Australian Government

The Treasury

APRA

ANNUAL LEVIES ON APRA REGULATED ENTITIES: DISCUSSION PAPER ON 2010/11 PROPOSAL

To cover operational costs of APRA, ASIC and ATO in relation to APRA regulated entities.

THE TREASURY

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

MAY 2010

PROPOSED FINANCIAL SECTOR LEVIES FOR 2010-11

INTRODUCTION

The purpose of this paper is to seek industry views on the proposed financial sector levies to apply for the 2010-11 financial year. The financial sector levies are set to cover the operational costs of the Australian Prudential Regulation Authority (APRA), and certain market integrity and consumer protection functions undertaken by the Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO). The relevant ASIC costs include the operations of the Superannuation Complaints Tribunal.

The paper, prepared by APRA in conjunction with Treasury, sets out information about the total levy funding required for 2010-11 and an explanation of the factors driving the change in the total levy from 2009-10 to 2010-11.

In early 2009, Treasury and APRA jointly undertook a review of the financial sector levy arrangements in response to a request by the then Assistant Treasurer and Minister for Competition Policy and Consumer Affairs. The review findings were released by Treasury in June 2009 and key changes to the levies arrangements are encompassed in the *Financial Sector Legislation Amendment (Prudential Refinements and Other Measures) Bill 2010,* in the process of being introduced to the Parliament.

The Bill contemplates the following key changes to the levies arrangements that may take effect for the 2010-11 levy year:

- the amendment of levy imposition Acts to provide more flexibility in the levy valuation base for use on a case-by-case basis; and

- the amendment of the *Superannuation Supervisory Levy Imposition Act 1998* to effectively levy new starters on the determined levy base and from the date they become regulated entities.

In addition to the legislative changes and in line with the review recommendations, the notional 30 per cent cap on the unrestricted levy component in proportion to the total levy has been removed. Otherwise, the levy calculations for 2010-11 continue to use the levy framework introduced in 2005-06. The Minister is expected to determine and announce the 2010-11 levies before the end of the current financial year.

APRA'S EXPENDITURE

Significant activities in the 2010-11 financial year

A major strategic objective of APRA, which has been supported by the Government through policy decisions, has been to strengthen its supervisory capabilities, particularly in respect of large, complex and systemically important financial institutions. This is to enhance public confidence in Australia's financial institutions through a framework of prudential regulation that balances safety and protection of beneficiaries on the one hand, and market efficiency, competition, contestability and competitive neutrality on the other.

In its *Statement of Expectations* of APRA, released in August 2007, the Government set out its objectives in the area of prudential regulation and provided guidance to APRA about the appropriate balance between different policy considerations. In its *Statement of Intent* in reply, APRA committed itself to further developing a supervisory approach, focussed on outcomes, that accords fully with the Government's vision for APRA.

APRA's supervisory activities in 2009-10 have been conducted against the background of a gradual recovery in global credit and equity markets and the global economy after the severe disruptions to market confidence and economic activity in late 2008 and early 2009. However, significant uncertainties remain about the global outlook. Though affected by these and earlier disruptions, the Australian financial system has shown its resilience throughout the global financial crisis. Since the crisis began, APRA has stepped up its supervisory intensity, particularly in its dealings with authorised deposit-taking institutions (ADIs). APRA has been closely monitoring the liquidity position of the larger ADIs and reviewing their funding plans; it has also been monitoring trends in ADI asset quality and capital adequacy. In addition, APRA has been analysing the impact of equity market developments on the insurance and superannuation industries.

In view of global uncertainties, APRA will maintain its heightened oversight of its regulated institutions in 2010-11, with a particular focus on asset quality as the Australian economy regains momentum. In addition, APRA's resources will be committed to enhancing its prudential requirements as part of a coordinated international regulatory response to the crisis, as agreed by the G-20 in their April 2009 Declaration, *Strengthening the Financial System*. The main enhancements will be to APRA's prudential requirements for ADI liquidity risk management and to its capital adequacy prudential standards for ADIs, in response to proposals from the Basel Committee on Banking Supervision.

To strengthen APRA's capacity to manage issues associated with the global financial crisis, the Government has provided APRA with additional funding of $45.5 million over four years, starting from 2008-09. Of this amount, $9.0 million has been provided in 2010-11. This appropriation from general revenue gives APRA additional resources, including an increase in staffing by around thirty, over the funding from levies and fees paid by industry.

