



Manager
Crisis Management Framework Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600
Email: fsleviesreview@treasury.gov.au

Attention: Ms Gillie Kirk

26 September 2011

Dear Ms Kirk

FINANCIAL INSTITUTIONS SUPERVISORY LEVIES 2011-2012

The Insurance Council of Australia (***Insurance Council***)¹, the representative body of the general insurance industry in Australia, would like to raise an issue that has arisen with the implementation of the financial institutions supervisory levies (the levy) for the 2011-2012 financial year.

As explained in telephone conversations in early August between you and John Anning, Insurance Council's General Manager Policy – Regulation, a number of our members have experienced steep, unexpected increases in this year's levy. This is due to the impact of reinsurance recoveries from the unprecedented series of natural catastrophes experienced at the beginning of the year on the figure for total assets used in calculation of the levy. The impact results not only from the Queensland and Victorian floods and Cyclone Yasi but also the second earthquake in New Zealand.

It can be seen in APRA's latest statistics on Quarterly General Insurance Performance that Total Assets increased from March 2010 to March 2011 by 13% for Direct Insurers and by 35% for Reinsurers, mostly due to recoveries on the catastrophe events. The resulting increases in the supervisory levy are unwarranted because they do not reflect any additional supervisory burden on regulators.

We appreciate the soundings that you took within Treasury on this issue and the response that Treasury is sympathetic to insurers that are facing levy increases solely due to the

¹ The Insurance Council of Australia's 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. December 2010 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of \$33.4 billion per annum and has total assets of \$101.7 billion. The industry employs approx 60,000 people and on average pays out about \$87 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).

impact of catastrophe recoveries on their total assets. We understand that an adjustment is not feasible this year, as the Minister has already decided on the detail of the 2011-2012 levy collection. However, we are raising the issue formally so it can be taken into account in adjusting the levies payable next year by the insurers affected. To give transparency around this process, the Insurance Council requests that Treasury provide to affected insurers details of the amount of the levies actually received as against the amount that Treasury had budgeted.

Given the significance of the overpayments for some members, we would appreciate written confirmation of Treasury's willingness to credit overpayments against the levy that would otherwise apply for 2012-2013.

Due to the magnitude and complexities associated with the Christchurch earthquake in February 2011, it is likely that reinsurance recoveries will remain inflated on balance sheets for several years to come. However, given Government actions it may also be that there are sudden large reductions in reinsurance recoveries if large scale settlements are made. The likely consequence of this is that the levy methodology currently used will result in material over/under recoveries in levies for the next several years.

Insurance Council members would therefore welcome the opportunity to discuss with Treasury a more sustainable way of calculating the levy going forward.

If you would like to discuss this issue, please contact Mr John Anning on 02 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely



Robert Whelan
Executive Director & CEO