Australian Government

PROPOSED FINANCIAL INSTITUTIONS SUPERVISORY LEVIES FOR 2018–19

MAY 2018

ISBN 978-1-925504-85-9

Manager
Communications
The Treasury
Langton Crescent
Parkes ACT 2600

Email: **medialiaison@treasury.gov.au**

CONTENTS

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 2018–19 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 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 2018–19 to be funded through the commensurate levies revenue to be collected in 2018–19.

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 by 30 June 2018, 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 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; and
- governing and maintaining the superannuation transactions network, which is undertaken by the Gateway Network Governance Body.

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 2018–19 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.

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.

Strong and safe financial institutions that meet their financial promises under all reasonable circumstances, and a stable financial system, are fundamental for fostering growth and sustainable competition. An important component of a stable financial system is a robust regulatory framework in times of crisis. APRA will continue to build on its crisis management capability to better deal with the failure of a financial institution and to preserve financial stability in times of stress.

Each year, APRA considers initiatives to strengthen its core functions and capabilities. The 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 2018–19 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'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); 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 2018–19, APRA's funding was increased by $2.7 million through the measure 'Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry — further support' for external legal support and additional contractor-related costs. The Royal Commission's Letters Patent require the Commission to examine, amongst other things, APRA's effectiveness as a regulator of financial services entities over an extended period of time. APRA, therefore, expects to play an important role in the Royal Commission's work. The cost of this measure will be offset by a corresponding $2.7 million increase in the levies in 2018–19.

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2018–19

The total funding required under the levies in 2018–19 for all relevant Commonwealth agencies and departments is $213.4 million. This is a $34.6 million (14.0 per cent) decrease from the revised 2017–18 requirement. The decrease is largely attributable to the cessation of SuperStream measures and the scheduled decrease in funding for the ASIC 2016–17 'Improving Outcomes in Financial Services' measure. The components of the levies are outlined below (Table 1).

Table 1: Total levies funding required

	2017–18	2018–19		
	Budget (Revised)[1] ($m)	Budget ($m)	Change ($m)	Change (%)
APRA	136.1	141.6	5.6	4.1
ASIC	49.6	35.5	(14.1)	(28.5)
ATO[2]	17.8	31.0	13.2	74.0
DHS[2]	5.1	-	(5.1)	(100.0)
ACCC	3.0	3.2	0.2	6.7
SuperStream[1]	35.5	-	(35.5)	(100.0)
Gateway Network Governance Body	-	0.6	0.6	-
Non-APRA prior year under-collection recouped	0.9	1.5	0.6	65.3
Total	**248.0**	**213.4**	**(34.6)**	**(14.0)**

1. In 2017–18, $35.5 million was to be collected with respect to SuperStream, not $32.0 million as stated in the 'Financial Institutions Supervisory Levies for 2017–18' discussion paper. The Budget (Revised) reflects the additional $3.5 million for SuperStream which was not included in that discussion paper due to an administrative error.
2. In 2018–19 the Early Release of Superannuation Benefits on compassionate grounds program was transferred from the DHS to the ATO.

APRA's 2018–19 levy funding requirements

APRA's net funding requirements under the levies for 2018–19 are shown in Table 2. The budgeted total cost for APRA for 2018–19 is $145.6 million, a $4.0 million (2.8 per cent) increase relative to budget for 2017–18. The amount collected is increased by $1.0 million to provide the resources to enforce breaches of APRA's requirements under the 'A More Accountable and Competitive Banking System — improving accountability' 2017 measure. $6.7 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 $1.8 million in projected under-collected 2017–18 levies to be recouped from industry (discussed below), APRA's underlying net levies funding requirement for 2018–19 is $141.6 million, an increase of $5.6 million (4.1 per cent) relative to budget for 2017–18.

