QBE
Insurance Group

QBE INSURANCE GROUP LIMITED
ABN 28 008 485 014

Head Office
82 Pitt Street
Sydney NSW 2000
AUSTRALIA

Postal Address
GPO Box 82
Sydney NSW 2001
AUSTRALIA

Telephone: +61 (2) 9375 4444
Facsimile: +61 (2) 9235 3166
DX 10171 Sydney Stock Exchange

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Private & Confidential

Principal Adviser
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Re: Financial Industry Supervisory Levy Methodology Discussion Paper April 2013

QBE welcomes the opportunity to comment on the Discussion Paper, issued in April 2013, which sets out the proposed methodology for an Industry Supervisory Levy.

QBE recognise that the "Core Principles" established by the IMF for insurance and banking supervision require that a regulator be funded in a way that does not undermine its autonomy or independence from government. QBE therefore accepts the need for an industry levy to fund some of the cost relating to financial services regulation and supervision in Australia.

From a Level 1 entity perspective QBE does not object to the proposal on the treatment of reinsurance recoveries.

In relation to the question raised under paragraph "*6.3 'Is the levy structure appropriate for regulated institutions within conglomerates?*", QBE interprets this section to imply that no changes to the current structure is being proposed. QBE would prefer no change to the structure in relation to this matter, but seeks further clarification that this is the case.

The efforts required for Level 2 supervision should be seen as incremental effort, i.e. effort that builds upon the APRA supervisory efforts required for QBE's Level 1 entities. The QBE levy for Level 1 entities is already quite substantial and the Level 2 levy should therefore, in QBE's opinion, continue to be calculated at much lower levels.

In relation to Level 3 groups, we note that the paper suggests that APRA believes these groups pose systemic risks, which due to their size and complexity, may require greater supervisory effort.
It is difficult for QBE to conclude at this early stage on the level of effort that may or may not be required, particularly given the fact that a number of the regulatory standards and guidance notes are currently still in development.

QBE believes comment on this may be premature at this stage, and it is more prudent to evaluate the impacts and offer feedback once all of these matters have been finalised and more clarity exists around the full set of regulatory standards for Level 3 conglomerates and any additional APRA effort that may emanate from the supervision of the same.

In conclusion, QBE remains concerned with the material increase in the levy, particularly in the 2012/2013 financial year. Government should be encouraged to deliver an efficient and effective regulatory model with the cost structure increasing by no more than inflation on an annual basis.

Where supervisory costs justifiably increase faster than the general level of inflation in the economy, QBE believes that the difference above the previous sector total should be funded from the general budget.

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Robert Evans
Head of Group Regulatory Risk

Direct: +61 (0)8 9213 1031
Email: robert.evans@qbe.com

cc:
George Thwaites
Jonathan Mogg