APRA's work program for 2010-11 also involves other improvements to the prudential framework. These include:

- updating the life and general insurance capital requirements to make them more risk-sensitive and to improve their alignment across regulated industries;

- developing a comprehensive framework for the prudential regulation of conglomerate groups to ensure that they hold adequate capital to protect the APRA-regulated entities with a group from potential contagion and other risks; and

- strengthening APRA's powers and capacity to deal with a financial crisis in a regulated institution or a systemic crisis, and to administer the Financial Claims Scheme.

Some of APRA's specific work is not funded by levies. Rather, the costs are recovered by direct user charges or through direct Government funding. At the current time there are four special programs whose costs will not be recovered through the financial sector levies. These programs and activities are as follows:

1. 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.

2. Accreditation of general insurers with robust internal models to use these models to meet capital adequacy requirements.

3. The provision of statistical reports to the Reserve Bank of Australia and the Australian Bureau of Statistics that are recovered through a fee for service arrangement.

4. Participation in a Government-wide initiative, the Standard Business Reporting (SBR) Program, aimed at reducing regulatory burdens on business by harmonising and automating reporting requirements and processes.

APRA's 2010-11 budget

APRA's budgeted costs for 2009-10 and 2010-11 are shown in Table 1. The level of budgeted expenditure for 2010-11 reflects APRA's more intensive supervisory and policy development activities, supported by the additional funding provided by the Government in response to the global financial crisis.

Table 1: APRA budget ($ million)

	2009-10	**2010-11**		
	Budget	**Budget**	**Change ($)**	**Change (%)**
Employee costs	82.2	82.6	0.4	0.5
Administrative costs	34.9	32.7	(2.2)	(6.3)
Depreciation	4.0	4.4	0.4	10.0
Total	**121.1**	**119.7**	**(1.4)**	**(1.2)**

SUMMARY OF SUPERVISORY LEVY FUNDING REQUIREMENTS FOR 2010-11

Expenditure and funding requirements for 2010-11 are summarised in Table 2. The budgeted total cost for APRA for 2010-11 is $119.7 million, with $28.5 million of APRA's costs being met through cost offsets and government appropriations, including a special levy for the National Claims and Policies Database (NCPD). APRA's net levy funding requirement is $91.2 million, a decrease of $0.2 million (0.2 per cent) over the budget for 2009-10. However, an amount of $1.5 million in levies over-collected in 2009-10 will be applied to reduce APRA's levy funding requirement to $89.7 million, a decrease of $4.3 million (4.6 per cent).

In addition to APRA's requirements, an amount of $26.1 million is required to fund the relevant functions undertaken by ASIC and the ATO. This amount, an increase of

$0.3 million (1.2 per cent) over the budget for 2009-10, brings the total amount to be funded by levies to $115.8 million.

Table 2: Levies funding required and operating costs ($ million)

Levy determinants	2009-10	2010-11		
	Budget	Budget	Change ($)	Change (%)
APRA – expenses	121.1	119.7	(1.4)	(1.2)
Less: net cost offsets (Table 3)	(29.7)	(28.5)	1.2	4.0
Net funding required for APRA	**91.4**	**91.2**	**(0.2)**	**(0.2)**
Under/(over) collected revenue (Table 4)	2.6	(1.5)	(4.1)	
Total APRA	**94.0**	**89.7**	**(4.3)**	(4.6)
ASIC	18.5	19.3	0.8	4.3
ATO	7.3	6.8	(0.5)	(6.8)
Total	**119.8**	**115.8**	**(4.0)**	**(3.3)**

Table 3 outlines the other sources of APRA revenue, referred to as net cost offsets, available to partially defray APRA expenditures.

Table 3: Net cost offsets ($ million)

Net cost offsets		2009-10	2010-11		
		Budget	Budget	Change ($)	Change (%)
Appropriations	- GFC	18.5	9.0	(9.5)	(51.4)
	- GFC c/fwd	-	10.0	10.0	n/a
	- NCPD	1.8	0.7	(1.1)	(61.1)
	- Other	4.2	3.6	(0.6)	(14.3)
Sale of goods and services		5.2	5.2	-	-
Total		**29.7**	**28.5**	**(1.2)**	**(4.0)**

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

Based upon 2009-10 expected collections, there will be an over-collection in APRA levies of $1.5 million that will be applied to reduce the 2010-11 levy (Table 4).

