15.2	152.2	761.7	1,159.0
Change (%) 11-12 v 10-11	(0.9)	(0.9)	(0.9)	5.7
Change (%) 12-13 v 11-12	19.4	19.4	19.4	2.0

Table 14: Levy amounts on life insurers/friendly societies ($'000)

Asset base	$3m	$50m	$500m	$3b	$10b	$50b
2010-11	0.5	3.6	36.2	217.4	724.8	1,756.3
2011-12	0.5	4.2	41.9	251.5	838.5	2,042.4
2012-13	0.5	4.4	43.7	262.4	874.6	2,031.1
Change (%) 11-12 v 10-11	1.8	15.7	15.7	15.7	15.7	16.3
Change (%) 12-13 v 11-12	3.3	4.3	4.3	4.3	4.3	(0.6)

Table 15: Levy amounts on general insurers ($'000)

Asset base	$5m	$25m	$250m	$750m	$3b	$9b
2010-11	5.1	7.0	70.0	210.1	840.3	1,534.8
2011-12	5.1	6.7	60.2	180.6	722.2	1,592.4
2012-13	5.3	6.7	50.9	152.7	610.7	1,534.5
Change (%) 11-12 v 10-11	0.4	(3.8)	(14.0)	(14.0)	(14.0)	3.8
Change (%) 12-13 v 11-12	3.0	(0.5)	(15.4)	(15.4)	(15.4)	(3.6)

Table 16: Levy amounts on superannuation funds (excluding SAFs) ($'000)

Asset base	$1m	$3m	$50m	$250m	$5b	$20b
2010-11	0.6	0.6	5.3	26.5	278.9	419.5
2011-12	0.6	0.6	7.1	35.4	336.7	566.8
2012-13	0.7	1.9	31.6	157.8	1,326.7	2,306.9
Change (%) 11-12 v 10-11	1.0	3.0	33.9	33.9	20.7	35.1
Change (%) 12-13 v 11-12	12.0	207.4	345.4	345.4	294.0	307.0

LEVY SCENARIOS FOR 2012-13

This section presents a number of scenarios to enable comparison of the impact on levies with different parameters. Three scenarios are summarised in Table 17:

- Scenario 1: No change in parameters from 2011-12. This would result in an overall deficit in funding of $136.3 million.
- Scenario 2: Minimum amounts and maximum amounts are increased and levy rates are adjusted in both the restricted and unrestricted component to meet the total funding requirement.
- Scenario 3: Minimum amounts and levy rates in the restricted component are unchanged from the 2011-12 parameters but maximum amounts and unrestricted rates are adjusted to meet the total funding requirement.

Scenario 2 and Scenario 3 are modelled to meet the full funding requirement for 2012-13. Scenario 2 (adjusting restricted and unrestricted components) is the recommended approach to be taken.

Table 17: Levy scenarios

Industry	Criteria	Scenario 1 No parameter change	Scenario 2 Change all parameter	Scenario 3 Change max & unrestricted rate
Authorised deposit-taking institutions	**Restricted**			
	Rate (%)	0.00396	0.00496	0.00396
	Minimum	470	490	470
	Maximum	1,699,500	1,752,000	2,221,276
	Unrestricted rate (%)	0.000573	0.000566	0.000566
	excess/deficit ($m)	(3.6)	-	-
Life insurers/ Friendly societies	**Restricted**			
	Rate (%)	0.00644	0.00689	0.00644
	Minimum	470	490	470
	Maximum	1,070,000	1,103,000	1,216,608
	Unrestricted rate (%)	0.001945	0.001856	0.001856
	excess/deficit ($m)	(0.2)	-	-
General insurers	**Restricted**			
	Rate (%)	0.1594	0.01316	0.1594
	Minimum	4,700	4,900	4,700
	Maximum	860,000	887,000	575,428
	Unrestricted rate (%)	0.008138	0.007195	0.007195
	excess/deficit ($m)	3.1	-	-
Superannuation funds	**Restricted**			
	Rate (%)	0.01264	0.05659	0.01264
	Minimum	570	590	570
	Maximum	260,000	1,000,000	2,500,000
	Unrestricted rate (%)	0.001534	0.006535	0.010406
	excess/deficit ($m)	(135.6)	-	-
Planned levy to funding target	Total levy ($m)	130.1	266.4	266.4
	funding target ($m)	266.4	266.4	266.4
	excess/deficit ($m)	(136.3)	-	-

ONGOING MONITORING AND REVIEW

APRA has a regular review process to monitor the implementation of its financial industry levies. In 2012-13, APRA will merge the current levy review process with the development of a comprehensive Cost Recovery Impact Statement (CRIS). APRA will continue to consult with industry on the development of the CRIS.

ATTACHMENT A

PROPOSED IMPACT OF THE SUPERSTREAM LEVY FOR 2012-13

SuperStream is a package of reforms that will make the superannuation system easier to use for members, employers and funds. These reforms will ultimately, provide significantly reduced costs across the industry benefiting funds, members and employers.

Analysis undertaken by the Superannuation industry, estimates that savings of $1 billion per year will be achieved in efficiency gains across the industry. Commonwealth funding of the SuperStream measures will be $121.5 million in 2012-13 and $467.1 million across the period 2011-12 to 2017-18.

Commonwealth costs associated with the implementation of the SuperStream measures will be paid for by a new SuperStream levy imposed on APRA-regulated funds. The SuperStream levy will only apply to the collection of levy amounts directly related to the SuperStream funding.

Table 1 provides an overview of the total amount of Commonwealth funding that will be directed to the ATO, Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) and Treasury for the purpose of implementing functionality associated with 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	-111.1	-83.1	-69.4	-41.2	-41.0
SuperStream levy collection (Total revenue)	0.0	121.5	111.1	83.1	69.4	41.2	40.9
Net Impact	-31.4	31.4	0.0	0.0	0.0	0.0	0.0

Note: Differences between the SuperStream funding and SuperStream levy collection amounts is a result of rounding.

Table 2 provides a break-down of high-level SuperStream deliverables across the seven years of the program. An additional break-down has been undertaken to separate information technology and non-information technology costs for each deliverable.

Table 2: SuperStream high-level deliverables 2010-11 to 2017-18

	IT Costs ($'000s)	Non-IT costs ($'000)	Total ($'000)
Data and e-commerce standard, enabling services and on-boarding	$260,955	$18,871	$279,826
SuperSeeker, account consolidation and data matching	$50,195	$112,530	$162,725
Program management and governance	$0	$7,738	$7,738
Communications and research	$0	$16,820	$16,820
Total	**$311,150**	**$155,959**	**$467,109**