



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

Email: supervisorylevies@treasury.gov.au

20 June 2017

Dear Ms Southwell

PROPOSED FINANCIAL INSTITUTIONS SUPERVISORY LEVIES FOR 2017-18

The Insurance Council of Australia¹ (Insurance Council) appreciates the opportunity to comment on the proposed Financial Institutions Supervisory Levies (Levies) for 2017-18.

As we have emphasised in previous submissions to the annual Levies consultation process, it is critical that an adequately transparent framework be in place to ensure regulators deliver value for money. The general insurance sector's contribution to the Levies is significant; it is therefore important that the sector knows how its contribution will be allocated and used.

We note that the total Levies apportioned to the general insurance sector for 2017-18 will be \$30.9 million. While this represents a 7.5 per cent reduction from 2016-17, we note that the decrease simply reflects how funding for the ASIC component of the Levies is being transitioned to recovery through the new ASIC industry funding model.

We also note that the general insurance sector's APRA component of the Levies for 2017-18 has risen by 7.9 per cent to \$21.8 million, partly reflecting funding for new APRA measures announced in the 2017-18 Commonwealth Budget, such as to enable APRA to undertake new regulatory activities to "*support a stable, efficient and competitive financial system*"².

The Insurance Council is concerned that the sector is responding to this consultation in the absence of the Cost Recovery Implementation Statement (CRIS) from APRA and that the CRIS will be released by 30 June 2017, following this consultation. It is difficult to see how

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2017 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$45 billion per annum and has total assets of \$123.6 billion. The industry employs approximately 60,000 people and on average pays out about \$142 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

² Australian Government Budget 2017-18, [Budget Paper No. 2](#), *Budget Measures 2017-18 – Part 2: Expense Measures*, page 164 refers.

any stakeholder feedback to this consultation process can be realistically evaluated within such a short period of time and incorporated into the CRIS before its release.

We are also concerned that there remains a lack of detail, beyond internal estimates of resource utilisation for each industry sector, on the way that resources will be allocated and used to support the regulation and supervision of the general insurance sector.

For example, it is unclear how the \$9.1 million ASIC component of the Levies for general insurance will be allocated and used. Furthermore, there is no apportionment of the 7.9 per cent rise in the general insurance sector's APRA component of the Levies to any of the new APRA measures announced in the 2017-18 Commonwealth Budget, particularly the measure to "*support a stable, efficient and competitive financial system*". Given industry's support for well-targeted regulatory activities that reduce systemic and consumer risks, there is a strong need for greater transparency and improved industry understanding of regulatory priorities.

In order to be able to comment meaningfully on the appropriate level of levy funding, industry requires adequate dialogue with regulators on how they see the current regulatory landscape and their proposed priorities for 2017-18. It remains unclear how the cost impact to general insurers can be assessed in isolation from regulators consulting with industry and in absence of an activity specific breakdown of total funding costs.

In this regard, we remain concerned that the annual Levies consultation process continues to fail key requirements of the Australian Government's July 2015 Charging Framework³ and July 2014 Cost Recovery Guidelines⁴. Indeed, as the Treasury would appreciate, the Government's decision to transition to an industry funding model for ASIC makes it even more important to have in place an adequate framework around transparency and regulator responsibility to safeguard the appropriate and efficient use of industry funding.

The Insurance Council would appreciate the Government encouraging regulators to release their CRISs concurrently with the levies consultation processes, rather than at its conclusion. We consider 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 regulatory efficiency, this could also be an opportunity for 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 any relevant levies could be submitted to Government, with a summary of the feedback received from industry and the regulator's response.

We also wish to raise again the 2013 Australian National Audit Office (ANAO) report on the determination and collection of financial industry levies, which recommended the need for:

³ Charging Principles: transparency; efficiency; performance; equity; simplicity; and policy consistency.

⁴ Australian Government Cost Recovery Guidelines (pp. 11-12): "*Transparency is about openness ... and a willingness to explain activities and actions. It allows appropriate scrutiny of government activities, decisions and processes by providing access to information ... transparency means documenting key information about the activity ... in an accessible way for those who pay charges and for other stakeholders ... Successful stakeholder engagement is most likely to occur when it is well planned and when government entities enter into a meaningful dialogue with stakeholders, consider their views...*".

“... 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”.

The Insurance Council continues to strongly support the ANAO’s recommendation and urges the Treasury to consider its adoption.

We would appreciate the opportunity to provide further comment after release of the CRIS by APRA. In the interim, 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 (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director and CEO