Australian Government
The Treasury

TSY/AU

# Proposed Financial Institutions Supervisory Levies for 2019-20

June 2019

# Contents

# Consultation Process

## Request for feedback and comments

### Closing date for submissions: 14 June 2019

| | |
|---|---|
| Email | supervisorylevies@treasury.gov.au |
| Mail | Manager<br>Banking and Access to Finance Unit<br>Financial System Division<br>The Treasury<br>Langton Crescent<br>PARKES ACT 2600 |
| Enquiries | Enquiries can be initially directed to Oskar Mezgailis |
| Phone | 02 6263 2111 |

# 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 2019–20 financial year. The levies are set to recover the majority of the operational costs of the Australian Prudential Regulation Authority (APRA), and other specific costs incurred by certain 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 Commonwealth agencies and departments in 2019–20 to be funded through the commensurate levies revenue to be collected in 2019–20.

# 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 policy 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 (CRIS) will be released by APRA at the earliest possible date, but no later than 30 June 2019, 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.

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 industries. For all industries with the exception of the private health insurers (PHIs) these Acts set a CPI indexed statutory upper limit (which the restricted maximum cannot exceed) 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 is to be calculated.

The imposition Act for PHIs 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.*

APRA has authority 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 the Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission (ACCC) and the Australian Taxation Office (ATO);
- administering claims for the early release of superannuation benefits on compassionate grounds, which is undertaken by the ATO;
- governing and maintaining the superannuation transactions network, which is undertaken by the Gateway Network Governance Body; and
- the 2018-19 capability review of APRA.

The total funding for all agencies raised under the levies is set through the annual Budget process.

# APRA's 2019–20 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 whilst not unduly hindering efficiency, competition or otherwise impeding the competitive neutrality or contestability of the financial system. 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 an orderly exit achieved.

Each year, APRA considers emerging trends and risks in setting its strategic priorities and initiatives to strengthen its core functions and capabilities to continue to successfully deliver on its mandate. APRA's strategic priorities and key initiatives are outlined in its rolling four-year Corporate Plan published annually. Key activities for 2019-20 are captured within the 2018-2022 Corporate Plan available on APRA's website.[1]

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 2019–20 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 '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 of Australia's Committed Liquidity Facility (CLF); and
- the provision of statistical reports to the Reserve Bank of Australia (RBA), the Australian Bureau of Statistics (ABS); the Department of Foreign Affairs and Trade (DFAT) and the Department of Agriculture and Water Resources (DAWR) that are recovered through a fee for service arrangement.

In the *2018–19 Mid-Year Economic and Fiscal Outlook* APRA was provided additional funding of $10.1 million in 2018-19 and $13.3 million in 2019-20 through the measure 'New and expanded functions' (totalling $24.9 million[2] to be collected in 2019-20). This measure enables an effective response to growing complexities, present and emerging risks, and trust issues within prudentially supervised industries while continuing to foster competition. This additional funding will be collected from all regulated industries, excluding the private health insurers.

In the *2019-20 Budget* APRA was provided with funding of $29.1 million in 2019-20 through the measure 'Government Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry'. This measure enables APRA to strengthen and intensify its approach to supervision and enforcement, particularly in key areas of concern raised through the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry Final Report including governance, culture and remuneration.

# Summary of levies funding requirements for 2019–20

The total funding required under the levies in 2019–20 for all relevant Commonwealth agencies and departments is $236.0 million. This is a $22.6 million (10.6 per cent) increase from the 2018–19 requirement. The increase is largely attributable to additional funding for the measures 'New and expanded functions' (2018-19 MYEFO) and 'Government Response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry' (2019-20 Budget) partially offset by the completion of funding for ASIC's activities related to the Government's

1 https://www.apra.gov.au/corporate-plan.
2 Includes $1.5 million in associated amortisation recovery.

'Improving Outcomes in Financial Services' package. The components of the levies are outlined below (Table 1).

