



Australian Government

Proposed Financial Institutions Supervisory Levies for 2016-17

May 2016

INTRODUCTION

The purpose of this paper is to seek industry views on the proposed Financial Institutions Supervisory Levies ('the levies') that will apply for the 2016-17 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.

The paper sets out information about the total regulatory costs for the activities to be undertaken by APRA and certain other Commonwealth agencies and departments in 2016-17 to be funded through commensurate levies revenue to be collected in 2016-17.

Following the transfer of additional responsibilities to APRA for the prudential supervision of private health insurance on 1 July 2015, this paper also outlines the functions proposed to be undertaken in regards to the private health insurance industry and the corresponding levies revenue to be collected in 2016-17.

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 2016, which will provide further transparency around the cost of APRA's activities.

POLICY AND LEGISLATIVE BASIS FOR THE LEVIES

APRA's costs, and the costs of additional 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 (excluding private health insurers), 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 and the ATO;
- administering claims for the early release of superannuation benefits on compassionate grounds by the 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.

SUPERVISORY LEVY ON THE PRIVATE HEALTH INSURANCE INDUSTRY

In the 2014-15 Budget, the Government announced the cessation of the Private Health Insurance Administration Council (PHIAC) from 1 July 2015, with responsibility for the prudential regulation of the private health insurance industry to be transferred to APRA.

Previously, the costs incurred for the supervision of the private health insurance industry were recovered through a quarterly administrative levy on private health insurers. This was authorised by the *Private Health Insurance (Council Administration Levy) Act 2003*, with the calculation mechanism to determine the amount payable specified by the Health Minister in the *Private Health Insurance (Council Administration Levy) Rules 2007*.

From 1 July 2016, APRA will recover the costs of supervising the private health insurance industry under the *Private Health Insurance Supervisory Levy Imposition Act 2015*, with a Treasury Minister to make an annual determination¹ (from 2016-17 onwards) specifying the rate at which the levy will be payable. This rate will continue to be applied to the number of single and joint health insurance policies held by insurers; however the levy will be collected annually (with invoices to be issued in August) rather than quarterly to maintain consistency with other APRA supervised industries.

APRA'S 2016-17 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

¹ To replace the previous three-year cycle, private health insurance industry levies will be determined annually in alignment with the existing financial industry levies and will be billed annually.

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 2016-17 strategic initiatives provide the areas of focus over the medium term:

- enhancing our ability to retain, develop and reward our people;
- honing governance and workplace effectiveness;
- sharpening risk-based management; 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 2016-17 the cost of various activities such as the following will not be recovered through the levies:

- accreditation of 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; and
- the provision of statistical reports to the Reserve Bank of Australia, the Australian Taxation Office (ATO) and the Australian Bureau of Statistics that are recovered through a fee for service arrangement.

In 2015-16 APRA's funding was increased via a New Policy Proposal: 'Modernising APRA's data capabilities' which increased APRA's levy funding by \$2.4 million in 2016-17, and \$11.2 million in total over a four year period. This funding is to modernise and enhance APRA's digital data-collection platforms, modernise and refine its data collection suite, enhance its in-house analytics and publications capabilities and increase the openness and accessibility of data to the public for transparency and analysis purposes.

The APRA levies have been increased from 2016-17 to reflect the cost of these enhanced capabilities.

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2016-17

APRA's 2016-17 levy funding requirements

APRA's net funding requirements under the levies for 2016-17 are shown in Table 1. The budgeted total cost for APRA for 2016-17 is \$131.3 million, a \$0.2 million (0.1 per cent) increase relative to budget² for 2015-16. \$7.6 million of these costs will be met through other sources of APRA revenue (referred to as net cost offsets) and Government appropriations, including a special levy for the National Claims and Policies Database (NCPD).

Taking into account \$1.7 million in projected over-collected 2015-16 levies to be returned to industry (discussed below), APRA's underlying net levies funding requirement for 2016-17 is \$122.1 million, a decrease of \$1.1 million (0.9 per cent) relative to budget for 2015-16.

Table 1: APRA — levies funding required

	2015-16	2016-17	Change (\$m)	Change (%)
	Budget (\$m)	Budget (\$m)		
APRA – operating expenses	131.1	131.3	0.2	0.1
Net cost offsets (Table 2)	(6.9)	(7.6)	(0.6)	9.3
Prior year over-collected revenue (Table 3)	(1.0)	(1.7)	(0.6)	62.0
Net funding met through industry levies	123.2	122.1	(1.1)	(0.9)

Table 2 outlines the other sources of APRA revenue (or net cost offsets) available to partially fund APRA expenditures.