Table 4: (Under)/Over-collected APRA levies ($ million)

Source of revenue	2009-10 Budget	2009-10 Forecast	2009-10 Difference	Difference to be recovered by industry sector			
				ADI	LI	GI	Super
Supervisory levies	96.6	98.4	1.8	(0.1)	-	(0.2)	2.1
Levy waivers and write-offs	(0.9)	(1.0)	(0.1)	-	-	(0.1)	-
Fee services and other income	5.2	5.0	(0.2)	(0.1)	-	-	(0.1)
Total	**100.9**	**102.4**	**1.5**	**(0.2)**	**-**	**(0.3)**	**2.0**

ASIC Component

A component of levies is raised to cover the expenses of ASIC in relation to consumer protection, regulatory and enforcement activities relating to the products and services of APRA-regulated bodies.

Funding for the ASIC component of levies, which includes the Superannuation Complaints Tribunal (SCT), is $19.3 million in 2010-11. This is an increase of $0.8 million (or 4.3 per cent) over the 2009-10 levy.

The increase in ASIC levies is to cover additional efforts in 2010-11 (including staff resources) incurred by ASIC in its consumer protection, enforcement and market integrity activities as a response to the demands of the global financial crisis.

ATO Component

Funding from levies collected from the superannuation sector includes a component to cover the expenses of the ATO in administering the Superannuation Lost Member Register (LMR).

Partly in response to a recommendation of the Australian National Audit Office report on the administration of the LMR, the ATO now undertakes comprehensive costing of the LMR function and estimated expenditure for 2010-11 is $6.8 million, a decrease of $0.5 million (or 6.8 per cent) over the 2009-10 levy.

First Home Saver Accounts

The *First Home Saver Account (FHSA) Providers Supervisory Levy Imposition Act 2008* came into effect from 1 July 2009. The Act refers to three types of entities that provide FHSA facilities, viz. ADIs, life insurers and trustees of public offer superannuation entities.

ADIs and life insurers may provide FHSA facilities under existing APRA authorisations. A trustee of a superannuation entity that is authorised under section 92 of the *First Home Savers Accounts Act 2008* is able to offer FHSA facilities through a designated trust.

The amount of levy payable by a FHSA entity is subject to the Treasurer's determination. Considering the limited number of approved FHSA entities (19 ADIs and one superannuation trustee) and the small amount of FSHA deposit balances held

($60 million) as at December 2009, APRA will recommend to the Treasurer that no separate FHSA levy be charged in 2010-11.

SECTORAL ALLOCATION OF FUNDING REQUIREMENTS

The levies framework is divided into two components: one based on cost of supervision (the restricted component) and the other on system impact (the unrestricted component). APRA's functions and the time spent on them are first allocated into one of the two levy components. Each component is then apportioned across the different industry sectors based on the total resources APRA dedicates to each sector. Currently, the restricted and unrestricted components account for 64 per cent and 36 per cent of APRA's supervisory time, respectively.

To reduce the volatility in levies charged to industry, APRA smooths supervision costs through use of a moving average. The four-year averages of APRA's costs are used to derive the 2010-11 levy 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 supervision by industry sector (%)

Industry sector	2007-08	2008-09	2009-10	2010-11	2010-11 4-yr average
	Actual	Actual	Forecast	Estimate	
Restricted component - % of time					
ADIs	41.1	44.6	42.5	43.0	**42.6**
Life insurance/Friendly societies	10.2	10.2	9.5	10.0	**9.9**
General insurance	21.6	20.4	21.5	21.0	**21.3**
Superannuation	27.1	24.8	26.5	26.0	**26.2**
Total	100.0	100.0	100.0	100.0	**100.0**
Unrestricted component – % of time					
ADIs	36.8	41.0	40.2	41.0	**39.7**
Life insurance/Friendly societies	14.7	11.9	11.7	12.0	**12.4**
General insurance	23.4	22.0	23.1	24.0	**22.9**
Superannuation	25.1	25.1	25.0	25.0	**25.0**
Total	100.0	100.0	100.0	100.0	**100.0**

The average percentage of time spent supervising sectors for each levy component is then used to apportion APRA's estimated costs to each sector. Table 6 illustrates the 2010-11 levy funding required for both levy components from each sector and compares this with the levy funding required from each sector for 2009-10.