### Table 1: Total levies funding required

| | 2018-19 Budget ($m) | 2019-20 Budget ($m) | Change ($m) | Change (%) |
|---|---|---|---|---|
| APRA | 141.6 | 186.1 | 44.5 | 31.4 |
| ASIC | 35.5 | 8.4 | (27.1) | (76.4) |
| ATO | 31.0 | 36.3 | 5.3 | 17.1 |
| ACCC | 3.2 | 3.5 | 0.3 | 9.4 |
| Gateway Network Governance Body | 0.6 | 0.7 | 0.1 | 8.8 |
| Treasury | - | 1.0 | 1.0 | 100.0 |
| Non-APRA prior year under-collection recouped | 1.5 | - | (1.5) | (100.0) |
| **Total** | **213.4** | **236.0** | **22.6** | **10.6** |

# APRA's 2019-20 levy funding requirements

APRA's net funding requirements under the levies for 2019–20 are shown in Table 2 below.

The budgeted total cost for APRA for 2019–20 is $184.2 million, a $38.7 million (26.6 per cent) increase relative to the budget for 2018–19. The higher amount is primarily due to additional funding for the measures 'New and expanded functions' and 'Government response to the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry' (noted in the previous section).

Other components of the funding requirements are:

- an additional $4.0 million to provide future enforcement expenses;
- a reduction of $2.5 million reflecting unused, previously collected, 2016-17 funding to be spent in 2019-20;
- an additional $10.7 million relating to 2018-19 expenditure and amortisation from the measure 'New and expanded functions' to be re-couped from industry in 2019-20; and
- a deferred collection of $3.1 million for the measure 'New and expanded functions' relating to supervision of the largest and most complex institutions to 2020-21, to be recovered in later years once legislative change is in place to enable collection from the largest institutions.

APRA's underlying net levies funding requirement for 2019–20 is $186.1 million, an increase of $44.5 million (31.4 per cent) relative to the budget for 2018–19.

### Table 2: APRA — Levies funding required

| | 2018-19 Budget ($m) | 2019-20 Budget ($m) | Change ($m) | Change (%) |
|---|---|---|---|---|
| APRA – operating expenses | 145.6 | 184.2 | 38.7 | 26.6 |
| APRA – contingency enforcement fund | 1.0 | 4.0 | 3.0 | 300.0 |
| Non-Levy income (Table 3) | (6.7) | (6.4) | 0.3 | (5.0) |
| Prior year under / over collected revenue (recouped / refunded) from industry (Table 4) | 1.8 | (0.8) | (2.6) | (145.1) |
| Unspent 2016-17 expenses deferred into 2019-20 | - | (2.5) | (2.5) | - |
| 2018-19 additional funding to be collected in 2019-20 | - | 10.7 | 10.7 | - |
| Deferred funding for supervision of largest & most complex institutions | - | (3.1) | (2.9) | - |
| **Net funding met through industry levies** | **141.6** | **186.1** | **44.5** | **31.4** |

Table 3 outlines the other sources of APRA revenue (or Non-Levy income) available to partially fund APRA expenditure.

### Table 3: Non-Levy income

| Non-Levy income | 2018–19 Budget ($m) | 2019–20 Budget ($m) | Change ($m) | Change (%) |
|---|---|---|---|---|
| Appropriations – NCPD | (0.9) | (0.9) | (0.0) | 1.4 |
| - Other | (0.1) | 0.0 | 0.1 | (100.0) |
| Provision of goods and services | (5.7) | (5.5) | 0.2 | (4.0) |
| **Total** | **(6.7)** | **(6.4)** | 0.3 | (5.0) |

## Adjustment for over-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.

There will be an over-collection of the APRA element of the levies of $0.8 million based on expected 2018-19 collections. The over-collection will be refunded to industry through the 2019–20 levies (Table 4).

### Table 4: Over-collected APRA levies

| Source of revenue | 2018–19 Budget ($m) | 2018–19 Forecast | 2018–19 Difference | Difference to be recovered from industry. | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | ADI | LI | GI | Super | PHI |
| Supervisory levies | 141.6 | 142.4 | (0.8) | - | - | - | (0.8) | - |

# Australian Securities and Investments Commission component

Of the levies collected, $8.4 million is to offset the Australian Securities and Investments Commission's (ASIC's) costs in relation to the operation of the Superannuation Complaints Tribunal (SCT).

Following the creation of the Australian Financial Complaints Authority in 2018, the SCT will continue to be wound down.