Table 2: APRA — Levies funding required

	2017–18	2018–19		
	Budget ($m)	Budget ($m)	Change ($m)	Change (%)
APRA – operating expenses	141.6	145.6	4.0	2.8
APRA – additional legal resourcing	1.0	1.0	-	-
Non-Levy income (Table 3)	(7.4)	(6.7)	0.7	(9.5)
Prior year under-collected revenue (recouped) from industry (Table 4)	0.9	1.8	1.0	110.7
Net funding met through industry levies	**136.1**	**141.6**	**5.6**	**4.1**

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	2017–18 Budget ($m)	2018–19 Budget ($m)	Change ($m)	Change (%)
Appropriations - NCPD	(1.0)	(0.9)	0.1	(5.2)
- Other	(0.7)	(0.1)	0.6	(82.8)
Provision of goods and services	(5.7)	(5.7)	(0.0)	-
Total	**(7.4)**	**(6.7)**	0.7	(9.5)

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 2017–18 expected collections, there will be an expected under-collection of the APRA element of the levies of $1.8 million that will be recouped from industry through the 2018–19 levies (Table 4), as well as a re-coup of the Non-APRA element of the levies of $1.5 million reflecting a total under-collection of $3.3 million.

Table 4: Under-collected APRA levies

Source of revenue	2017–18 Budget (Revised) ($m)	2017–18 Forecast	2017–18 Difference	Difference to be recovered from industry.				
				ADI	LI	GI	Super	PHI
APRA Levies	136.1	134.3	1.8	-	-	-	1.8	-
Non-APRA levies	111.9	110.4	1.5	-	-	-	1.5	-
Total	248.0	244.7	3.3	-	-	-	3.3	-

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION COMPONENT

Of the levies collected, $35.5 million is to offset Australian Securities and Investments Commission's (ASIC) costs in relation to 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.

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 Australian Taxation Office's (ATO) 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. As announced in the 2018–19 Budget, the government will raise an additional $31.9 million over four years, by increasing the levies, to recover the costs of these activities. In 2018–19, $25.7 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, during 2018, the ATO will assume the role of administering the Early Release of Superannuation Benefits on compassionate grounds programme (ERSB).

The compassionate grounds enable the Regulator (transferring to the Commissioner of Taxation – formerly the Chief Executive of Medicare) to consider the early release of a person's preserved superannuation in specified circumstances.

In 2018–19, $5.3 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) has established a dedicated analysis and advisory function – the Financial Services Unit (FSU) – to investigate specific competition issues in Australia's financial system.

The first task of the FSU was to monitor the residential mortgage prices of the banks subject to the Major Bank levy. The FSU also undertakes extensive stakeholder consultation, identifies emerging competition concerns and conducts market studies into competition issues.

In 2018–19, $3.2 million will be recovered for the ACCC to administer this programme.

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

Gateway Network Governance Body component

In the *2016–17 Mid-Year Economic and Fiscal Outlook*, the Government announced a measure relating to the Gateway Network Governance Body Ltd (GNGB). The 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.

This measure will be cost-recovered through the FISLs from 1 July 2018. In 2018–19, $0.6 million will be recovered with respect to the GNGB.

SUMMARY OF SECTORAL LEVIES ARRANGEMENTS FOR 2018–19

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 61 per cent and 39 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 2018–19 levies allocation 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

Industry sector	*2015-16* *Actual %*	*2016–17* *Actual %*	*2017–18* *Forecast %*	*2018–19* *Estimate %*	*2018–19* **4-yr average %**
Restricted component - % of time					
ADIs	50	48	46	46	48
Life insurance/Friendly societies	11	12	10	11	11
General insurance	16	18	17	18	17
Superannuation	23	22	27	25	24
Total	**100**	**100**	**100**	**100**	**100**
Unrestricted component – % of time					
ADIs	53	57	62	57	57
Life insurance/Friendly societies	8	9	8	8	8
General insurance	17	13	11	14	14
Superannuation	22	21	19	21	21
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 2018–19 funding for both levy components from each industry and compares this with the levies funding required from each industry for 2017–18.