Table 2: Net cost offsets

Net cost offsets	2015-16	2016-17	Change (\$m)	Change (%)
	Budget (\$m)	Budget (\$m)		
Appropriations - NCPD ³	(0.4)	(1.0)	(0.5)	130.5
- Other	(3.1)	(3.1)	(0.0)	0.3
Sale of goods and services	(3.4)	(3.5)	(0.1)	2.5
Total	(6.9)	(7.6)	(0.6)	9.3

² As updated post inclusion of PHI transition and other minor changes.

³ NCPD funding reduced in 2015-16 to return prior year's over-collection.

Adjustment for over-collected APRA levies revenues

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, APRA's levies funding requirement is adjusted by over- and under-collected levies from prior periods.

Based upon 2015-16 expected collections, there will be an over-collection of APRA levies of \$1.7 million that will be returned to industry through the 2016-17 levies (Table 3).

Table 3: Over-collected APRA levies

Source of revenue	2015-16 Budget	2015-16 Forecast	2015-16 Difference	Difference to be refunded to industry.				
				ADI	LI	GI	Super	PHI
Supervisory levies	123.2	124.9	(1.7)	(1.0)	(0.0)	(0.0)	(0.1)	(0.6)

SUMMARY OF LEVIES FUNDING REQUIREMENTS FOR 2016-17

The total funding required under the levies in 2016-17 for all relevant Commonwealth agencies and departments is \$250.7 million. This is a \$15.0 million (6.4 per cent) increase on the 2015-16 requirement. The components of the levies are outlined below (Table 4).

Table 4: Total levies funding required

	2015-16	2016-17		
	Budget (\$m)	Budget (\$m)	Change (\$m)	Change (%)
APRA	123.2	122.1	(1.1)	(0.9)
ASIC	28.2	70.4	42.3	150.1
ATO	17.9	17.8	(0.1)	(0.4)
DHS	4.7	4.8	0.1	1.1
Superstream	61.8	35.5	(26.2)	(42.4)
Total	235.7	250.7	15.0	6.4

Australian Securities and Investments Commission component

A component of the levies is collected to partially offset ASIC's regulatory costs in relation to consumer protection, financial literacy, regulatory and enforcement activities relating to the products and services of APRA regulated institutions as well as the operation of the Superannuation Complaints Tribunal (SCT). In addition, the levies are used to offset the cost of a number of Government initiatives including the over the counter (OTC) derivatives market supervision reforms and ASIC's MoneySmart programmes.

\$70.4 million will be recovered to offset ASIC regulatory costs through the levies in 2016-17. This amount is 150.1 per cent more than in 2015-16 as a consequence of the Government's decisions to provide funding to the SCT to deal with legacy complaints and improve processes and infrastructure (\$5.2 million) and to bolster ASIC to protect Australian consumers (\$37.0 million).

As part of the improving outcomes in financial services package, the Government will:

- invest \$61.1 million over four years to enhance ASIC's data analytics and surveillance capabilities as well as modernise ASIC's data management systems;
- provide 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
- accelerate the implementation of a number of key measures recommended by the Financial System Inquiry.

From 2017-18 onwards, ASIC's regulatory costs will be recovered from all industry sectors regulated by ASIC. The Government will consult extensively with industry to refine and settle an industry funding model for ASIC.

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 2016-17, it is estimated that the total cost to the ATO in undertaking these functions will be \$17.8 million, with the full amount to be recovered through the levies in line with the requirements of the Government's Charging Framework.

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 promotion of the ATO On Line Individuals Portal and targeted SMS/e mail campaigns;
- working collaboratively with funds to engage members being reunited with their super, including Super Match 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

The Department of Human Services 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 2015-16, the ERSB received 27,688 applications. This was a 44 per cent increase compared with the previous year. In 2016-17, the ERSB is forecast to receive approximately 38,763 applications. This will represent an approximate increase in volume of 40 per cent compared with the previous year.

The programme is expected to cost the Government \$4.8 million in 2016-17. In line with the Government's Charging Framework, this amount will be recovered in full through the levies.

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 will recover the full cost of the implementation of the SuperStream reforms and are to be imposed as a temporary levy on APRA-regulated superannuation entities from 2012-13 to 2017-18 inclusive.