In line with the 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 following the SCT being wound down.

# Australian Taxation Office component

Funding from the levies collected from the superannuation industry includes a component to cover the Australian Taxation Office's (ATO's) regulatory costs in administering the Superannuation Lost Member Register (LMR) and Unclaimed Superannuation Money (USM) frameworks.

The ATO's costs have increased in recent years due to a significant increase in the number and value of USM accounts and increased engagement by individuals seeking to locate and consolidate or claim their lost and unclaimed superannuation monies.

In 2019-20, $23.4 million will be recovered for the ATO to support its activities in relation to the LMR and USM, 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.

In addition, from 1 July 2018, the ATO assumed the role of administering the early Compassionate Release of Super programme (CRS). The compassionate grounds enable the ATO to consider the early release of a person's preserved superannuation in specified circumstances. In 2019-20, the forecast for CRS applications to be received is approximately 48,000 factoring in a continuation of the upward trend of applications in the last few years.

In 2019-20, $12.9 million will be recovered for the ATO to administer this programme.

# Australian Competition and Consumer Commission component

Following the 2017–18 Budget, the Australian Competition and Consumer Commission (ACCC) established a dedicated analysis and advisory unit to investigate competition issues in the Australian financial services sector. The first task of this dedicated unit was to monitor the residential mortgage prices of the banks subject to the Major Bank levy, and the ACCC's final report in relation to these issues was published in November 2018.

The Financial Services Competition Branch (FSCB) was formed in November 2018 to continue and build upon this work. In particular, the FSCB is responsible for an ongoing program of further market studies in the financial services sector including an inquiry in relation to foreign exchange, which was announced in October 2018. The FSCB is also responsible for investigating and taking appropriate enforcement action to address competition issues in the financial services sector. In addition, it undertakes extensive stakeholder consultation, identifies emerging competition concerns and engages in advocacy to bring about changes to law or policy where necessary to address competition issues in the sector.

In 2019–20, $3.5 million will be recovered for the ACCC to administer this programme of work in relation to the financial services sector.

As the work of the FSCB is likely to concentrate on competition issues relating to ADIs, costs will be recovered from that industry.

# Gateway Network Governance Body component

The Gateway Network Governance Body Ltd (GNGB) governs the Superannuation Transaction Network (STN), the gateway infrastructure that facilitates transmission of SuperStream data messages between employers, superannuation funds and the ATO. It promotes the efficiency and effectiveness of the STN, monitoring compliance with the Standards, managing new entrants to the network, and engaging with key stakeholders in government and industry.

In 2019-20, $0.7 million will be recovered with respect to the GNGB.

# APRA Capability Review component

An expert panel is conducting a capability review of APRA during 2018-19, and were provided $1.0 million within the Treasury portfolio. These costs will be recovered from industry in 2019-20.

# Summary of sectoral levies arrangements for 2019-20

APRA's annual supervisory levies (excluding levies payable by PHIs which are levied on a different basis) 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). Following consideration of the time spent on the PHIs, APRA's activities are 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 62 per cent and 38 per cent of APRA's overall supervisory effort, respectively.

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.

To reduce the volatility in levies charged to industry, APRA smooths supervision effort indicators through the use of a moving average. The four-year averages of APRA's costs are used to derive the 2019–20 levies allocation for each industry.

The levies allocation for PHIs is based on the average time spent on this industry over the last two-years (4.6 per cent). This is the first year a time-based allocation has been applied for this industry. To phase in the impact of this change, a two-year transition period is being used.

The average percentage of time spent supervising industries for each levy component is then used to apportion APRA's estimated costs to each industry.

