



Australian Government

PROPOSED FINANCIAL INSTITUTIONS SUPERVISORY LEVIES FOR 2017-18

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INTRODUCTION

The purpose of this paper is to seek industry views on the proposed Financial Institutions Supervisory Levies ('the levies' or FISLs) that will apply for the 2017-18 financial year. The levies are set to recover the operational costs of the Australian Prudential Regulation Authority (APRA), and other specific costs incurred by certain other Commonwealth agencies and departments.

This paper, prepared by Treasury in conjunction with APRA, sets out information about the total expenses for the activities to be undertaken by APRA and certain other Commonwealth agencies and departments in 2017-18 to be funded through the commensurate levies revenue to be collected in 2017-18.

AUSTRALIAN GOVERNMENT COST RECOVERY

In December 2002, the Government adopted a formal cost recovery policy to improve the consistency, transparency and accountability of cost recovered activities and promote the efficient allocation of resources. Cost recovery involves government entities charging individuals or non-government organisations some or all of the efficient costs of a specific government activity. This may include goods, services or regulation, or a combination of these.

The Australian Government Charging framework (introduced 1 July 2015) and Cost Recovery Guidelines (CRGs, revised 1 July 2014) set out the overarching framework under which government entities design, implement and review cost recovered activities. In line with the policy, individual portfolio ministers are ultimately responsible for ensuring entities' implementation and compliance with the CRGs.

An updated Cost Recovery Implementation Statement will be released by APRA by 30 June 2017, which will provide further transparency around the cost of APRA's activities and the corresponding impact on the levies.

POLICY AND LEGISLATIVE BASIS FOR THE LEVIES

APRA's costs, and the costs of providing certain market integrity and consumer protection functions in the financial system, are funded through levies on those industries that are 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 (that is, institutional categories that are regulated).

The legislative framework for these 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. For all industries with the exception of the private health insurers these acts set a CPI-indexed statutory upper limit and provide for the Minister to make a determination as to certain matters such as the percentages for each restricted and unrestricted levy component, the maximum and minimum levy amounts applicable to each restricted levy component, and the date at which the entity's levy base is to be calculated.

The imposition Act for private health insurers imposes a levy on regulated institutions by setting a rate for each complying single and joint health insurance policy on issue on the census day.

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
- *Private Health Insurance Supervisory Levy Imposition Act 2015*.

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

- providing certain market integrity and consumer protection functions, which are undertaken by ASIC, ACCC and the ATO;

Proposed Financial Institutions Supervisory Levies for 2017-18

- administering claims for the early release of superannuation benefits on compassionate grounds by the Department of Human Services (DHS); and
- implementing the SuperStream initiative.

The total funding for all agencies raised under the levies is set through the Budget process prior to the release of this paper.

APRA'S 2017-18 ACTIVITIES

APRA places a strong emphasis on an active program of prudential supervision. APRA's supervisory approach is based on the fundamental premise that the primary responsibility for financial soundness and prudent risk management within an APRA-regulated institution rests with its board of directors and senior management. APRA's role is to promote prudent behaviour by institutions through a robust prudential framework of legislation, prudential standards and prudential guidance, which aims to ensure that risk-taking is conducted within reasonable bounds and that risks are clearly identified and well-managed.

APRA takes a risk-based approach to supervision that is designed to identify and assess those areas of greatest risk to an APRA-regulated institution (or to the financial system as a whole) and then direct supervisory resources and attention to these risks. APRA seeks to ensure that its supervisory judgments are accurate, timely and robust and that its responses are targeted and proportionate.

In doing so, APRA does not pursue a zero failure objective. Rather, APRA seeks to maintain a low incidence of failure of APRA-regulated institutions while not impeding continued improvement in efficiency or hindering competition. APRA cannot eliminate the risk that any institution might fail and it recognises that attempting to do so would impose an unnecessary burden on institutions and the financial system. APRA's objective is to identify likely failure of an APRA-regulated institution early enough so that corrective action can be promptly initiated or orderly exit achieved.

APRA's integrated structure and risk-based supervisory approach enable it to deal efficiently and effectively with the evolution of the financial sector, and the wide range of financial institutions within it.