The costs associated with the implementation of the SuperStream reforms are estimated to be \$35.5 million in 2016-17 and \$32.0 million in 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 2015-16

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 66 per cent and 34 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 2016-17 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>	2013-14	2014-15	2015-16	2016-17	2016-17
	Actual %	Actual %	Forecast %	Estimate %	4-yr average %
Restricted component - % of time					
ADIs	46	49	50	48	48
Life insurance/Friendly societies	11	10	10	10	10
General insurance	16	15	16	16	16
Superannuation	27	26	24	26	26
Total	100	100	100	100	100
Unrestricted component – % of time					
ADIs	43	45	52	47	47
Life insurance/Friendly societies	10	9	7	9	9
General insurance	20	20	16	19	19
Superannuation	26	26	25	25	25
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 2016-17 levies funding required for both levy components from each industry and compares this with the levies funding required from each industry for 2015-16.

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

Industry	2015-16	2015-16	2015-16	2016-17	2016-17	2016-17
	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)	Restricted component (\$m)	Unrestricted component (\$m)	Total (\$m)
Authorised deposit-taking institutions	37.2	16.0	53.1	37.1	18.7	55.7
Life insurance / Friendly societies	8.9	4.2	13.1	7.9	3.6	11.5
General insurers	13.8	8.0	21.8	12.6	7.7	20.2
Superannuation	20.1	9.4	29.5	20.4	10.1	30.5
Sub-total (excluding-PHI's)	79.9	37.6	117.5	77.9	40.1	118.0
Private health insurers	-	-	5.7	-	-	4.1
Total	-	-	123.2	-	-	122.1

TOTAL SECTORAL LEVIES ARRANGEMENTS FOR 2016-17

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)	Super Stream (\$m)	Total 2016-17 (\$m)	Total 2015-16 (\$m)	Increase (decrease) (\$m)
Authorised deposit-taking institutions	55.7	-	22.2	-	-	77.9	64.2	13.7
Life insurance / Friendly societies	11.5	-	10.5	-	-	22.0	16.1	5.9
General insurers	20.2	-	13.2	-	-	33.4	25.7	7.7
Superannuation	30.5	17.8	24.5	4.8	35.6	113.2	124.0	(10.8)
Private health insurers	4.1	-	-	-	-	4.1	5.7	(1.5)
Total	122.1	17.8	70.4	4.8	35.6	250.7	235.7	15.0

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values at December 2014 and December 2015. The equivalent of these assets at the relevant levy dates will be used to determine the levies for 2016-17. 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 2015		December 2014	
	Number	Total assets (\$b)	Number	Total assets (\$b)
ADIs ¹				
Banks	75	3,906.0	72	3,575.5
Building societies	5	16.8	8	22.8
Credit unions	71	41.6	81	41.4
Other ADIs, including SCCIs	7	3.7	7	7.4
Sub-total	158	3,968.2	168	3,716.7
Life insurers	28	298.8	28	291.1
Friendly societies	12	6.7	12	6.7
Sub-total	40	305.5	40	297.8
General insurers	110	119.3	115	114.6
Private Health Insurers ²	33	11.8	-	-
APRA-regulated superannuation entities ^{3,4}				
Excluding small funds ⁵	292	1,399.5	298	1,310.7
Small Funds ⁶	2,245	2.1	2,427	2.1
Sub-total	2,537	1,401.6	2,725	1,312.9
Total	2,878	5,806	3,048	5,442

Notes:

1 The ADI classification does not include representative offices of foreign banks.

2 From 1 July 2015 responsibility for the prudential supervision of private health insurers transferred from the Private Health Insurance Administration Council (PHIAC) to APRA.

3 This data excludes superannuation entities that APRA does not regulate, that is, exempt public sector superannuation schemes and Australian Taxation Office regulated self-managed superannuation funds.

4 For the purpose of levies modelling pooled superannuation trust assets (of \$135.7b in Dec 2015) are included in the sub-total for superannuation entities. 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.

5 Superannuation entities excluding small funds consist of public offer funds, non-public offer funds, multi-member approved deposit funds, eligible rollover funds and pooled superannuation trusts.

6 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 \$77.9 million consists of \$55.7 million for APRA's supervision of the ADI industry and \$22.2 million to fund work undertaken by ASIC. The ASIC element covers work for consumer protection, financial literacy, as well as regulatory and enforcement activities relating to the products and services of APRA regulated institutions. In addition, the levies are used to offset the regulatory cost of a number of Government initiatives including the over the counter (OTC) derivatives market supervision reforms and ASIC's MoneySmart programmes (Table 7).

