

# **Senate Select Committee on Superannuation and Financial Services**

## **Main Inquiry Reference (a)**

**Submission No. 16**

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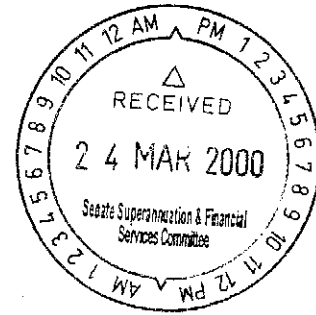
# AUSTRALIAN ASSOCIATION OF PERMANENT BUILDING SOCIETIES

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24 March 2000

The Secretary  
Senate Superannuation and Financial  
Services Select Committee  
Parliament House  
CANBERRA ACT 2600

Dear Sir

I attach hereto the Association's submission relating to item (a) of the Committee's current inquiry into matters pertaining to superannuation and financial services.

Yours faithfully

J/V LARKEY  
EXECUTIVE DIRECTOR

Att

**SUBMISSION TO THE SENATE SELECT COMMITTEE ON  
SUPERANNUATION AND FINANCIAL SERVICES**

**BY**

**AUSTRALIAN ASSOCIATION OF PERMANENT BUILDING SOCIETIES**

**FUNDING OF BANKING SUPERVISION**

This Submission is in respect of Item (a) of the Committee's Terms of Reference and relates to the funding by ADI of prudential supervision and consumer protection agencies, APRA and ASIC.

The building society sector of the retail financial system comprises 19 institutions with total assets of over \$12 billion and a customer base of 2 million. The sector provides a full range of retail banking services in competition with the large banks. We are very prominent in many regional cities and towns in Australia. In a number of instances, by virtue of location of its head office, a society will be a very important employer of skills in the region. For these organisations to compete it is essential they operate in a system that does not impose unnecessary costs and which is fair and equitable vis-a-vis competitors.

It is against this background that we raise with the Committee the perverse impact of the Authorised Deposit Taking Institutions Levy Imposition Act 1998 on our members and other medium size regional banks. A copy of the relevant provisions is attached. It will be noted that Section 2 sets a statutory upper limit of \$1million (indexed) on the amount of levy any one institution may be charged. The industry has been informed by Treasury that a limit is imposed inter alia to meet the demands of the H of R and the Senate and that neither House would likely endorse removal of the limit. We have also been advised that there was little or no science applied to the cap level when originally set other than that "it seemed like a large amount at the time".

The upper limit currently applies to the ten largest banks in Australia.

In June 1999, the Minister for Financial Services and Regulation, Mr Hockey, announced a review of the APRA levy system by Treasury. This was in response to representations from industry and others following the establishment of initial industry funding arrangements for APRA and ASIC.

Submissions have been made to the Treasury Review but we remain very concerned that the distortions and unfairness of the statutory maximum levy and the bias it introduces may not be fully understood by the Parliament. It punishes the medium-sized ADI and will continue to do so in future years. This includes all building societies and also regional banks. These are the institutions which Government, Opposition and Democrat spokespersons want to see continuing to provide financial services in regional Australia and contesting markets with the ten largest banks.

The impact of the statutory limit is illustrated in the attached table. We make the following observations:

1. The four major banks which hold 65% of total bank assets and account for the major part of systemic risk and whose depositors receive the bulk of the benefit from regulation pay 16% of the levy.
2. The cap means that the middle sized ADI (credit unions are protected by a minimum) are required to pay in full any exceptional costs incurred by APRA e.g. APRA start-up costs are charged entirely to ADI under the levy cap.
3. The cap means that small and medium-sized institutions such as building societies and regional banks are required to meet in full the levy shortfall from bank mergers.
4. The recent mergers of Bankers Trust, Macquarie Bank and Deutsche Bank, the Colonial & Trust Bank merger, the Deutsche and Dresdner merger and the expected Colonial and Commonwealth merger could result in an estimated

reduction of levy income to APRA/ASIC of some \$2.6 million, in a total ADI levy of some \$25 million or over 10% could be expected.

5. Mergers aside the levy is most likely to increase at a faster rate for building societies and small to medium sized institutions than it will for the major banks. The cap paid by the major banks is indexed (to inflation) whilst building societies and other ADI in the middle will pay according to asset growth which is typically higher than inflation.