The global financial crisis provided a searching test of Australia's prudential regime and financial stability arrangements, the strength of which have been widely accepted as an important contributing factor to Australia's continued economic and financial stability through the crisis. Strong and safe financial institutions that will meet their financial promises under all reasonable circumstances, and a stable financial system, are fundamental for fostering growth and sustainable competition.

Each year, APRA considers opportunities to strengthen its core functions and capabilities. APRA's 2017-18 strategic initiatives provide the areas of focus over the medium term, being:

- enhancing leadership, culture and opportunities for APRA's people;
- honing organisational effectiveness;
- sharpening risk-based supervision; and
- building recovery and resolution planning capability.

Successful delivery of these initiatives will support the effective delivery of APRA's mission.

Some of APRA's activities are not funded by the levies. Rather, the costs are recovered by direct user charges or through direct Government funding. For example, in 2017-18 the cost of the following activities will not be recovered through the levies:

- accreditation of Authorised Deposit-taking Institutions (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;
- assessment of ADI applications to the Reserve Bank's Committed Liquidity Facility (CLF); and
- the provision of statistical reports to the Reserve Bank of Australia (RBA), the Australian Taxation Office (ATO), the Australian Bureau of Statistics (ABS) and the Department of Agriculture and Water Resources (DAWR) that are recovered through a fee for service arrangement.

In 2017-18 APRA's funding was increased through three measures:

- 'Australian Prudential Regulation Authority - supporting an efficient financial system' - Additional funding of \$28.6 million over four years from 2017-18 (including \$2.3 million in capital) is provided to APRA to undertake new regulatory activities to support a stable, efficient and competitive financial system. This will protect the financial interests of depositors, insurance policyholders and superannuation fund members by responding to new financial system activities and products. The cost of this measure will be offset by a \$26.8¹ million increase in the Financial Institutions Supervisory Levies over four years from 2017-18.
- 'A More Accountable and Competitive Banking System - improving accountability' - Additional funding of \$8.2 million over four years is provided to APRA via a corresponding increase in the Financial Institutions Supervisory Levies to assist with the introduction and administration of legislation to make ADIs and their executives more accountable. This will include requiring banking executives to be registered with APRA, strengthening APRA's powers to remove and disqualify senior executives, new penalty provisions and deferral of remuneration for senior executives. Included in the \$8.2 million, is \$1 million per annum to provide APRA with resources to take enforcement action in response to any breaches of the new requirements; and

1 Difference in the additional funding and the levies increase relates to accounting timing effects that unwind in later years.

- 'Australian Prudential Regulation Authority - modernising powers to address systemic risks' - Additional funding of \$2.6 million over four years from 2017-18 was provided to enable APRA to administer new powers in respect to the provision of credit by lenders that are not Authorised Deposit-taking Institutions (non-ADIs). This funding will also enable APRA to collect data from these institutions for the purposes of monitoring the non-ADI lending market, supported by a modernisation of the *Banking Act 1959* (the Banking Act) to better support APRA's use of the Banking Act for financial stability purposes. This will include making clear APRA's ability to use geographically-based restrictions on the provision of credit where APRA considers it appropriate. The cost of this measure will be partly offset by an increase in the Financial Institutions Supervisory Levies of \$1.9 million over three years from 2018-19.

The APRA levies have been increased in 2017-18 to reflect the cost of these capabilities.

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2017-18

APRA's 2017-18 LEVY FUNDING REQUIREMENTS

APRA's net funding requirements under the levies for 2017-18 are shown in Table 1. The budgeted total cost for APRA for 2017-18 is \$141.6 million, a \$10.3 million (7.9 per cent) increase relative to budget for 2016-17. The amount collected is increased by \$1.0 million to provide the resources to enforce breaches of APRA's new requirements (refer to the 'A More Accountable and Competitive Banking System – improving accountability' measure above). \$7.4 million of these costs will be met through other sources of APRA revenue (referred to as Non-Levy income) and Government appropriations. These appropriations include a special levy for the cost of administering the National Claims and Policies Database (NCPD).

Taking into account \$0.9 million in projected under collected 2016-17 levies to be recouped from industry (discussed below), APRA's underlying net levies funding requirement for 2017-18 is \$136.1 million, an increase of \$14.0 million (11.5 per cent) relative to budget for 2016-17.