The total compares to \$64.2 million in 2015-16. Excluding the SuperStream levy, which is not borne by the ADI industry, levies funding from ADIs in 2016-17 represents 36.2 per cent of the total levies, compared with 38.1 per cent in 2015-16.

The funding will support APRA's supervisory activities in the ADI industry and ongoing enhancements to the prudential framework, including further reforms generated by the Financial System Inquiry and the Basel Committee, and new prudential requirements for conglomerate groups and securitisation.

In 2016-17, 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 entities are subject to the same unrestricted levy rate as other ADIs.

Life insurance/Friendly societies

Total levies funding of \$22.0 million consists of \$11.5 million for APRA's supervision of the life insurance industry and \$10.5 million for ASIC regulatory costs (Table 7).

The total compares to \$16.1 million in 2015-16. Excluding the SuperStream levy, which is not borne by this industry, levies funding from life insurers/friendly societies in 2016-17 represents 10.2 per cent of the total levies, compared with 9.6 per cent in 2015-16.

In 2016-17, 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.

General insurance

Total levies funding of \$33.4 million consists of \$20.2 million for APRA's supervision of the general insurance industry and \$13.2 million for ASIC regulatory costs (Table 7).

The total compares to \$25.7 million in 2015-16. Excluding the SuperStream levy, which is not borne by this industry, levies funding from general insurers in 2016-17 represents 15.5 per cent of the total levies, compared with 15.3 per cent in 2015-16.

In 2016-17, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover.

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 2016-17. 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 2016-17 is \$1.0 million, compared to \$0.4 million in 2015-16. \$0.2 million of the year on year growth represents an increase announced by the Government in the 2016-17 Commonwealth Budget, ensuring that other APRA-regulated industries do not subsidise the operation of the NCPD, with the residual \$0.4 million representing a handback to industry in 2015-16 of prior year's over-collections.

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 2016-17.

Table 9: Parameters for NCPD levy

	2015-16		2016-17	
	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 (%)	0.0048	0.0060	0.0235	0.0323
Runoff amount (\$)	2,500	2,500	2,500	2,500
Total levy (\$m)	0.19	0.23	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 \$77.6 million consists of \$30.5 million for APRA's supervision of the superannuation industry and \$47.1 million for ongoing ASIC, ATO and DHS regulatory costs. This total compares to \$62.2 million in 2015-16.

This increase is primarily as a result of the Government's decision to increase funding for the SCT by \$5.2 million in 2016-17, though also reflects the Government's decision to provide ASIC with additional funding to improve outcomes in financial services and to fund APRA to modernise its data capabilities.

Excluding the SuperStream levy, levies funding in 2016-17 represents 36.1 per cent of total levies, compared with 37.0 per cent in 2015-16.

In 2016-17, APRA’s supervisory activities in the superannuation industry will cover a range of issues, including continued focus on governance and risk management issues, data integrity and the liquidity of superannuation funds. APRA will also devote considerable resources to the bedding down of relevant aspects of the previous Government’s *Stronger Super* initiatives.

Separately, \$35.6 million is required to fund the continued implementation of SuperStream, bringing the total levy for the superannuation sector in 2016-17 to \$113.2 million.

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

Private Health Insurance

On 1 July 2015 responsibility for the prudential regulation of the private health insurance industry transferred to APRA. Total levies funding of \$4.1 million is to recover APRA’s costs for the supervision of the private health insurance industry.

The total compares to \$5.7 million in 2015-16. Excluding the SuperStream levy, which is not borne by this industry, levies funding from private health insurers in 2016-17 represents 1.9 per cent of the total levies. As this is the first year that the private health insurance industry will pay a Financial Institutions Supervisory Levy, no comparison is provided for 2015-16.

In 2016-17, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover.

The rate for a single policy for 2016-17 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.

		413,600,000
2016–2017		single coverage policies + (2 X joint coverage policies)

The rate for a joint policy for 2016-17 is the amount in cents worked out using the formula in the table below:

		413,600,000
2016–2017	2 X	single coverage policies + (2 X 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 continue to contribute to the levies at a flat fee of \$10,000 per institution.

LEVIES COMPARISON BETWEEN PREVIOUS YEARS AND 2016-17

This section presents how the levy payable by a non-PHI entity will be determined in 2016-17. The prospective restricted rates, minimum, maximum, and unrestricted rates for each option are listed in Table 10, and compared to the actual parameters from 2015-16.