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

Industry	2017–18 Restricted component ($m)	2017–18 Unrestricted component ($m)	2017–18 Total ($m)	**2018–19 Restricted component ($m)**	**2018–19 Unrestricted component ($m)**	**2018–19 Total ($m)**
ADIs	39.0	23.3	62.4	**39.6**	**30.1**	**69.7**
Life insurance / Friendly societies	9.0	4.2	13.2	**9.1**	**4.2**	**13.3**
General insurers	14.0	7.9	21.8	**14.0**	**7.4**	**21.4**
Superannuation	20.7	11.2	31.9	**20.9**	**11.8**	**32.7**
Sub-total (excluding-PHI's)	**82.8**	**46.6**	**129.4**	**83.6**	**53.5**	**137.1**
Private health insurers	-	-	6.7	-	-	**4.5**
Total	**-**	**-**	**136.1**	**-**	**-**	**141.6**

TOTAL SECTORAL LEVIES ARRANGEMENTS FOR 2018–19

Table 7 itemises the total levies requirement by industry.

Table 7: Total levies required by industry

Industry	APRA ($m)	ATO ($m)	ASIC ($m)	ACCC ($m)	GNGB ($m)	Prior year under-collection [1] ($m)	Total 2018–19 ($m)	Total 2017–18 ($m)	Decrease ($m)
Authorised deposit-taking institutions	69.7	-	10.6	3.2	-	-	83.5	84.5	(1.0)
Life insurance / Friendly societies	13.3	-	3.6	-	-	-	16.9	20.2	(3.3)
General insurers	21.4	-	4.8	-	-	-	26.2	31.0	(4.8)
Superannuation	32.7	31.0	16.5	-	0.6	1.5	82.3	105.6	(23.3)
Private health insurers	4.5	-	-	-	-	-	4.5	6.7	(2.2)
Total	**141.6**	**31.0**	**35.5**	**3.2**	**0.6**	**1.5**	**213.4**	**248.0**	**(34.6)**

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values at December 2016 and December 2017. These asset values at the relevant levy dates will be used to determine the levies for 2018–19. 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.

1 Non-APRA element of the 2017-18 levies under-collection to be recouped (Table 4).

Table 8: Institutional asset base used for modelling levies

Industry sector	December 2017		December 2016	
	Number	Total assets ($b)	Number	Total assets ($b)
ADIs[1]				
Banks	85	4,132	83	4,168
Building societies	3	12	4	13
Credit unions	54	39	58	38
Other ADIs, including SCCIs	7	4	8	4
Sub-total	149	4,187	153	4,223
Life insurers	29	233	29	225
Friendly societies	12	7	12	7
Sub-total	41	240	41	233
General insurers	96	119	109	122
Private Health Insurers	37	13	36	13
APRA-regulated superannuation institutions[2,3]				
Excluding small funds[4]	246	1696	256	1,526
Small funds[5]	2,091	2	2,065	2
Sub-total	2,337	1,698	2,321	1,528
Total	2,660	6,257	2,660	6,118

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 $147b in December 2017) 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 (SAFs) and Single Member Approved Deposit Funds (SMADFs).

The reported value of institutional assets are in accordance with Prudential Reporting Standards, which are aligned to accounting standards released by the Australian Accounting Standards Board. In 2017, a new accounting standard came into effect for superannuation entities (AASB 1056: *Superannuation Entities*) which required employer-sponsored receivables to be recognised as assets in a superannuation entity's financial statements.

This had the effect of substantially shifting the burden of the levy toward public sector superannuation funds. Following a Treasury review, which concluded that such a shift should not occur without due consideration and consultation, it is proposed that employer-sponsored receivables in superannuation funds would not be included in their levy base.

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 $83.5 million consists of $69.7 million for APRA's supervision of the ADI industry, $10.6 million to fund work undertaken by ASIC and $3.2 million for the ACCC (Table 7).

The total compares to $84.5 million in 2017–18. Levies funding from ADIs in 2018–19 represents 39.1 per cent of the total levies, compared with 39.8 per cent[2] in 2017–18.

In 2018–19, 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 2018–19, the levy for providers of PPFs will be subject to a minimum of $15,000 for the restricted component, in line with other ADIs. In addition the restricted maximum amount will be reduced to one-fifth of that for other ADIs 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.