Table 1: APRA — levies funding required

	2016-17	2017-18		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
APRA – operating expenses	131.3	141.6	10.3	7.9
APRA – additional enforcement resourcing	-	1.0	1.0	-
Non-Levy income (Table 2)	(7.6)	(7.4)	0.2	(2.2)
Prior year under / (over) collected revenue (recouped) / returned (Table 3)	(1.7)	0.9	2.5	(152.0)
Net funding met through industry levies	122.1	136.1	14.0	11.5

Table 2 outlines the other sources of APRA revenue (or Non-Levy income) available to partially fund APRA expenditures.

Table 2: Non-Levy income

Non-Levy income	2016-17	2017-18	Change (\$m)	Change (%)
	Budget (\$m)	Budget (\$m)		
Appropriations - NCPD	(1.0)	(1.0)	(0.0)	-
- Other ²	(3.1)	(0.7)	2.4	(76.3)
Provision of goods and services	(3.5)	(5.7)	(2.2)	62.2
Total	(7.6)	(7.4)	0.2	(2.2)

ADJUSTMENT FOR UNDER-COLLECTED LEVIES

To ensure that industry does not pay any more or less than the cost of prudential regulation and to maintain the integrity of the levies funding mechanism, the industry levies funding requirement is adjusted by over- and under-collected levies from prior periods.

Based upon 2016-17 expected collections, there will be an under-collection of the APRA element of the levies of \$0.9 million that will be recouped from industry through the 2017-18 levies (Table 3), as well as a re-coup of the Non-APRA element of the levies of \$0.9 million reflecting a total under-collection of \$1.8 million.

Table 3: Under-collected APRA levies

Source of revenue	2016-17 Budget	2016-17 Forecast	2016-17 Difference	Difference to be (recovered from) / refunded to industry				
				ADI	LI	GI	Super	PHI
APRA Levies	122.1	121.2	(0.9)	0.7	0.0	0.0	(1.6)	0.0
Non-APRA levies	128.6	127.7	(0.9)	0.7	0.0	0.0	(1.6)	0.0
Total	250.7	248.9	(1.8)	1.4	0.0	0.0	(3.2)	0.0

² Other appropriations reduced from prior year following applications of efficiency dividends in 2016-17.

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2017-18

The total funding required under the levies in 2017-18 for all relevant Commonwealth agencies and departments is \$244.5 million. This is a \$6.2 million (2.5 per cent) decrease from the 2016-17 requirement. The components of the levies are outlined below (Table 4).

Table 4: Total levies funding required

	2016-17	2017-18		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
APRA	122.1	136.1	14.0	11.5
ASIC	70.4	49.6	(20.8)	(29.5)
ATO	17.8	17.8	0.0	-
DHS	4.8	5.1	0.3	5.5
ACCC	-	3.0	3.0	-
SuperStream	35.5	32.0	(3.5)	(9.8)
Prior year under-collection – Non-APRA element	-	0.9	0.9	-
Total	250.7	244.5	(6.2)	(2.5)

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION (ASIC) COMPONENT

Of the levies collected, \$49.6 million is to offset ASIC's costs in relation to financial capability, the operation of the Superannuation Complaints Tribunal (SCT) and ASIC's activities related to the Government's 'Improving Outcomes in Financial Services' package. Work relating to the package commenced in the 2016-17 Budget and includes:

- investing \$61.1 million over four years to enhance ASIC's data analytics and surveillance capabilities as well as modernise ASIC's data management systems;
- providing ASIC with \$57.0 million over four years to enable increased surveillance and enforcement in the areas of financial advice, responsible lending, life insurance and breach reporting; and
- accelerating the implementation of a number of key measures recommended by the Financial System Inquiry.

In line with the Government's objectives for the ASIC Industry Funding Model – in particular, increasing the transparency of ASIC's regulatory costs and activities – it is expected that none of ASIC's costs will be recovered through the FISLs from 2020-21.

From 2017-18, none of ASIC's ongoing costs will be recovered through the FISLs. As such there has been a commensurate decrease in the amount being collected for ASIC activities through the FISLs.

Non-ongoing capital costs associated with the measure 'Improving Outcomes in Financial Services' are scheduled to cease in 2018-19.

In the 2017-18 Budget, the Government announced that the SCT will be wound down and no longer operating from 1 July 2020.