## Table 5: APRA's supervisory effort by industry

| | ***2016-17*** | ***2017-18*** | ***2018-19*** | ***2019-20*** | ***2019-20*** |
|---|---|---|---|---|---|
| ***Industry sector*** | *Actual %* | *Actual %* | *Forecast %* | *Estimate %* | **4-yr average %** |
| ***Restricted component - % of time*** | | | | | |
| ADIs | 48 | 45 | 43 | 44 | 45 |
| Life insurance/Friendly societies | 12 | 10 | 10 | 11 | 11 |
| General insurance | 18 | 19 | 18 | 19 | 18 |
| Superannuation | 22 | 26 | 29 | 26 | 26 |
| **Total** | **100** | **100** | **100** | **100** | **100** |
| **Unrestricted component – % of time** | | | | | |
| ADIs | 57 | 61 | 57 | 54 | 57 |
| Life insurance/Friendly societies | 9 | 9 | 11 | 11 | 10 |
| General insurance | 13 | 12 | 12 | 14 | 13 |
| Superannuation | 21 | 18 | 20 | 21 | 20 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

# APRA's levies requirement

Table 6 illustrates APRA's 2019–20 funding for both levy components from each industry and compares this with the levies funding required from each industry for 2018–19.

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

| Industry | 2018–19 Restricted component ($m) | 2018–19 Unrestricted component ($m) | 2018–19 Total ($m) | **2019–20 Restricted component ($m)** | **2019–20 Unrestricted component ($m)** | **2019–20 Total ($m)** |
|---|---|---|---|---|---|---|
| ADIs | 39.6 | 30.1 | 69.7 | 48.8 | 37.9 | 86.7 |
| Life insurance / Friendly societies | 9.1 | 4.2 | 13.3 | 12.6 | 7.2 | 19.8 |
| General insurers | 14.0 | 7.4 | 21.4 | 20.7 | 9.3 | 30.0 |
| Superannuation | 20.9 | 11.8 | 32.7 | 29.5 | 14.1 | 43.6 |
| **Sub-total (excluding-PHI's)** | 83.6 | 53.5 | 137.1 | 111.6 | 68.4 | 180.0 |
| Private health insurers | - | - | 4.5 | - | - | 6.1 |
| **Total** | **-** | **-** | **141.6** | - | - | **186.1** |

# Total sectoral levies arrangements for 2019-20

Table 7 itemises the total levies requirement by industry.

### Table 7: Total levies required by industry

| Industry | APRA ($m) | ATO ($m) | ASIC ($m) | GNGB ($m) | ACCC ($m) | Treasury ($m) | Total 2019–20 ($m) | Total 2018–19 ($m) | Increase / (decrease) ($m) |
|---|---|---|---|---|---|---|---|---|---|
| Authorised deposit-taking institutions | **86.7** | **-** | **-** | **-** | **3.5** | **0.6** | **90.8** | **83.5** | **7.3** |
| Life insurance / Friendly societies | **19.8** | **-** | **-** | **-** | **-** | **0.1** | **19.9** | **16.9** | **3.0** |
| General insurers | **30.0** | **-** | **-** | **-** | **-** | **0.1** | **30.1** | **26.2** | **3.9** |
| Superannuation | **43.6** | **36.3** | **8.4** | **0.7** | **-** | **0.2** | **89.1** | **82.3** | **6.8** |
| Private health insurers | **6.1** | **-** | **-** | **-** | **-** | **0.0** | **6.1** | **4.5** | **1.6** |
| **Total** | **186.1** | **36.3** | **8.4** | **0.7** | **3.5** | **1.0** | **236.0** | **213.4** | **22.6** |

# Industry structure

Table 8 compares the number of institutions and their asset values at December 2017 and December 2018. The relevant asset values at the levy dates will be the basis for calculation of the levies for 2019–20. Consequently, the asset values used to estimate the levies payable in this paper will differ from those used to invoice the levies.

The levy base for calculation of levies for superannuation excludes employer-sponsor receivable assets. These assets are included in the table below.

## Table 8: Institutional asset base used for modelling levies

| Industry sector | December 2017 | | December 2018 | |
|---|---|---|---|---|
| | Number | Total assets ($b) | Number | Total assets ($b) |
| ADIs[1] | | | | |
| Banks | 85 | 4,126 | 89 | 4,341 |
| Building societies | 3 | 12 | 3 | 12 |
| Credit unions | 54 | 39 | 46 | 39 |
| Restricted ADIs | 0 | 0 | 2 | 0 |
| Other ADIs | 7 | 4 | 7 | 5 |
| **Sub-total** | 149 | 4,181 | 147 | 4,397 |
| Life insurers | 29 | 232 | 29 | 222 |
| Friendly societies | 12 | 7 | 12 | 7 |
| **Sub-total** | 41 | 239 | 41 | 230 |
| **General insurers** | 96 | 119 | 96 | 124 |
| **Private Health Insurers** | 37 | 13 | 37 | 14 |
| APRA-regulated superannuation institutions[2,3] | | | | |
| Excluding small funds[4] | 228 | 1,696 | 218 | 1,734 |
| Small funds[5] | 1,920 | 2 | 1,781 | 2 |
| **Sub-total** | 2,148 | 1,698 | 1,999 | 1,737 |
| **Total** | 2,471 | 6,251 | 2,320 | 6,501 |

