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Dear Sir/Madam

### **FINANCIAL INDUSTRY LEVIES 2014-2015**

The Insurance Council of Australia (Insurance Council) appreciates the opportunity to comment on the methodology to be used to calculate the Financial Industry Levies (the Levies) for 2014-2015. The proposed methodology was set out in the Consultation Paper issued on 26 May 2014 (the Consultation Paper).

The Insurance Council welcomed the attention given over the last eighteen months to both the process and methodology used annually to determine the Levies. In November 2013 there was the report by the Australian National Audit Office (ANAO) into the Determination and Collection of Financial Industry Levies (the ANAO Report) and in April this year Treasury gave its response to the Financial Industry Supervisory Levy Methodology Review (Treasury Levy Methodology Response).

The Australian Government has had a formal cost recovery policy since December 2002 which requires:

- a high degree of transparency about what costs are recovered and to demonstrate that charges reflect the cost of government goods and services, including regulation, provided to specific individuals, organisations or groups;
- that there needs to be a close relationship between the amount raised and the amount spent on cost recovered activities; and
- that cost recovery charges should have a high degree of consultation to ensure only efficient costs are being recovered.<sup>1</sup>

The Insurance Council has used its previous annual submissions on calculation of the Levies to raise concerns that the requirements of the Government's cost recovery policy were not being met. There has been a lack of meaningful consultation on the activities to be funded and the amount of levy raised and lack of accountability for the efficient and effective use of the funding. The consideration being given to Levies related issues led to some hope that industry concerns would be addressed.

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<sup>1</sup> Treasury Levy Methodology Response, page 3

### Timing and Scope of Consultation

Recommendation No. 1 of the ANAO Report was that:

To improve the effectiveness of consultation with stakeholders about proposed levy parameters and the financial industry levy methodology encompassing APRA's costs, the Treasury, supported by APRA:

- a) provide additional time and opportunities for stakeholders to participate in the annual levies consultation process; and
- b) increase the extent of public information available about the levy methodology, and how APRA's prudential regulation activities are linked to its costs.

Both Treasury and APRA agreed to this recommendation and the Treasury Methodology Response stated that:

"Future annual levy consultation papers will reiterate that the pre-budget submission process should be used to comment on how much is raised through the levies. The annual consultation process should remain focussed on how the levied amount is proposed to be raised from different levy payers."<sup>2</sup>

However, this change of process is likely to be only of limited value. It seems from the above statement that the pre-budget consultation is to focus only on the amount to be raised through the Levies. However, industry cannot contribute meaningfully on this without being aware of the regulators' priorities and the need for any unusual administrative or systems spending.

The Insurance Council submits that the regulators should consult early with industry on the proposed activities for the year ahead which have led them to recommend to the Government a particular level of funding. This opportunity for debate on priorities would result in higher industry understanding and commitment to the regulators' work programs; a worthwhile result given that industry funds its own regulation.

Furthermore, even allowing for the post Budget consultation being limited to how the levied amount is to be raised, there should be a reasonable amount of time provided for industry consideration of the issues. This year less than three working weeks have been allowed for responses to the Consultation Paper (taking into account the Queen's Birthday long weekend). This is insufficient for preparation of response with wide industry input, particularly coming as it does in June which is the busiest time of the year for many general insurers.

### Accountability and transparency

The Insurance Council notes that the Department of Finance is finalising a whole-of-government review of the Australian Government's Cost Recovery Guidelines. The purpose is to improve consistency, transparency and accountability of cost recovery of government activities.

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<sup>2</sup> Treasury Levy Methodology Response, page 5

It is proposed that following the release of the revised Cost Recovery Guidelines the activities whose costs are recovered through the Levies be further examined. Following this, it is expected that the activities recovered through the Levies which are considered cost recovery for the purposes of the cost recovery guidelines will be clearly communicated in the annual consultation papers.

In addition, APRA will produce an updated Cost Recovery Impact Statement (CRIS) to improve transparency around APRA's costs and the linkage to the provision of prudential regulation. The CRIS should demonstrate how the Levies related to APRA reflect the efficient costs of prudential regulation provided to those who pay cost recovery fees and charges. APRA has committed to completing an updated CRIS by June 2014.

The Insurance Council welcomes these two initiatives and looks forward to being consulted prior to the outcomes being finalised. This work should help in assessing the value gained from the funding raised by the 2014-2015 Levies.

#### **Allocation between unrestricted and restricted components**

The Treasury Levy Methodology Review noted that the rationale for the restricted and unrestricted components of levies had been that restricted costs relate to the cost of supervision, and the unrestricted component relates to systemic impact.

Doubts about the rigour of the reasoning behind the allocation of costs to a particular component led to Treasury finding that the restricted component is best placed to fund activities relating to the activities of specific institutions (for example supervisory activities), while the unrestricted component should be used to fund costs relating to a sector that are not tied to a specific institution or to cost recovered activities.<sup>3</sup> Option 2 in the Consultation Paper sets out the allocation of costs consistent with that finding.

The Insurance Council appreciates the confirmation from Treasury<sup>4</sup> that Option 1 and 2 would both result in the general insurance industry making the same overall funding contribution. The difference is in how the total contribution is distributed amongst general insurers, with Option 2 resulting in smaller and the largest entities paying more. In this situation, the Insurance Council is unable to express a preference for a particular option.

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 tel: (02) 9253 5121 or email: [janning@insurancecouncil.com.au](mailto:janning@insurancecouncil.com.au).

Yours sincerely



Robert Whelan  
Executive Director & CEO

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<sup>3</sup> Treasury Levy Methodology Response, page 6.

<sup>4</sup> Telephone conversation John Anning/Ryan Walsh 13 June 2014.