AUSTRALIAN TAXATION OFFICE COMPONENT

Funding from the levies collected from the superannuation industry includes a component to cover the ATO's regulatory costs in administering the Superannuation Lost Member Register (LMR) and Unclaimed Superannuation Money (USM) frameworks. In 2017-18, \$17.8 million will be recovered for the ATO to undertake these functions.

The majority of this funding supports the ATO's activities, which include:

- the implementation of strategies to reunite individuals with lost and unclaimed superannuation money including promoting ATO Online services through myGov and targeted SMS/email/letter campaigns using demographic data and account balances.
- working collaboratively with funds to engage members being reunited with their super, including Super Match2, and providing funds with updated contact information about their lost members;
- processing of lodgements, statements and other associated account activities;
- processing of claims and payments, including the recovery of overpayments;
- reviewing and improving the integrity of data on the LMR and in the USM system; and
- reviewing and improving data matching techniques, which facilitates the display of lost and unclaimed accounts on the ATO On Line Individuals Portal.

The funding also supports the ongoing upkeep and enhancement of the ATO's administrative system for USM frameworks and the LMR, and for continued work to improve efficiency and automate processing where applicable.

DEPARTMENT OF HUMAN SERVICES COMPONENT

DHS administers the Early Release of Superannuation Benefits on Compassionate Grounds programme (ERSB). The compassionate grounds enable the Regulator (the Chief Executive of Medicare) to consider the early release of a person's preserved superannuation in specified circumstances.

The volume of ERSB applications has significantly increased since it was made possible to apply online. In 2016-17, the ERSB is forecast to receive 35,083 applications which represents a 19 per cent increase over the previous year. In 2017-18, the number of applications for the ERSB is forecast to increase by a further 19 per cent to 41,749 applications.

In 2017-18, \$5.1 million will be recovered for DHS to administer this programme, in line with the Government's Charging Framework.

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION (ACCC) COMPONENT

Following the 2017-18 Budget, the ACCC will establish a dedicated analysis and advisory function – the Financial Services Competition Unit (FSCU) – to investigate specific competition issues in Australia's financial system.

The FSCU will undertake extensive stakeholder consultation, identify emerging competition concerns and trends, conduct inquiries into competition issues and collect pricing data.

In 2017-18, \$3.0 million will be recovered for the ACCC to administer this programme.

As the work of the FSCU will concentrate on the financial system competition issues in the ADI and insurance sector, costs will be recovered from all APRA-regulated institutions except for PHIs and superannuation funds.

SUPERSTREAM COMPONENT

Announced as part of the former 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 administration processes when dealing with employers and other funds and from easier matching and consolidation of superannuation accounts. The costs associated with the implementation of the SuperStream measures are to be collected as part of the levies on superannuation funds. The levies recover the full cost of the implementation of the SuperStream reforms and are imposed as a temporary levy on APRA-regulated superannuation entities from 2012-13 to 2017-18 inclusive.

In 2017-18, \$32.0 million will be recovered in association with the implementation of the SuperStream reforms.

In the *2016-17 Mid-Year Economic and Fiscal Outlook*, the Government also announced a measure relating to the Gateway Network Governance Body (GNGB). The GNGB will assume governance of the gateway infrastructure that facilitates transmission of SuperStream data messages between employers, superannuation funds and the ATO. This will be cost-recovered through the Financial Institutions Supervisory Levies from 1 July 2018, and has no impact on the levies for 2017-18.

Further information on the break-down of funding to support the implementation of SuperStream is contained in Attachment A.

SUMMARY OF SECTORAL LEVIES ARRANGEMENTS FOR 2017-18

APRA's annual supervisory levies (excluding levies payable by private health insurers) are made up of two components: one based on the cost of supervision (the restricted component) and the other on systemic 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 64 per cent and 36 per cent of APRA's overall supervisory effort, respectively.