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 $143b in December 2018) 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. These assets include employer-sponsor receivable assets.
5. Small funds consist of Small APRA Funds (SAFs) and Single Member Approved Deposit Funds (SMADFs).

# Summary of the impact on each individual industry

## Authorised deposit-taking institutions

The Authorised Deposit-Taking Institutions (ADI) industry comprises large and small banks as well as building societies, credit unions, restricted ADIs and Purchased Payment Facilities (PPF). Total levies funding of $90.8 million consists of $86.7 million for APRA's supervision of the ADI industry, $3.5 million to fund work undertaken by the ACCC and $0.6 million for Treasury's cost recovery of APRA's capability review (Table 7).

The total compares to $83.5 million in 2018–19. Levies funding from ADIs in 2019–20 represents 38.5 per cent of the total levies, compared with 39.1 per cent in 2018–19.

In 2019–20, APRA's supervisory activities in the ADI industry will focus on embedding strong risk management fundamentals, improving stress testing capabilities, strengthening risk governance, culture and remuneration and embedding the Bank Executive Accountability Regime (BEAR) across the industry.

In 2019–20, the levy for providers of PPFs will remain unchanged, subject to a minimum of $15,000 for the restricted component, in line with other ADIs. The restricted maximum amount will also remain at $600,000 and the restricted levy rate will be set equal to that of other ADIs. These institutions are subject to the same unrestricted levy rate as other ADIs. Any under collection from large institutions will be recovered in subsequent years once legislative changes are in place.

## Life insurance/Friendly societies

Total levies funding of $19.9 million consists of $19.8 million for APRA's supervision of the life insurance industry and $0.1 million for Treasury (Table 7).

The total compares to $16.9 million in 2018–19. Levies funding from life insurers/friendly societies in 2019–20 represents 8.4% of the total levies, compared with 7.9 per cent in 2018–19.

In 2019–20, APRA will focus on strengthening risk governance, culture and remuneration, recovery plans, continuing work on assessing the sustainability of specific business lines including disability income insurance and how this can be enhanced by stronger risk governance, more focus on sustainable product design and better and more timely data, and implementing an extended Executive Accountability Regime across the industry.

## General insurance

Total levies funding of $30.1 million consists of $30.0 million for APRA's supervision of the general insurance industry and $0.1 million for Treasury (Table 7).

The total compares to $26.2 million in 2018–19. Levies funding from general insurers in 2019–20 represents 12.8 per cent of the total levies, compared with 12.3 per cent in 2018–19.

In 2019–20, APRA will continue to work with the industry to strengthen risk governance, culture and remuneration, further improve stress testing capability, develop robust recovery plans and implement the Executive Accountability Regime across the industry.

# 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 2019–20. 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 2019-20 is $0.9 million compared with $0.9 million collected in 2018–19.

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 2019–20.

### Table 9: Parameters for NCPD levy

| | 2018–19 | | 2019–20 | |
|---|---|---|---|---|
| | **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 (%) | 0.0313 | 0.0450 | 0.0256 | 0.0370 |
| Runoff amount ($) | 2,500 | 2,500 | 2,500 | 2,500 |
| Total levy ($m) | 0.41 | 0.51 | 0.43 | 0.50 |

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

# Superannuation

Levies funding of $89.1 million consists of $43.6 million for APRA's supervision of the superannuation industry and $45.5 million for cost relating to ASIC, ATO, GNGB and Treasury. This total compares to $82.3 million in 2018–19 (Table 7).

Levies funding in 2019–20 represents 37.8 per cent of total levies, compared with 38.6 per cent in 2018–19.