Table 6: Estimated levies by industry for APRA's levy requirement ($ million)

Industry sector	2009-10	2009-10	2009-10	2010-11	2010-11	2010-11
	Restricted component	Unrestricted component	Total	Restricted component	Unrestricted component	**Total**
ADIs	27.9	11.3	**39.2**	25.2	13.0	**38.2**
Life insurance/ Friendly societies	6.8	3.8	**10.6**	5.8	4.0	**9.8**
General insurance	13.7	6.5	**20.2**	12.7	7.5	**20.2**
Superannuation	16.7	7.3	**24.0**	14.1	7.4	**21.5**
Total	65.1	28.9	**94.0**	57.8	31.9	**89.7**

Overall supervisory levy requirement

Overall, supervisory levies in 2010-11, including the specific funding requirements of ASIC and the ATO, total $115.8 million. This is a $4.0 million (or 3.3 per cent) decrease on the 2009-10 levy requirement. Table 7 summarises the position.

Table 7: Total levy required by industry sector ($million)

Industry sector	APRA net funding	ASIC costs	ATO costs	Total 2010-11 levy	Total 2009-10 levy	Inc(Dec) ($)
ADIs	38.2	3.8	-	42.0	42.8	(0.8)
Life Insurance/ Friendly societies	9.8	2.3	-	12.1	12.8	(0.7)
General insurance	20.2	3.3	-	23.5	23.4	0.1
Superannuation	21.5	9.9	6.8	38.2	40.8	(2.6)
Total	89.7	19.3	6.8	115.8	119.8	(4.0)

INDUSTRY STRUCTURE

Table 8 compares the number of institutions and their asset values used to determine levies for 2009-10 with those estimated to apply to 2010-11. Asset values used for estimating the levy may differ from the assets used to invoice the levy, since more up-to-date information may be available at the time of invoicing.

Table 8: Institutions' assets used in the modelling of levies

Industry sector	December 2009		December 2008	
	Number	Total asset base ($b)	Number	Total asset base ($b)
ADIs – banks	57	2,571.5	59	2,679.4
– building societies	11	22.7	11	21.0
– credit unions	112	47.2	122	45.4
– other ADIs	7	8.6	4	4.8
Sub-total	**187**	**2,650.0**	**196**	**2,750.6**
Life insurance	32	239.1	32	210.4
Friendly societies	18	6.0	20	5.7
Sub-total	**50**	**245.1**	**52**	**216.1**
General insurers	**128**	**96.1**	**122**	**93.4**
Super – excluding SAFs	510	782.6	505	644.2
– Small APRA Funds (SAFs) only	3,984	1.8	4,335	2.6
Sub-total	**4,494**	**784.4**	**4,840**	**648.3**
Total	**4,859**	**3,775.6**	**5,210**	**3,708.4**

SUMMARY OF IMPACTS ON INDIVIDUAL SECTORS

Authorised deposit-taking institutions (ADIs)

The ADI sector comprises large and small banks as well as building societies, credit unions and Specialist Credit Card Institutions. $38.2 million of APRA's 2010-11 funding requirement will be incurred in supervising the ADI sector (Table 7). An additional $3.8 million is required to fund the consumer protection work undertaken by ASIC. This brings the total levy to $42.0 million, compared to $42.8 million in 2009-10. Levy funding from ADIs in 2010-11 represents 36.4 per cent of total levies compared with 35.7 per cent in 2009-10.

The funding will support APRA's heightened supervisory intensity of the ADI sector and enhancements to the prudential framework, particularly in response to Basel Committee proposals on liquidity risk management and capital adequacy.

In 2010-11, the levy for Specialist Credit Card Institutions (SCCI) and providers of Purchased Payment Facilities (PPF) will be subject to a minimum of $10,000 for the restricted component and to the same restricted maximum amount and unrestricted levy rate as other ADIs.

Life insurance/Friendly societies

As noted in Table 7, APRA's funding requirement for prudential supervision of the life insurance and friendly societies sector is estimated to be $9.8 million in 2010-11. In addition, $2.3 million is required for ASIC's costs. This brings the total levy requirement to $12.1 million, compared to $12.8 million in 2009-10. Levy funding from life insurers/friendly societies in 2010-11 represents 10.4 per cent of total levies compared with 10.7 per cent in 2009-10.

In 2010-11, APRA will continue its focus on the capital adequacy of life insurers and friendly societies given the continued volatility in investment markets and will undertake a fundamental review of life insurance capital standards.

General insurance

APRA's funding requirement for general insurance supervision is expected to be $20.2 million in 2010-11. An additional $3.3 million is required for ASIC's costs. This brings the total levy to $23.5 million, compared to $23.4 million in 2009-10. Levy funding from general insurers in 2010-11 represents 20.3 per cent of total levies compared with 19.5 per cent in 2009-10.