It appears to us that the upper limit must be changed. The middle group of ADI should not be asked to pick up the shortfall created by mergers of banks. The capacity of APRA to do its job is also potentially at risk. We recommend that the Committee consider and seek a resolution to this issue and preferably recommend removal of the statutory upper limit on levies.

We are also concerned about the level of accountability of APRA but, in particular, by ASIC to those actually paying the levies. We appreciate the levy is set by the Treasurer and that both bodies report to the Treasurer and to the Parliament. Nevertheless we think it would be an additional benefit to all concerned if some measure of accountability in a meaningful format could also be made to those which must actually pay the levy amounts.

## FINANCIAL SECTOR LEVIES FOR APRA

Institution	Assets \$M <sup>(1)</sup>	APRA Levy \$'000 <sup>(2)</sup>
ANZ	98,164	1,000
CBA	112,881	1,000
NAB	124,878	1,000
Westpac	99,331	1,000
St George	43,926	1,000
Macquarie	20,826	1,000
<i>All Building Societies <sup>(3)</sup></i>	<i>12,270</i>	<i>1,698</i>
Adelaide Bank	5,399	702
Bendigo Bank	4,153	540
Bank of Queensland	3,204	417

(1) October 1999

(2) Rate 0.13 per million of assets

(3) December 1999

## B.10 Assets — Individual Banks

As at October 1999

(\$ mil. bn)

