

Ms Nghi Luu
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The Treasury
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Dear Ms Luu

PROPOSED 2016-17 FINANCIAL INSTITUTIONS SUPERVISORY LEVIES

The Insurance Council of Australia¹ (Insurance Council) welcomes the opportunity to comment on the Financial Institutions Supervisory Levies (levies) proposed for 2016-2017. As emphasised in our previous submissions on the annual levy process, it is essential that an adequate framework be in place to ensure regulators deliver value for money.

We note that the total levies apportioned to the general insurance sector for 2016-17 total \$33.4 million (of which \$20.2 million is allocated for APRA's supervision of the sector), and that this represents a 30.0 per cent increase from 2015-16, due to a \$9.3 million (or 238.5 per cent) increase in the allocation to the ASIC component.

The Insurance Council is concerned that the sector is responding to this consultation in the absence of the Cost Recovery Implementation Statement (CRIS) from APRA and that the CRIS will not be released until after consultation on 30 June 2016. We are also concerned that there remains a lack of detail, beyond internal estimates of resource utilisation by each industry, on the way in which resources will be allocated. For example, it is unclear how the \$13.2 million ASIC levy for general insurance will be allocated.

Indeed, the Government's recent decision to move to an industry funding model for ASIC makes it even more imperative to have in place an adequate framework around transparency and regulator responsibility to ensure the appropriate use of industry funding. We note that the Government will consult extensively with industry to settle ASIC's funding model.

Given industry's strong support for well-targeted regulatory activities that reduces systemic and consumer risks, we consider there is a need for greater transparency and improved industry understanding of regulatory priorities. In this regard, we are concerned that key requirements of the Australian Government's July 2015 Charging Framework² and July 2014 Cost Recovery Guidelines³ are not being met.

¹ The Insurance Council of Australia is the representative body of the general insurance industry in Australia. Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members, both insurers and reinsurers, are a significant part of the financial services system. March 2016 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$43.8 billion per annum and has total assets of \$118.5 billion. The industry employs approximately 60,000 people and on average pays out about \$124.2 million in claims each working day.

Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

² Charging Principles: transparency; efficiency; performance; equity; simplicity; and policy consistency.

In order to comment meaningfully on the appropriate level of levy funding, industry requires adequate dialogue with regulators on how they see the current regulatory landscape and their proposed priorities for 2016-17. It remains unclear how the cost impact to insurers can be assessed in isolation from regulators consulting with industry and in absence of an activity specific breakdown of total funding costs.

The Insurance Council would appreciate the Government encouraging regulators to release their CRISs concurrently with the levies consultation process, rather than at its conclusion. We consider that, early in the budget development process, industry should be given an opportunity to provide feedback on the specifics of a regulator's work program planned for the year ahead, strategic priorities and the associated level of proposed resourcing.

In line with the Government's ongoing commitment to regulatory efficiency, this could also be an opportunity for regulators and industry to discuss the scope for further deregulatory and efficiency initiatives. Once account had been taken of industry views, the final regulator budget and the relevant levies could be submitted to Government, with a summary of the feedback received from industry and the regulator's response.

We also wish to raise again the 2013 Australian National Audit Office (ANAO) report on the determination and collection of financial industry levies, which recommended the need for:

"... a formal opportunity at an early stage in the financial year for APRA and relevant stakeholders to discuss issues relating to the levies processes. This could involve the establishment of a stakeholder panel, potentially led by the Treasury, and including all Australian Government agencies with responsibilities for financial industry levies".

The Insurance Council strongly supports the ANAO's recommendation and urges Treasury to consider its adoption.

We would appreciate the opportunity to provide further comment after release of the CRIS by APRA. In the interim, 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 (02) 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director and CEO

³ Australian Government Cost Recovery Guidelines (pp. 11-12): "Transparency is about openness ... and a willingness to explain activities and actions. It allows appropriate scrutiny of government activities, decisions and processes by providing access to information ... transparency means documenting key information about the activity ... in an accessible way for those who pay charges and for other stakeholders ... Successful stakeholder engagement is most likely to occur when it is well planned and when government entities enter into a meaningful dialogue with stakeholders, consider their views..."