LIFE INSURANCE/FRIENDLY SOCIETIES

Total levies funding of $16.9 million consists of $13.3 million for APRA's supervision of the life insurance industry and $3.6 million for ASIC (Table 7).

The total compares to $20.2 million in 2017–18. Levies funding from life insurers/friendly societies in 2018–19 represents 7.9 per cent of the total levies, compared with 9.5 per cent in 2017–18.

In 2018–19, 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 some risk insurance business lines.

---

2 Excluding SuperStream funding, which was not borne by ADIs, LIs and GIs.

GENERAL INSURANCE

Total levies funding of $26.2 million consists of $21.4 million for APRA's supervision of the general insurance industry and $4.8 million for ASIC (Table 7).

The total compares to $31.0 million in 2017–18. Levies funding from general insurers in 2018–19 represents 12.3 per cent of the total levies, compared with 14.6 per cent in 2017–18.

In 2018–19, APRA will continue to work with the industry to further 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 2018–19. 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 2018–19 is $0.9 million compared with $1.0 million collected in 2017–18.

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 2018–19.

Table 9: Parameters for NCPD levy

	2017–18		2018–19	
	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 (%)	0.0240	0.0329	**0.0313**	**0.0450**
Runoff amount ($)	2,500	2,500	**2,500**	**2,500**
Total levy ($m)	0.43	0.54	**0.41**	**0.51**

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 $82.3 million consists of $32.7 million[3] for APRA's supervision of the superannuation industry and $48.1 million for ongoing ASIC and ATO costs. $1.5 million of 2017–18 under-collected levies relating to the non-APRA component is also recouped from industry, taking the total 2018–19 recoup to $3.3 million. This total compares to $70.1 million[4] in 2017–18 (Table 7).

Levies funding in 2018–19 represents 38.6 per cent of total levies, compared with 33.0 per cent in 2017–18.

In 2018–19, 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.

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 $4.5 million is to recover APRA's costs for the supervision of the private health insurance industry.

The total compares to $6.7 million in 2017–18. Levies funding from private health insurers in 2018–19 represents 2.1 per cent of the total levies.

In 2018–19, APRA will focus on aligning the PHI industry to the governance expectations of other regulated industries and work with insurers to improve the effectiveness of risk management function. In support of the Government's priority on private health insurance, APRA will also be working to ensure the industry is prepared to respond to changes in government policy.

The rate for a single policy for 2018–19 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.

$$\text{2018–2019} = \frac{453{,}300{,}000}{\text{single coverage policies} + (2 \text{ X other coverage policies})}$$

3 Including a re-coup of $1.8 million of under-collected APRA 2017-18 superannuation levies.

4 Excluding SuperStream.

The rate for other policies, including joint policies, for 2018–19 is the amount in cents worked out using the formula below:

$$2018\text{–}2019 = 2 \times \frac{453{,}300{,}000}{\text{single coverage policies} + (2 \text{ X other coverage policies})}$$

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 raised to $45,000 per institution in 2018–19 from a flat fee levy of $30,000 per institution in 2017–18. The increase is required to more closely approximate the actual cost of supervision of NOHCs.

LEVIES COMPARISON BETWEEN PREVIOUS YEARS AND 2018–19

This section presents how the levy payable by a non-PHI institution will be determined in 2018–19. The prospective restricted rates, minimum, maximum, and unrestricted rates for each option are listed in Table 10, and compared to the actual parameters from 2017–18.

In previous years, APRA analysis indicated that the minimum restricted component of the levy for each sector was generally too low, but that maximums were broadly appropriate. Gradual increases in minimums for each sector began in 2015-16 to address this issue.

The increase in the levy minimums brings the minimums for ADI, insurance entities, and superannuation funds closer to the CRGs where the full cost of regulating institutions should be reflected.