To reduce the volatility in levies charged to industry, APRA smooths supervision costs through the use of a moving average. The four-year averages of APRA's costs are used to derive the 2017-18 levies 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

<i>Industry sector</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>	<i>2017-18</i>
	<i>Actual %</i>	<i>Actual %</i>	<i>Forecast %</i>	<i>Estimate %</i>	<i>4-yr average %</i>
<i>Restricted component - % of time</i>					
ADIs	49	50	48	48	48
Life insurance/Friendly societies	10	11	12	11	11
General insurance	15	16	18	17	17
Superannuation	26	23	22	24	24
Total	100	100	100	100	100
<i>Unrestricted component – % of time</i>					
ADIs	45	53	54	52	51
Life insurance/Friendly societies	9	8	10	9	9
General insurance	20	17	14	17	17
Superannuation	26	22	22	22	23
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 LEVIES REQUIREMENT

Table 6 illustrates APRA's 2017-18 levies funding required for both levy components from each industry and compares this with the levies funding required from each industry for 2016-17.

Table 6: Estimated levies by industry for APRA's levy requirement

Industry	2016-17			2017-18		2017-18
	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)
ADIs	37.1	18.7	55.7	39.0	23.3	62.4
Life insurance / Friendly societies	7.9	3.6	11.5	9.0	4.2	13.2
General insurers	12.6	7.7	20.2	14.0	7.9	21.8
Superannuation	20.4	10.1	30.5	20.7	11.2	31.9
Sub-total (excluding-PHI's)	77.9	40.1	118.0	82.8	46.6	129.4
Private health insurers	-	-	4.1	-	-	6.7
Total	-	-	122.1	-	-	136.1

TOTAL SECTORAL LEVIES ARRANGEMENTS FOR 2017-18

Table 7 itemises the total levies requirement by industry.

Table 7: Total levies required by industry

Industry	APRA (\$m)	ATO (\$m)	ASIC (\$m)	DHS (\$m)	ACCC (\$m)	Super Stream (\$m)	Prior year under- collection (\$m)	Total 2017-18 (\$m)	Total 2016-17 (\$m)	Increase (decrease) (\$m)
ADIs	62.4	-	20.0	-	2.8	-	(0.7)	84.5	77.9	6.6
Life insurance / Friendly societies	13.2	-	6.8	-	0.2	-	-	20.2	22.0	(1.8)
General insurers	21.8	-	9.1	-	0.1	-	-	31.0	33.4	(2.4)
Superannuation	31.9	17.8	13.7	5.1	-	32.0	1.6	102.1	113.2	(11.1)
Private health insurers	6.7	-	-	-	-	-	-	6.7	4.1	2.6
Total	136.1	17.8	49.6	5.1	3.0	32.0	0.9	244.5	250.7	(6.2)

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values at December 2015 and December 2016. The equivalent of these assets at the relevant levy dates will be used to determine the levies for 2017-18. Consequently the asset values used to estimate the levies payable in this paper will differ from the asset values used to invoice the levies, since more up-to-date information will be available at the time of invoicing.

Table 8: Institutional asset base used for modelling levies

Industry sector	December 2016		December 2015	
	Number	Total assets (\$b)	Number	Total assets (\$b)
ADIs ¹				
Banks	83	4,167.7	75	3,954.3
Building societies	4	12.5	5	16.8
Credit unions	58	38.3	71	41.6
Other ADIs, including SCCIs	8	4.2	7	3.8
Sub-total	153	4,222.6	158	4,016.4
Life insurers	29	225.4	28	298.8
Friendly societies	12	7.1	12	6.7
Sub-total	41	232.5	40	305.5
General insurers	109	121.1	110	119.3
Private Health Insurers	34	12.6	33	11.8
APRA-regulated superannuation institutions ^{2,3}				
Excluding Small APRA Funds ⁴	281	1365.4	316	1,255.0
Small APRA Funds ⁵	2,055	2.0	2,189	2.0
Sub-total	2,336	1,367.4	2,505	1,257.0
Total	2,673	5,956.2	2,846	5,710.0

1. The ADI classification does not include representative offices of foreign banks.
2. This data excludes superannuation institutions that APRA does not regulate, that is, exempt public sector superannuation schemes and ATO regulated self-managed superannuation funds.
3. For the purpose of levies modelling pooled superannuation trust assets (of \$129.2b in December 2016) are included in the sub-total for superannuation institutions. 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.
4. Superannuation institutions excluding small funds consist of public offer funds, non-public offer funds, multi-member approved deposit funds, eligible rollover funds and pooled superannuation trusts.
5. Small funds consist of small APRA funds and single-member approved deposit funds.