In 2019–20, APRA's supervisory activities in the superannuation industry will include implementation of new legislation and prudential standards designed to improve superannuation member outcomes, a continued focus on underperforming superannuation funds, and improving the scope and quality of industry data.

The levy amount for Small APRA Funds (SAFs) and Single Member Approved Deposit Funds (SMADFs) will be maintained at a flat rate of $590 per fund.

# Private health insurance

Total levies funding of $6.1 million is to recover APRA's costs for the supervision of the PHI industry after adjusting for the phasing in of the transition to APRA's time allocation methodology. This phasing in reduces the PHI collection from $7.6 million to $6.1 million for 2019-20.

The total compares to $4.5 million in 2018–19. Levies funding from private health insurers in 2019-20 represents 2.6 per cent of the total levies, compared with 2.1 per cent in 2018–19. The increase arises from the additional budget measures noted earlier in this paper, plus the transition to calculation of the total PHI levy component from APRA's time-recording data.

In 2019–20, APRA will focus on reviewing capital requirements for PHIs and strengthening their resilience through the implementation of improved governance, culture and risk management and implementation of the Executive Accountability Regime across the industry.

The rate for a single policy for 2019–20 is the amount in cents worked out using the formula below. The rates for single and other policies reflect APRA's expected expenditure on the private health insurance industry.

$$\text{2019–2020} = \frac{609{,}000{,}000}{\text{single coverage policies} + (2 \text{ X other coverage policies})}$$

The rate for other policies, including joint policies, for 2019–20 is the amount in cents worked out using the formula below:

$$\text{2019–2020} = 2 \text{ x } \frac{609{,}000{,}000}{\text{single coverage policies} + (2 \text{ X other coverage policies})}$$

In this rule:

- single coverage policies means the aggregate number of single policies on issue from all private health insurers on the census day; and
- other coverage policies means the aggregate number of all other policies, including 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 unchanged at $45,000 per institution in 2019–20.

# Levies comparison between previous years and 2019-20

This section presents how the levy payable by a non-PHI institution will be determined in 2019–20. The prospective restricted rates, minimum, maximum, and unrestricted rates for each option are listed in Table 10, and compared to the actual parameters from 2018–19.

Levy maximums will increase for 2019-20 reflecting an increase in APRA's operating budget and to ensure an equitable distribution of the levy across all institutions.

## Table 10: Levy parameters

| Industry | Criteria | 2018–19 | 2019–20 | |
|---|---|---|---|---|
| | | Actual | Forecast | Change (%) |
| **ADIs - locally incorporated** | **Restricted:** | | | |
| | Rate % | 0.00420 | 0.00578 | 37.6% |
| | Minimum | 15,000 | 15,000 | - |
| | Maximum | 3,000,000 | 3,000,000 | - |
| | **Unrestricted rate (%)** | 0.001025 | 0.000940 | (8.3%) |
| **ADIs - foreign branches** | **Restricted:** | | | |
| | Rate % | 0.00084 | 0.00116 | 38.1% |
| | Minimum | 15,000 | 15,000 | - |
| | Maximum | 600,000 | 600,000 | - |
| | **Unrestricted rate (%)** | 0.001025 | 0.000940 | (8.3%) |
| **Life insurers / Friendly societies** | **Restricted:** | | | |
| | Rate % | 0.01009 | 0.01307 | 29.5% |
| | Minimum | 15,000 | 15,000 | - |
| | Maximum | 750,000 | 1,110,000 | 48.0% |
| | **Unrestricted rate (%)** | 0.003365 | 0.003098 | (7.9%) |
| **General insurers** | **Restricted:** | | | |
| | Rate % | 0.01556 | 0.02209 | 42.0% |
| | Minimum | 15,000 | 15,000 | - |
| | Maximum | 900,000 | 1,300,000 | 44.4% |
| | **Unrestricted rate (%)** | 0.009966 | 0.007309 | (26.7%) |
| **Superannuation funds** | **Restricted:** | | | |
| | Rate % | 0.00274 | 0.00312 | 13.9% |
| | Minimum | 5,000 | 5,000 | - |
| | Maximum | 325,000 | 600,000 | 84.6% |
| | **Unrestricted rate (%)** | 0.003911 | 0.003544 | (9.4%) |
| **Superannuation funds - Pooled Superannuation Trusts** | **Restricted:** | | | |
| | Rate % | 0.00137 | 0.00156 | 13.9% |
| | Minimum | 5,000 | 5,000 | - |
| | Maximum | 162,500 | 300,000 | 84.6% |
| | **Unrestricted rate (%)** | 0.001040 | 0.000786 | (24.4%) |

Tables 11 to 16 compare the cost of the levies payable in each industry for each relevant asset base between 2017–18 and 2018–19, and the proposed levies payable in 2019–20.