In 2010-11, APRA will continue to apply its specialist skills to issues of insurance risk, liability valuations and the quality of reinsurance cover. Prudential policy work will include the closer alignment of prudential reporting requirements with accounting standards and enhancements to general insurance capital requirements.

National Claims and Policies Database special levy

In addition to the main supervisory levy for general insurers, a separate levy to cover the costs of operating the National Claims and Policies Database (NCPD) will continue in 2010-11. The NCPD collects policy and claims information relating to public liability and professional indemnity insurance from institutions within the general insurance industry. The total amount of the NCPD levy for 2010-11 is $0.7 million, compared to $1.7 million in 2009-10.

The NCPD levy, unlike the supervisory levy that is based on asset values of individual institutions, is based on gross earned public and product liability and professional indemnity 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 2010-11.

Table 9: Parameters for NCPD levy

	2009-10		2010-11	
	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 (%)	0.2647	0.1202	0.0170	0.0221
Runoff amount ($)	2,500	2,500	2,500	2,500
Total levy ($m)	0.71	1.01	0.30	0.43

Superannuation

APRA's funding requirement for the prudential supervision of the superannuation sector is $21.5 million in 2010-11. In addition, $9.9 million and $6.8 million are required to meet ASIC and ATO costs, respectively. This brings the total levy to $38.2 million (or 33.0 per cent of total levies) compared to $40.9 million (34.6 per cent) in 2009-10.

The levy amount for Small APRA Funds (SAFs) is unchanged for 2010-11 at a flat rate of $500 per fund.

In 2010-11, APRA's supervisory activities in the superannuation sector will cover a range of issues, including the liquidity of superannuation funds, valuation practices for unlisted assets and the solvency of defined benefit schemes. APRA is also updating its superannuation guidance material and will be responding to relevant recommendations of the Cooper Review.

Non-operating holding companies

Authorised non-operating holding companies (NOHCs) will continue to contribute to the financial sector levies at a flat fee of $10,000.

SUPERVISORY LEVY COMPARISON BETWEEN 2009-10 AND 2010-11

Review of the maximum amount - restricted levy component

To ensure continued vertical equity in the levies applied to individual institutions, adjustments to the maximum parameters for the restricted levy component were made in June 2009. These adjustments ensure a fairer sharing of the levy burden in each industry sector by requiring those institutions that are nearing the maximum amount to continue contributing to the increased cost of supervision.

Table 10 compares the restricted component of levies between 2009-10 and 2010-11[1], based upon the second scenario outlined below. A three per cent indexation factor has been applied to the maximum amounts for 2010-11 but minimum amounts are unchanged. The 2010-11 levy rates for the restricted component are lower for all sectors.

Table 10: Levy parameters for restricted component

Industry sector	2009-10			2010-11		
	Min	Max	Rate	Min	Max	Rate
	$	$'000	%	$	$'000	%
ADIs - locally incorporated	470	1,600	0.00431	470	1,650	0.00415
- foreign branches	470	800	0.00216	470	825	0.00207
Life insurance/Friendly societies	470	910	0.00920	470	940	0.00562
General insurers	4,700	810	0.02185	4,700	835	0.02023
Superannuation (excluding SAFs)	570	225	0.01525	570	232	0.00965

Table 11 summarises the rates for the unrestricted component of levies. Rates are higher for ADIs and general insurers but lower for the other two sectors.

[1] Exclusive of the NCPD levy

Table 11: Levy parameters for unrestricted component

Industry sector	2009-10	2010-11
	Rate %	Rate %
ADIs – local and foreign	0.000415	0.000501
Life insurance/Friendly societies	0.001823	0.001633
General insurers	0.006796	0.007776
Superannuation (excluding SAFs)	0.001212	0.000938

Tables 12 to 16 compare the impact of the levy payable for different asset values in each industry sector between 2009-10 and 2010-11.

Table 12: Levy amounts on ADIs ($'000)

Asset base	$5m	$50m	$500m	$5b	$25b	$100b
2008-09	0.5	2.1	21.1	210.9	1,054.6	1,846.6
2009-10	0.5	2.4	23.6	236.4	1,181.9	2,014.6
2010-11	0.5	2.3	23.2	232.3	1,161.5	2,150.8
Change (%) 09-10 v 08-09	(0.3)	12.1	12.1	12.1	12.1	9.1
Change (%) 10-11 v 09-10	**0.9**	**(1.7)**	**(1.7)**	**(1.7)**	**(1.7)**	**6.8**

Table 13: Levy amounts on foreign ADI branches ($'000)

