

# EXPLANATORY STATEMENT

## General Insurance Supervisory Levy Imposition Determination 2006

This determination relates to a levy imposed by the *General Insurance Supervisory Levy Imposition Act 1998* on companies registered under the *Insurance Act 1973*.

This determination commences on 1 July 2006 and relates to the 2006-07 financial year. The *General Insurance Supervisory Levy Imposition Determination 2005* is revoked upon commencement of this determination. Consistent with section 50 of the *Acts Interpretation Act 1901*, any obligation or liability incurred in previous financial years remains valid.

Subsection 8(1AA) specifies that the levy payable by a general insurance company for a financial year is to comprise of a general component and a special component.

### *2006-07 General Component*

For 2006-07 financial year the general component will fund the operations of the Australian Prudential Regulation Authority (APRA), and certain activities performed by the Australian Securities and Investments Commission and the Australian Taxation Office.

In relation to the general component, subsection 8(3) of the *General Insurance Supervisory Levy Imposition Act 1998* allows the Treasurer to determine:

- (a) the maximum restricted levy amount for each financial year;
- (b) the minimum restricted levy amount for each financial year;
- (c) the restricted levy percentage for each financial year;
- (ca) the unrestricted levy percentage for each financial year;
- (d) how a general insurance company's asset value is to be calculated;

This determination provides that the restricted component of the 2006-07 general levy will be calculated at 0.01990 per cent of assets held by the entity, subject to a minimum of \$4 700 and a maximum of \$700 000. The unrestricted component of the 2006-07 general levy will be calculated at 0.007259 per cent of assets held by the entity.

### *2006-07 Special Component Levy*

For 2006-07 financial year the special component will fund costs of the National Claims and Policy Database (NCPD). This component is being levied for the first time in 2006-07 following recent amendments to the *General Insurance Supervisory Levy Imposition Act 1998*.

In relation to the special component, subsection 8(3) of the *General Insurance Supervisory Levy Imposition Act 1998* allows the Treasurer to determine:

- (e) the special maximum levy amount for each financial year;
- (f) the special minimum levy amount for each financial year;
- (g) the special levy percentage for each financial year; and
- (h) how a general insurance company's eligible premium income (EPI) is to be calculated.

This determination provides that for a public/product liability insurer the special levy amount will be calculated at 0.2292 per cent of the insurer's EPI, subject to a minimum of \$15 000 and a maximum of \$150 000. For a professional liability insurer the special levy amount will be calculated at 0.2050 per cent of the insurer's EPI, subject to a minimum of \$15 000 and a maximum of \$96 000.

This determination provides that the special levy payable by an insurer that writes both public/product liability and professional indemnity insurance is determined by adding the sum of:

- 0.2292 per cent of the insurer's EPI, arising from public/product liability insurance, subject to a minimum of \$15 000 and a maximum of \$150 000; and
- 0.2050 per cent of the insurer's EPI, arising from professional indemnity insurance, subject to a minimum of \$15 000 and a maximum of \$96 000.

This determination provides that for either a public/product or profession indemnity runoff insurer the special levy amount will be a flat \$7 500. For insurers that provide both public/product and professional indemnity runoff insurance, the special levy amount will be a flat \$15 000.

The finance sector has been consulted on the 2006-07 supervisory levies through a Treasury and APRA consultation paper released on 12 May 2006 and a number of follow-up meetings to discuss the issues in the paper.

This determination is a legislative instrument for the purposes of the *Legislative Instruments Act 2003*.