Friendly Societies of Australia

22 June 2017

Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: supervisorylevies@treasury.gov.au

Dear Manager

Proposed Financial Institutions Supervisory Levies for 2017-18

The Friendly Societies of Australia (FSA) appreciates the opportunity to comment on the proposed financial institutions supervisory levies for 2017-18 (the levies).

The FSA represents friendly societies regulated by APRA, the majority of which are member-owned mutual organisations. FSA members provide investment products, 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.

Friendly societies mainly offer simple financial products, i.e. investment bonds, funeral bonds and scholarship plans. These products are issued by friendly societies and other APRA-regulated entities under the *Life Insurance Act 1995* (*Life Act*).

The proposed levies for 2017-18 will substantially increase the levies for most friendly societies. The proposed levies framework will result in the:

- restricted rate roughly doubling to 0.00832 per cent of total assets from 0.00419 per cent in 2016-17
- levy minimum doubling to $10,000 from $5,000 in 2016-17
- unrestricted rate increasing slightly to 0.004826 per cent of total assets from 0.004778 per cent of total assets.

The FSA opposes these increases as they are disproportionately large and are without adequate justification. These changes are not consistent with the principle that the cost of regulation should be borne by the entities that create the most need for it[1].

There continues to be a lack of information and clarity on how levy increases are justified each year. The Cost Recovery Implementation Statement (CRIS) for 2016-17 was released following the consultation on the levies for that year. The consultation paper notes that the CRIS for 2017-18 will be released in June, and at the time of submission far has not been released. Without this document it is very difficult to comment on the appropriateness of the proposed changes and we request that the CRIS be released along with the proposed levies in future years.

[1] Australian Government, *Australian Government Charging Framework*, page 9.

The FSA provides the following detailed comments.

Increase in the levy minimum

The consultation paper proposes increasing the minimum levy amount from $5,000 to $10,000 for friendly societies. For smaller friendly societies this will substantially increase the amount of levies they pay.

As noted in our submission last year,[2] the minimum levy has increased substantially over the last few years. The levy minimum has increased from $490 in 2014-15 to the proposed $10,000 for 2017-18. The consultation paper for this year notes:

> *For the ADIs, and the life insurers / friendly societies, in line with the requirements of the Government's Charging Framework, the restricted levy minimums have been increased to better match the cost of supervision to the levy collected.*

Without the CRIS being available it is difficult to gauge whether or not this is the case. The 2016-17 CRIS notes, "the proposed 2016-17 adjustments to the levy minimums continues the process of attempting to bring the costs of supervision closer to the levies collected from an entity".[3] This follows the 2015-16 CRIS indicating that APRA will continue to align the cost of supervision with actual cost incurred through a multi-year process.[4]

As further minimum levy increases appear likely in future years we request further transparency on this process, including the likely levels of the minimum levies in future years.

Increase in the restricted levy rate

The consultation paper proposes that the restricted rate for friendly societies to more than double. However, the consultation paper does not address this issue. As noted above, the CRIS for 2017-18 has yet to be published.

The proposed increase in the restricted 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 restricted levy rate increases.

Friendly societies have a material proportion of closed legacy funds that is, products that are not available to new customers, compared to other financial institutions. Closed funds require less APRA regulatory intensity and therefore it difficult to understand the substantial increases in both the restricted levy rate and minimum levy minimum. The paper also does not indicate how the ASIC levy component is shared across the different industry groups.

The need for justification is especially acute as the overall amount to be collected from the life insurance/friendly society sector will fall by $1.8 million in 2017-18 (8.1 per cent).

The FSA opposes the increase in the restricted levy rate and calls for more transparency on levy increases.

Limited scope to absorb increasing regulatory costs

As flagged in our submission last year we wish to raise the issue of older existing products in the context of increasing regulatory costs. A number of our members'

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[2] http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2016/Proposed-Financial-Institutions-Supervisory-Levies/Submissions
[3] APRA, *2016-17 Cost Recovery Implementation Statement*, page 12.
[4] APRA, 2015-16 Cost Recovery Implementation Statement, page 13.

products were constituted in an environment of significantly lower regulatory costs and were designed with the assumption of this continuing.

In the current environment, new regulatory costs far exceed what was envisaged when these products were 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 not fairly shared across products.

We continue to recommend that consideration be given to this problem. In relation to older products, we seek greater capacity to be able to respond to the changing regulatory environment. Newer products generally having greater flexibility to respond to changes in the regulatory environment.

We would like to flag with Government the need to develop an appropriate way to allow the constitutions of existing older products to be amended so 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 Tony Connon, FSA Treasurer on 0412 412 377 or by email, tonyconnon@iinet.net.au.

Yours sincerely

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Matt Walsh
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