Table 10: Levy parameters

Industry	Criteria	2015-16	2016-17
		Actual	Forecast
	Restricted:		
Authorised deposit-taking institutions - locally incorporated	Rate %	0.00408	0.00394
	Minimum	3,000	6,000
	Maximum	2,450,000	2,450,000
	Unrestricted rate (%)	0.000718	0.001011
	Restricted:		
Authorised deposit-taking institutions - foreign branches	Rate %	0.00204	0.00197
	Minimum	3,000	6,000
	Maximum	1,225,000	1,225,000
	Unrestricted rate (%)	0.000718	0.001011
	Restricted:		
Life insurers / Friendly societies	Rate %	0.00519	0.00423
	minimum	3,000	5,000
	maximum	1,320,000	1,320,000
	Unrestricted rate (%)	0.002321	0.004774
	Restricted:		
General insurers	Rate %	0.01323	0.01104
	minimum	7,500	10,000
	maximum	1,064,000	1,064,000
	Unrestricted rate (%)	0.010038	0.017218
	Restricted:		
Superannuation funds	Rate %	0.00325	0.00336
	minimum	1,000	2,500
	maximum	260,000	260,000
	Unrestricted rate (%)	0.008543	0.007405
	Restricted:		
Superannuation funds - Pooled Superannuation Trusts	Rate %	0.00162	0.00168
	minimum	1,000	2,500
	maximum	130,000	130,000
	Unrestricted rate (%)	0.000989	0.001715

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, Financial Literacy and OTC derivatives elements).

For the ADIs, life insurers / friendly societies and general 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 2016.

Tables 11 to 16 compare the cost of the levies payable in each industry for each relevant asset base between 2014-15 and 2015-16, and the proposed levies payable in 2016-17.

Table 11: Amounts levied on ADIs

Asset base	\$50m (\$'000)	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$100b (\$'000)	\$500b (\$'000)
2014-15	2.3	23.4	233.6	1,167.9	3,115.0	6,210.8
2015-16	3.4	24.0	239.7	1,198.7	3,168.4	6,042.2
2016-17	6.5	24.8	247.6	1,238.0	3,460.6	7,502.9

Table 12: Amounts levied on foreign ADI branches

Asset base	\$500m (\$'000)	\$5b (\$'000)	\$25b (\$'000)	\$50b (\$'000)
2014-15	13.6	136.1	680.7	1,361.3
2015-16	13.8	137.8	689.1	1,378.3
2016-17	14.9	149.1	745.3	1,490.6

Table 13: Amounts levied on life insurers/friendly societies

Asset base	\$3m (\$'000)	\$50m (\$'000)	\$500m (\$'000)	\$3b (\$'000)	\$10b (\$'000)	\$50b (\$'000)
2014-15	0.6	3.6	35.8	215.1	716.9	2,513.9
2015-16	3.1	4.2	37.5	225.3	750.9	2,480.5
2016-17	5.1	7.4	45.0	270.1	900.4	3,706.8

Table 14: Amounts levied on general insurers

Asset base	\$5m (\$'000)	\$25m (\$'000)	\$250m (\$'000)	\$750m (\$'000)	\$3b (\$'000)	\$9b (\$'000)
2014-15	5.4	7.4	57.4	172.3	689.0	1,970.5
2015-16	8.0	10.0	58.2	174.5	697.9	1,967.4
2016-17	10.9	14.3	70.7	212.0	847.9	2,543.6

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)
2014-15	0.7	0.9	7.5	37.4	748.7	2,228.2	5180.5
2015-16	1.1	1.3	5.9	29.5	589.6	1,968.6	4531.5
2016-17	2.6	2.7	6.2	26.9	538.5	1,741.1	3962.7

Table 16: Amounts levied on PSTs

Asset base	\$1m (\$'000)	\$3m (\$'000)	\$50m (\$'000)	\$250m (\$'000)	\$5b (\$'000)	\$20b (\$'000)	\$30b (\$'000)
2014-15	0.6	0.6	2.2	10.8	216.4	481.6	657.4
2015-16	1.0	1.0	1.5	6.5	130.7	327.8	426.7
2016-17	2.5	2.6	3.4	8.5	169.8	473.0	644.4

ATTACHMENT A

Impact of the SuperStream levy for 2016-17

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. 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 \$35.5 million in 2016-17 and \$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 regulatory costs)	(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.