Asset Base	$500m	$5b	$25b
2008-09	11.7	116.6	583.1
2009-10	12.9	128.6	642.8
2010-11	12.9	128.7	643.4
Change (%) 09-10 v 08-09	10.2	10.2	10.2
Change (%) 10-11 v 09-10	**0.1**	**0.1**	**0.1**

Table 14: Levy amounts on life insurers/friendly societies ($'000)

Asset base	$3m	$50m	$500m	$3b	$10b	$50b
2008-09	0.5	4.1	41.5	248.8	828.6	1,343.0
2009-10	0.5	5.5	55.1	330.7	1,092.3	1,821.7
2010-11	0.5	3.6	36.2	217.4	724.8	1,756.3
Change (%) 09-10 v 08-09	3.2	32.9	32.9	32.9	31.8	35.6
Change (%) 10-11 v 09-10	**(1.1)**	**(34.2)**	**(34.2)**	**(34.2)**	**(33.7)**	**(3.6)**

Table 15: Levy amounts on general insurers ($'000)

Asset base	$5m	$25m	$250m	$750m	$3b	$9b
2008-09	5.0	6.6	65.7	197.2	789.0	1,298.1
2009-10	5.0	7.2	71.6	214.9	859.4	1,421.7
2010-11	5.1	7.0	70.0	210.1	840.3	1,534.8
Change (%) 09-10 v 08-09	0.2	8.9	8.9	8.9	8.9	9.5
Change (%) 10-11 v 09-10	**1.0**	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**	**8.0**

Table 16: Levy amounts on superannuation funds (excluding SAFs) ($'000)

Asset base	$1m	$3m	$50m	$250m	$5b	$20b
2008-09	0.6	0.6	7.2	35.8	242.2	368.8
2009-10	0.6	0.6	8.2	41.2	285.6	467.5
2010-11	0.6	0.6	5.3	26.5	278.9	419.5
Change (%) 09-10 v 08-09	0.6	1.9	15.0	15.0	17.9	26.8
Change (%) 10-11 v 09-10	**(0.5)**	**(1.4)**	**(35.7)**	**(35.7)**	**(2.4)**	**(10.3)**

LEVY SCENARIOS FOR 2010-11

This section presents a number of scenarios to enable comparison of the impact on levies of different parameters. Three scenarios are summarised in Table 17:

- Scenario 1: No change in parameters from 2009-10. This would result in an overall surplus in funding of $8.4 million.
- Scenario 2: Minimum amounts are unchanged, maximum amounts are subject to a three per cent indexation factor and levy rates are adjusted in both the restricted and unrestricted component to meet the total funding requirement.
- Scenario 3: Minimum amounts and levy rates in the restricted component are unchanged but maximum amounts and the unrestricted levy rates are adjusted to meet the total funding requirement.

Scenario 1, Scenario 2 and Scenario 3 are modelled to meet the full funding requirement for 2010-11. Scenario 2 (adjusting restricted and unrestricted components) is the recommended approach to be taken.

Table 17: Levy scenarios

Institutional sector	Criteria	Scenario 1 No parameter change	Scenario 2 Change rate	Scenario 3 Change max
Authorised deposit-taking institutions	**Restricted**			
	rate (%)	0.00431	0.00415	0.00431
	minimum	470	470	470
	maximum	1,600,000	1,650,000	1,599,146
	Unrestricted rate (%)	0.000415	0.000501	0.000503
	excess/deficit ($m)	(2.3)	0.0	0.0
Life insurers/ Friendly societies	**Restricted**			
	rate (%)	0.00920	0.00562	0.00920
	minimum	470	470	470
	maximum	910,000	940,000	660,959
	Unrestricted rate (%)	0.001823	0.001633	0.001640
	excess/deficit ($m)	2.1	0.0	0.0
General insurers	**Restricted**			
	rate (%)	0.02185	0.02023	0.02185
	minimum	4,700	4,700	4,700
	maximum	810,000	835,000	692,168
	Unrestricted rate (%)	0.006796	0.007776	0.007738
	excess/deficit ($m)	0.4	0.0	0.0
Superannuation funds	**Restricted**			
	rate (%)	0.01525	0.00965	0.01525
	minimum	570	570	570
	maximum	225,000	232,000	172,334
	Unrestricted rate (%)	0.001212	0.000938	0.000933
	excess/deficit ($m)	8.2	0.0	0.0
Planned levy to funding target	Total levy modelled ($m)	124.2	115.8	115.8
	funding target ($m)	115.8	115.8	115.8
	excess/deficit ($m)	8.4	0.0	0.0