SUMMARY OF THE IMPACT ON EACH INDIVIDUAL INDUSTRY

AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIS)

The ADI industry comprises large and small banks as well as building societies, credit unions and Purchased Payment Facilities (PPF). Total levies funding of \$84.5 million³ consists of \$62.4 million for APRA's supervision of the ADI industry, \$20.0 million to fund work undertaken by ASIC and \$2.8 million for the ACCC.

The ASIC element covers activities related to the Government's 2016-17 *improving outcomes in financial services* budget measure and the ACCC element for establishment of the FSCU (Table 7).

The total compares to \$77.9 million in 2016-17. Excluding the SuperStream levy, which is not borne by the ADI industry, levies funding from ADIs in 2017-18 represents 39.8 per cent of the total levies, compared with 36.2 per cent in 2016-17.

In 2017-18, APRA's supervisory activities in the ADI industry will be supported by ongoing enhancements to the prudential framework, including further reforms generated by the Financial System Inquiry and the Basel Committee, new prudential requirements and measures to reinforce sound lending practices in residential mortgages.

In 2017-18, the levy for providers of PPF's will be subject to a minimum of \$10,300 for the restricted component and to half the restricted maximum amount as other ADIs. These institutions are subject to the same unrestricted levy rate as other ADIs.

LIFE INSURANCE/FRIENDLY SOCIETIES

Total levies funding of \$20.2 million consists of \$13.2 million for APRA's supervision of the life insurance industry, \$6.8 million for ASIC and \$0.2 million for ACCC costs (Table 7).

The total compares to \$22.0 million in 2016-17. Excluding the SuperStream levy, which is not borne by this industry, levies funding from life insurers/friendly societies in 2017-18 represents 9.5 per cent of the total levies, compared with 10.2 per cent in 2016-17.

In 2017-18, APRA will continue its focus on the performance and capital adequacy of life insurers and friendly societies given the ongoing uncertainty in investment markets and the adverse trends in claims experience and lapse rates in risk insurance business.

3 Including a return of a total 2016-17 over-collection of \$1.4 million to industry (refer table 3).

GENERAL INSURANCE

Total levies funding of \$31.0 million consists of \$21.8 million for APRA's supervision of the general insurance industry, \$9.1 million for ASIC and \$0.1 million for ACCC costs (Table 7).

The total compares to \$33.4 million in 2016-17. Excluding the SuperStream levy, which is not borne by this industry, levies funding from general insurers in 2017-18 represents 14.6 per cent of the total levies, compared with 15.5 per cent in 2016-17.

In 2017-18, APRA will continue to work with the industry to improve stress testing capability and to develop robust recovery plans.

NATIONAL CLAIMS AND POLICIES DATABASE SPECIAL LEVY

In addition to the levies for general insurers, a separate levy to cover the costs of operating the National Claims and Policies Database (NCPD) will continue in 2017-18. 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 2017-18 is \$1.0 million, in line with the amount collected in 2016-17.

The NCPD levy 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 2017-18.

Table 9: Parameters for NCPD levy

	2016-17		2017-18	
	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 (%)	0.0235	0.0323	0.0240	0.0329
Runoff amount (\$)	2,500	2,500	2,500	2,500
Total levy (\$m)	0.43	0.54	0.43	0.54

Following consultation in 2012-13, the prescribed NCPD levy for a general insurer that issues both PL and PI products is calculated as the simple addition of the PL and PI levy components.

SUPERANNUATION

Excluding the SuperStream levy, levies funding of \$70.1 million⁴ consists of \$31.9 million for APRA’s supervision of the superannuation industry and \$36.6 million for ongoing ASIC, ATO and DHS costs. \$1.6 million of 2016-17 under-collected levies is also recouped from industry. This total compares to \$77.6 million in 2016-17.

Excluding the SuperStream levy, levies funding in 2017-18 represents 33.0 per cent of total levies, compared with 36.1 per cent in 2016-17.

In 2017-18, APRA’s supervisory activities in the superannuation industry will cover a range of issues, including continued focus on how RSE licensees are approaching strategic and business planning and the assessment of member outcomes. APRA will also support the Government’s initiative to developing a sound framework for offering post retirement products.

Separately, \$32.0 million is required to fund the continued implementation of SuperStream, bringing the total levy for the superannuation sector in 2017-18 to \$102.1 million.