Table 10: Levy parameters

Industry	Criteria	2017–18 Actual	2018–19 Forecast	Change (%)
ADIs - locally incorporated	**Restricted:**			
	Rate %	0.00391	0.00421	7.7%
	Minimum	10,000	15,000	50.0%
	Maximum	3,000,000	3,000,000	-
	Unrestricted rate (%)	0.001092	0.001026	(6.0%)
ADIs - foreign branches	**Restricted:**			
	Rate %	0.00130	0.00084	(35.4%)
	Minimum	10,000	15,000	50.0%
	Maximum	1,000,000	600,000	(40.0%)
	Unrestricted rate (%)	0.001092	0.001026	(6.0%)
Life insurers / Friendly societies	**Restricted:**			
	Rate %	0.00832	0.01017	22.2%
	Minimum	10,000	15,000	50.0%
	Maximum	1,000,000	750,000	(25.0%)
	Unrestricted rate (%)	0.004826	0.003326	(31.1%)
General insurers	**Restricted:**			
	Rate %	0.01291	0.01302	0.9%
	Minimum	10,000	15,000	50.0%
	Maximum	1,000,000	900,000	(10.0%)
	Unrestricted rate (%)	0.013447	0.00963	(28.4%)
Superannuation funds	**Restricted:**			
	Rate %	0.00307	0.00261	(15.0%)
	Minimum	3,500	5,000	42.9%
	Maximum	300,000	325,000	8.3%
	Unrestricted rate (%)	0.005655	0.003953	(30.1%)
Superannuation funds - Pooled Superannuation Trusts	**Restricted:**			
	Rate %	0.00154	0.00131	(14.9%)
	Minimum	3,500	5,000	42.9%
	Maximum	150,000	162,500	8.3%
	Unrestricted rate (%)	0.001413	0.001046	(26.0%)

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 insurers, 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 2018.

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

Tables 11 to 16 compare the cost of the levies payable in each industry for each relevant asset base between 2016–17 and 2017–18, and the proposed levies payable in 2018–19.

Table 11: Amounts levied on ADIs

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$25b ($'000)	$100b ($'000)	$800b ($'000)
2016–17	6.5	24.7	246.6	1,233.2	3,461.6	10,542.5
2017–18	10.5	25.0	250.3	1,251.7	4,092.2	11,738.0
2018–19	15.5	26.2	261.7	1,308.6	4,025.9	11,206.8

Table 12: Amounts levied on foreign ADI branches

Asset base	$500m ($'000)	$5b ($'000)	$25b ($'000)	$50b ($'000)
2016–17	14.9	148.6	743.0	1,486.1
2017–18	15.5	119.9	599.3	1,198.5
2018–19	20.1	93.4	466.9	933.8

Table 13: Amounts levied on Life insurers/Friendly societies

Asset base	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$50b ($'000)	$100b ($'000)
2016–17	7.4	44.9	448.5	897.1	3,709.0	6,097.9
2017–18	12.4	65.7	657.2	1314.3	3412.9	5825.8
2018–19	16.7	67.5	674.9	1,082.6	2,412.9	4,075.8

Table 14: Amounts levied on General insurers

Asset base	$15m ($'000)	$50m ($'000)	$250m ($'000)	$1b ($'000)	$5b ($'000)	$15b ($'000)
2016–17	12.6	18.6	71.1	284.4	1,421.8	3,644.2
2017–18	12.0	16.7	65.9	263.6	1,318.0	3,017.1
2018–19	16.4	19.8	56.6	226.5	1,132.7	2,344.5

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)
2016–17	2.9	6.0	25.8	103.1	1,675.0	3,797.4	7334.9
2017–18	3.8	6.3	21.8	87.3	1,431.0	3,127.5	5955.0
2018–19	5.2	7.0	16.4	65.6	1,115.5	2,301.4	4277.7

Table 16: Amounts levied on PSTs

Asset base	$10m ($'000)	$50m ($'000)	$500m ($'000)	$5b ($'000)	$10b ($'000)	$20b ($'000)	$50b ($'000)
2016–17	2.7	3.3	16.3	163.0	294.1	458.3	950.7
2017–18	3.6	4.2	14.7	147.5	291.3	432.6	856.5
2018–19	5.1	5.5	11.8	117.6	235.1	371.7	685.5