Manager
Banking Prudential Policy Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: fsleviesreview@treasury.gov.au

Attention: Mr Nick Loan

13 June 2012

Dear Mr Loan

FINANCIAL INDUSTRY LEVIES 2012-2013

The Insurance Council of Australia (***Insurance Council***)[1], the representative body of the general insurance industry in Australia, appreciates the opportunity to comment on the proposed financial industry levies (the levy) for the 2012-2013 financial year.

With the Proposal Paper being released on 4 June 2012 for response by 15 June, the Insurance Council is compelled to reiterate the concern put in previous submissions that inadequate time is being allowed to provide considered comments on the levy proposals. This is particularly the case when no consideration has been given to the need to adjust the levy methodology to take account of over payments totalling $2.6million made by some members because of the impact of reinsurance recoveries related to the extraordinary series of natural catastrophes which occurred in Australia and New Zealand in 2010-2011.

This issue was raised by the Insurance Council in a submission to Ms Gillie Kirk on 26 September 2011 (copy attached) and subsequently brought to your attention on 18 April 2012 when a copy of our previous submission was provided. It is particularly frustrating that no progress has been made on this matter given that when the issue was discussed with Ms Kirk, we were advised that nothing could be done immediately because the levy for 2011-2012 had been set by the Minister but Treasury was sympathetic to doing something to compensate affected insurers when applying the levy for 2012-2013.

[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 2012 Australian Prudential Regulation Authority statistics show that the private sector insurance industry generates gross written premium of $36.6 billion per annum and has total assets of $115.9 billion. The industry employs approx 60,000 people and on average pays out about $111 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).

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We emphasise that the over collection took place because of how the levy methodology works and is not related to the amount of work undertaken by APRA in supervising general insurers. Consequently, the levy calculation for 2012-2013 should be adjusted so that over collections due to reinsurance recoveries related to the 2010-11 catastrophes are returned to the insurers that paid them. We suggest that, as an immediate and short term solution, the gross assets used in calculating the charge applied for 2011-2012 should be recalculated and this time exclude reinsurance recoveries relating to the large loss events that most seriously impacted the insurance industry in the past 12 months, being the first New Zealand earthquake (September 2010), Brisbane Floods and the second New Zealand earthquake (February 2011).

Having calculated and returned any resulting over payments of the levy for 2011-2012 to the relevant insurer, the overall levy amount to be collected from the GI sector for 2012-2013 should be calculated again excluding reinsurance recoveries in relation to the above large loss events.

The industry is keen to participate in the broader review of the levy methodology foreshadowed in the Proposal Paper as being scheduled for 2012-2013. Apart from ten years being an appropriate time for a comprehensive review of the levy, unless the methodology is revised, large reinsurance recoveries will continue to cause unwarranted fluctuations in levy payments.

However, ***the Insurance Council would appreciate assurances that consultation will be timely and meaningful.*** We note the Proposal Paper for the 2009-2010 financial year simply informed the industry that Treasury and APRA had undertaken a joint review of the financial sector levy arrangements in early 2009 and advised that changes arising from that review would take effect from 2010-2011.

Given the Ministerial statements made about industry participation in regular reviews of the levy methodology at the time the levy was instituted, strengthened by the fact that the financial sector levy is paid by regulated entities, the ***Insurance Council expects that industry would be a closely involved with any review of the levy arrangements.*** Our concerns that this expectation will not be met were not assuaged by the Proposal Paper explanation that APRA and Treasury completed in December 2011 a review of the PL and PI section of the GI Supervisory Levy Imposition Determination. Industry was not made aware of the review and was not given an opportunity to comment.

The Insurance Council would appreciate an early response from Treasury and APRA on the need to adjust the levy methodology for next financial year. To discuss this issue further, please contact Mr John Anning on 02 9253 5121 or janning@insurancecouncil.com.au.

Yours sincerely

Robert Whelan
Executive Director & CEO

ATTACHMENT

Manager
Crisis Management Framework Unit
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Attention: Ms Gillie Kirk

26 September 2011

Dear Ms Kirk

FINANCIAL INSTITUTIONS SUPERVISORY LEVIES 2011-2012

The Insurance Council of Australia (***Insurance Council***)[2], 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.

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[2] 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).

INSURANCE COUNCIL OF AUSTRALIA

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 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