Average of weekly figures	Coin, Australian notes and cash with Reserve Bank	Public sector securities		Deposits & placements with, & loans to		Other lending	of which: Housing	Clients' commitments arising from bill acceptances	All other assets	AS total assets	Foreign currency assets	Total assets	Average of weekly figures	
		Treasury notes		Banks										Other
		Commonwealth	Other	Commonwealth	Other									
ABN AMRO	46	—	228	670	2 290	365	—	—	438	4 342	1 124	5 465	ABN AMRO	
Adelaide Bank	29	15	—	—	152	88	—	—	184	5 389	10	5 399	Adelaide Bank	
AMP Bank	45	80	—	208	683	45	—	—	89	3 193	117	3 310	AMP Bank	
ANZ Banking Group	432	164	1 882	1 014	846	1 845	—	14 939	9 514	93 715	4 449	98 164	ANZ Banking Group	
ANZ Grindlays Bank	—	—	—	—	221	—	—	—	377	1 048	91	1 138	ANZ Grindlays Bank	
Arab Bank Australia	10	—	—	5	1	—	—	—	7	381	8	389	Arab Bank Australia	
Asahi Bank	9	15	—	—	5	30	—	—	—	368	214	582	Asahi Bank	
Bank of America, National Association	11	—	15	—	60	141	—	—	—	920	564	1 484	Bank of America, National Association	
Bank of China	6	38	—	—	138	—	—	—	—	47	1 897	—	Bank of China	
Bank of Queensland	21	—	97	163	192	17	—	—	33	3 203	1	3 204	Bank of Queensland	
Bank of Tokyo - Mitsubishi (Australia)	24	89	22	80	24	38	—	—	23	919	64	984	Bank of Tokyo - Mitsubishi (Australia)	
Bank One, National Association	50	—	—	—	—	5	—	—	156	1 562	—	1 562	Bank One, National Association	
Bankers Trust Australia	—	—	—	—	212	560	—	—	281	17 001	483	17 484	Bankers Trust Australia	
BankWest	53	91	241	384	933	46	—	143	482	6 738	928	7 667	BankWest	
Banque Nationale de Paris	16	153	7	131	1 701	299	—	91	74	525	411	937	Banque Nationale de Paris	
Barclays Capital	1	50	—	—	3	—	—	—	256	4 153	—	4 153	Barclays Capital	
Chase Manhattan Bank	147	—	—	73	341	—	—	—	764	4 292	2 706	6 998	Chase Manhattan Bank	
Citibank N.A.	25	—	1 524	—	67	—	—	—	168	139	1 376	5 651	Citibank N.A.	
Citibank	74	—	45	21	979	13	—	—	661	8 738	789	9 527	Citibank	
Colonial State Bank	158	—	448	16	250	90	—	—	412	19 730	139	19 869	Colonial State Bank	
Commonwealth Bank	861	21	218	240	840	139	—	458	7 403	108 877	4 114	112 991	Commonwealth Bank	
Commonwealth Development Bank	—	6	2 111	1 953	1 519	3 017	—	10 376	—	316	—	316	Commonwealth Development Bank	
Credit Suisse First Boston	—	9	5	—	113	—	—	—	59	280	35	315	Credit Suisse First Boston	
Dai-ichi Kangyo Bank	18	70	80	20	91	—	—	—	165	1 166	7 510	15 648	Dai-ichi Kangyo Bank	
Deutsche Bank AG	4	—	131	326	44	—	—	—	155	8 138	528	2 658	Deutsche Bank AG	
Dresdner Bank AG	14	—	336	373	198	151	—	—	281	2 139	—	—	Dresdner Bank AG	
HSBC Bank Australia	5	99	45	38	291	25	—	—	141	1 601	392	1 993	HSBC Bank Australia	
HSBC Bank plc	3	199	—	—	414	37	—	—	64	880	392	1 272	HSBC Bank plc	
IBJ Australia Bank	48	10	—	—	44	—	—	—	16	1 423	—	—	IBJ Australia Bank	
ING Bank NY	6	14	—	—	126	—	—	—	4	221	59	280	ING Bank NY	
ING Bank (Australia) Limited	26	19	—	—	75	—	—	—	7 124	18 094	2 732	20 826	ING Bank (Australia) Limited	
International Commercial Bank of China	12	—	—	—	7	—	—	—	—	—	—	—	International Commercial Bank of China	
Macquarie Bank	63	120	1 237	747	319	913	—	—	8 654	119 145	5 731	124 876	Macquarie Bank	
Morgan Guaranty Trust Company of New York	4	—	112	—	14	—	—	—	588	1 163	238	1 400	Morgan Guaranty Trust Company of New York	
National Australia Bank	380	1 173	1 353	1 185	2 010	1 431	—	23 098	—	1 059	1 060	1 060	National Australia Bank	
NM Rothschild & Sons (Australia)	7	—	—	5	52	25	—	—	39	1 015	479	1 494	NM Rothschild & Sons (Australia)	
Oversea-Chinese Banking Corporation	3	16	5	3	83	—	—	—	46	106	646	752	Oversea-Chinese Banking Corporation	
Overseas Union Bank	8	16	—	—	—	—	—	—	18	3 162	3	3 165	Overseas Union Bank	
Rabobank Nederland	3	104	—	—	45	2	—	—	2	1 536	459	1 995	Rabobank Nederland	
Primary Industry Bank	3	—	—	—	38	—	—	—	3	148	43 477	448	43 925	Primary Industry Bank
Royal Bank of Canada	48	—	303	245	338	27	—	—	20	759	385	1 144	Royal Bank of Canada	
St. George Bank	249	769	350	721	1 114	237	—	531	3 148	43 477	448	43 925	St. George Bank	
Standard Chartered Bank Australia	23	—	—	—	12	37	—	—	33	1 266	223	1 489	Standard Chartered Bank Australia	
State Street Bank and Trust Company	3	622	91	—	352	—	—	—	1 358	19 892	59	19 950	State Street Bank and Trust Company	
Suncorp-Metway	63	—	—	—	691	—	—	—	—	3 384	252	3 635	Suncorp-Metway	
Toronto-Dominion Bank	30	4	20	67	381	316	—	—	53	2 541	3	2 543	Toronto-Dominion Bank	
Trust Bank	5	—	25	34	291	—	—	—	27	612	10	622	Trust Bank	
United Overseas Bank	5	7	10	—	13	—	—	—	11	1 355	804	2 369	United Overseas Bank	
WestLB	5	36	13	—	273	—	—	—	10 155	11 340	97 777	1 554	99 331	WestLB
Westpac Banking Corporation	426	3 249	672	513	1 351	—	—	10 155	54 766	629 967	43 899	673 866	Westpac Banking Corporation	
TOTAL	3 482	7 346	11 641	9 234	22 229	10 722	—	60 005	43 766	629 967	43 899	673 866	TOTAL	