The levy amount for Small APRA Funds (SAFs) is maintained at a flat rate of \$590 per fund.

PRIVATE HEALTH INSURANCE

Total levies funding of \$6.7 million is to recover APRA’s costs for the supervision of the private health insurance industry.

The total compares to \$4.1 million in 2016-17. Excluding the SuperStream levy, which is not borne by this industry, levies funding from private health insurers in 2017-18 represents 3.2 per cent of the total levies.

In 2017-18, APRA will continue to focus on enhancing governance and risk management standards across the industry. APRA will also monitor the readiness of industry participants to respond to changes in government policy.

The rate for a single policy for 2017-18 is the amount in cents worked out using the formula in the table below. The rates for single and joint policies reflect APRA’s expected expenditure on the private health insurance industry.

	671,500,000
2017–2018	<hr/> single coverage policies + (2 X joint coverage policies)

4 Including a recoup of a total 2016-17 under-collection of \$3.2 million from industry (refer table 3).

Proposed Financial Institutions Supervisory Levies for 2017-18

The rate for a joint policy for 2017-18 is the amount in cents worked out using the formula in the table below:

$$2017-2018 \quad 2 \times \frac{671,500,000}{\text{single coverage policies} + (2 \times \text{joint coverage policies})}$$

In this rule:

- single coverage policies means the aggregate number of single policies on issue from all private health insurers on the census day.
- joint coverage policies means the aggregate number of all joint policies on issue from all private health insurers on the census day.

NON-OPERATING HOLDING COMPANIES

Authorised non-operating holding companies (NOHCs) will have their flat fee levy raised to \$30,000 per institution in 2017-18 from a flat fee levy of \$10,000 per institution in 2016-17. The increase is required to more closely approximate to the actual cost of supervision of NOHCs.

LEVIES COMPARISON BETWEEN PREVIOUS YEARS AND 2017-18

This section presents how the levy payable by a non-PHI institution will be determined in 2017-18. The prospective restricted rates, minimum, maximum, and unrestricted rates for each option are listed in Table 10, and compared to the actual parameters from 2016-17.

The increase in the levy minimums brings the minimums for both ADIs and insurances entities into line and closer to the CRGs where the full cost of regulating institutions should be reflected.

Table 10: Levy parameters

Industry	Criteria	2016-17	2017-18
		Actual	Forecast
ADIs - locally incorporated	Restricted:		
	Rate %	0.00392	0.00391
	Minimum	6000	10,000
	Maximum	2,450,000	3,000,000
	Unrestricted rate (%)	0.001012	0.001092
ADIs - foreign branches	Restricted:		
	Rate %	0.00196	0.00130
	Minimum	6000	10,000
	Maximum	1,225,000	1,000,000
	Unrestricted rate (%)	0.001012	0.001092
Life insurers / Friendly societies	Restricted:		
	Rate %	0.00419	0.00832
	Minimum	5000	10,000
	Maximum	1,320,000	1,000,000
	Unrestricted rate (%)	0.004778	0.004826
General insurers	Restricted:		
	Rate %	0.01124	0.01288
	Minimum	10,000	10,000
	Maximum	1,064,000	1,000,000
	Unrestricted rate (%)	0.017201	0.013445
Superannuation funds	Restricted:		
	Rate %	0.00324	0.00301
	Minimum	2,500	3,500
	Maximum	260,000	300,000
	Unrestricted rate (%)	0.007075	0.005589
Superannuation funds - Pooled Superannuation Trusts	Restricted:		
	Rate %	0.00162	0.00151
	Minimum	2,500	3,500
	Maximum	130,000	150,000
	Unrestricted rate (%)	0.001641	0.001397

For Pooled Superannuation Trusts (PSTs) the amount recovered by the unrestricted levy includes the APRA unrestricted component and the ASIC unrestricted component (excluding the elements relating to the SCT).

For the ADI's, 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. Further details on this increase will be available in the APRA CRIS to be published in June 2017.

In addition, the maximum and the restricted levy rate applied to the foreign branch ADI's have been reduced from one half of that for a domestic ADI to one third to better reflect the risk profile of these institutions.

Tables 11 to 16 compare the cost of the levies payable in each industry for each relevant asset base between 2015-16 and 2016-17, and the proposed levies payable in 2017-18.