## Table 11: Amounts levied on ADIs

| Asset base | $50m ($'000) | $500m ($'000) | $5b ($'000) | $25b ($'000) | $100b ($'000) | $800b ($'000) |
|---|---|---|---|---|---|---|
| 2017-18 | 10.5 | 25.0 | 250.3 | 1,251.7 | 4,092.2 | 11,738.0 |
| 2018-19 | 15.5 | 26.1 | 261.1 | 1,305.5 | 4,025.5 | 11,203.9 |
| 2019-20 | 15.5 | 33.6 | 336.0 | 1,678.0 | 3,940.0 | 10,520.0 |

## Table 12: Amounts levied on foreign ADI branches

| Asset base | $500m ($'000) | $5b ($'000) | $25b ($'000) | $50b ($'000) |
|---|---|---|---|---|
| 2017-18 | 15.5 | 119.6 | 598.0 | 1,196.0 |
| 2018-19 | 20.1 | 93.2 | 466.2 | 932.4 |
| 2019-20 | 19.7 | 105.0 | 525.0 | 1,050.0 |

## Table 13: Amounts levied on Life insurers/Friendly societies

| Asset base | $50m ($'000) | $500m ($'000) | $5b ($'000) | $10b ($'000) | $50b ($'000) | $100b ($'000) |
|---|---|---|---|---|---|---|
| 2017-18 | 12.4 | 65.7 | 657.2 | 1,314.3 | 3,412.9 | 5,825.8 |
| 2018-19 | 16.7 | 67.3 | 672.6 | 1,086.5 | 2,432.4 | 4,114.7 |
| 2019-20 | 16.5 | 80.8 | 808.4 | 1,419.8 | 2,659.0 | 4,208.0 |

## Table 14: Amounts levied on General insurers

| Asset base | $15m ($'000) | $50m ($'000) | $250m ($'000) | $1b ($'000) | $5b ($'000) | $15b ($'000) |
|---|---|---|---|---|---|---|
| 2017-18 | 12.0 | 16.7 | 65.9 | 263.6 | 1,318.0 | 3,017.1 |
| 2018-19 | 16.5 | 20.0 | 63.8 | 255.3 | 1,276.4 | 2,394.9 |
| 2019-20 | 16.1 | 18.7 | 73.5 | 294.0 | 1,470.0 | 2,396.4 |

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

| Asset base | $5m ($'000) | $50m ($'000) | $250m ($'000) | $1b ($'000) | $20b ($'000) | $50b ($'000) | $100b ($'000) |
|---|---|---|---|---|---|---|---|
| 2017-18 | 3.8 | 6.3 | 21.8 | 87.3 | 1,431.0 | 3,127.5 | 5,955.0 |
| 2018-19 | 5.2 | 7.0 | 16.6 | 66.5 | 1,107.1 | 2,280.3 | 4,235.7 |
| 2019-20 | 5.2 | 6.8 | 16.7 | 66.6 | 1,308.8 | 2,372.0 | 4,144.0 |

## Table 16: Amounts levied on PSTs

| Asset base | $10m ($'000) | $50m ($'000) | $500m ($'000) | $5b ($'000) | $10b ($'000) | $20b ($'000) | $50b ($'000) |
|---|---|---|---|---|---|---|---|
| 2017-18 | 3.6 | 4.2 | 14.7 | 147.5 | 291.3 | 432.6 | 856.5 |
| 2018-19 | 5.1 | 5.5 | 12.1 | 120.6 | 241.2 | 370.5 | 682.5 |
| 2019-20 | 5.1 | 5.4 | 11.7 | 117.3 | 234.6 | 457.2 | 693.0 |