Table 11: Amounts levied on ADIs

Asset base	\$50m (\$'000)	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$100b (\$'000)	\$500b (\$'000)
2015-16	3.4	24.0	239.7	1,198.7	3,168.4	6,042.2
2016-17	6.5	24.7	246.6	1,233.2	3,461.6	7,507.8
2017-18	10.5	25.0	250.1	1,250.7	4,092.1	8,460.6

Table 12: Amounts levied on foreign ADI branches

Asset base	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$50b (\$'000)
2015-16	13.8	137.8	689.1	1,378.3
2016-17	14.9	148.6	743.0	1,486.1
2017-18	15.5	119.8	598.9	1,197.8

Table 13: Amounts levied on life insurers/friendly societies

Asset base	\$3m (\$'000)	\$50m (\$'000)	\$500m (\$'000)	\$3b (\$'000)	\$10b (\$'000)	\$50b (\$'000)
2015-16	3.1	4.2	37.5	225.3	750.9	2,480.5
2016-17	5.1	7.4	44.9	269.1	897.1	3709.0
2017-18	10.1	12.4	65.7	394.3	1,314.3	3,412.9

Table 14: Amounts levied on general insurers

Asset base	\$5m (\$'000)	\$25m (\$'000)	\$250m (\$'000)	\$750m (\$'000)	\$3b (\$'000)	\$9b (\$'000)
2015-16	8.0	10.0	58.2	174.5	697.9	1,967.4
2016-17	10.9	14.3	71.1	213.3	853.1	2,559.3
2017-18	10.7	13.4	65.8	197.5	789.8	2,210.0

Table 15: Amounts levied on superannuation funds (excluding SAFs and PSTs)

Asset base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$50b (\$'000)
2015-16	1.1	1.3	5.9	29.5	589.6	1,968.6	4531.5
2016-17	2.6	2.7	6.0	25.8	515.6	1,675.0	3797.4
2017-18	3.6	3.7	6.3	21.5	430.0	1,417.8	3094.6

Table 16: Amounts levied on PSTs

Asset base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$30b (\$'000)
2015-16	1.0	1.0	1.5	6.5	130.7	327.8	426.7
2016-17	2.5	2.5	3.3	8.1	163.0	458.3	622.4
2017-18	3.5	3.5	4.2	7.3	145.1	429.4	569.0

ATTACHMENT A

IMPACT OF THE SUPERSTREAM LEVY FOR 2017-18

SuperStream is a package of reforms that will move Australia's superannuation industry from largely paper-based processing of contributions and rollovers to mandatory electronic transactions and introduce standardised simplified administrative processes for routine functions. With the SuperStream infrastructure now in place, 2017-18 will focus on implementation of business to government event based reporting. This reform will yield significant cost reductions and make the system easier to use.

Analysis undertaken by the superannuation industry suggests that savings of \$1 billion per year will be achieved in efficiency gains across the industry. Commonwealth funding of the SuperStream measures will be \$32.0 million in 2017-18.

Commonwealth costs associated with the implementation of the SuperStream measures are paid for by a SuperStream levy imposed on APRA-regulated funds.

Table 17 provides an overview of the total amount of Commonwealth funding that will be directed to implementing the SuperStream measures and the total amount of SuperStream levy that is to be collected over the period 2012-13 to 2017-18.

Table 17: Amount of SuperStream funding and 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)	(99.5)	(71.7)	(61.8)	(35.5)	(32.0)
SuperStream levy collection (Total revenue)	0.0	121.5	99.5	71.7	61.8	35.5	32.0
Net Impact	(31.4)	31.4	0.0	0.0	0.0	0.0	0.0

The activities funded by the SuperStream levy include:

- data and e-commerce support facilities;
- development and inclusion of superannuation terms in the Standard Business Reporting (SBR) taxonomy, since SBR will be used as the platform for elements of SuperStream transactions;
- enhanced matching of member information to accounts by the ATO to aid account consolidation;
- provision of an interactive online portal by the ATO for members to view their superannuation accounts, including active accounts;

- enhancement of systems by the ATO to facilitate re-report of superannuation accounts by funds;
- provision of a TFN validation service by the ATO for funds and employers; and
- extension of the VANguard authentication service to support the use of the AUSkey functionality – this provides for user authentication when accessing online services or making online transactions.