Source: APRA

**Total Assets for All Building Societies**  
(\\$ million)

State	Institution	Dec 1999	Sep 1999	Jun 1999	Mar 1999	Dec 1998
NSW	Armidale Building Society Limited	39.4	38.2	38.3	37.1	36.0
	GIO Building Society Limited	634.4	677.7	626.2	610.5	601.3
	Greater Building Society Ltd	1,266.1	1,285.8	1,229.2	1,210.1	1,189.5
	Hume Building Society Ltd	229.5	227.2	219.8	219.2	213.6
	Illawarra Mutual Building Society	1,702.4	1,670.1	1,612.3	1,635.6	1,625.0
	Maitland Mutual Building Society Limited	121.6	118.6	113.6	107.2	105.2
QLD	Newcastle Permanent Building Society Ltd	2,094.1	2,074.8	1,945.4	1,895.9	1,883.6
	First Australian Building Society Limited	1,624.8	1,601.0	1,467.9	1,416.8	1,310.1
	Heritage Building Society Limited	1,200.1	1,208.5	1,176.6	1,278.6	1,243.3
	Mackay Permanent Building Society Ltd	266.7	262.6	251.7	246.5	248.6
	Pioneer Permanent Building Society Limited	236.6	223.6	206.6	211.4	187.2
	The Rock Building Society Limited	356.7	392.7	402.7	388.0	393.1
VIC	Wide Bay Capricorn Building Society Ltd	805.9	769.9	737.8	712.1	646.5
	Australian Unity Building Society Limited	119.0	137.9	139.9	148.8	151.9
WA	NRMA Building Society Limited	1,432.7	1,443.2	1,403.2	1,184.4	1,167.0
	Home Building Society Ltd	667.2	678.2	664.2	671.8	666.3
TAS	Bass & Equitable Building Society Ltd	174.9	180.8	176.5	177.1	174.3
SA	Lifeplan Building Society	47.9	45.5	44.9	43.6	42.0
NT	Territory Mutual Building Society Limited	47.0	48.3	47.6	48.0	48.5



1996-97-98

The Parliament of the  
Commonwealth of Australia

HOUSE OF REPRESENTATIVES

*Presented and read a first time*

**Authorised Deposit-taking Institutions  
Supervisory Levy Imposition Bill 1998**

**No.     , 1998**

*(Treasury)*

**A Bill for an Act to impose a levy on authorised  
deposit-taking institutions**

9803220—787/24.3.1998—(32/98) Cat. No. 97 2817 1 ISBN 0644 51882 0

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1     **A Bill for an Act to impose a levy on authorised**  
2     **deposit-taking institutions**

3     The Parliament of Australia enacts:

4     **1 Short title**

5                     This Act may be cited as the *Authorised Deposit-taking Institutions*  
6                     *Supervisory Levy Imposition Act 1998*.

Section 2

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1     **2 Commencement**

2             (1) Subject to subsection (2), this Act commences on a day to be fixed  
3             by Proclamation.

4             (2) If this Act does not commence under subsection (1) within the  
5             period of 24 months beginning on the day on which this Act  
6             receives the Royal Assent, it commences on the first day after the  
7             end of that period.

8             (3) If this Act commences during a financial year (but not on 1 July of  
9             that financial year), this Act has effect in relation to that financial  
10            year subject to the modifications specified in the regulations.

11    **3 Act binds the Crown**

12            This Act binds the Crown in each of its capacities.

13    **4 External Territories**

14            This Act extends to each external Territory.

15    **5 Definitions**

16            In this Act, unless the contrary intention appears:

17            *ADI* has the same meaning as in the *Banking Act 1959*.

18            Note:     ADI is short for authorised deposit-taking institution.

19            *indexation factor* means the indexation factor calculated under  
20            section 8.

21            *index number*, in relation to a quarter, means the All Groups  
22            Consumer Price Index number, being the weighted average of the  
23            8 capital cities, published by the Australian Statistician in respect  
24            of that quarter.

1 *levy imposition day*, in relation to an ADI for a financial year,  
2 means:

- 3 (a) if the ADI is an ADI on 1 July of the financial year—that  
4 day; or  
5 (b) in any other case—the day, during the financial year, on  
6 which the ADI becomes an ADI.

7 *statutory upper limit* means:

- 8 (a) in relation to the first financial year that ends after this Act  
9 commences—\$1,000,000; or  
10 (b) in relation to a later financial year—the amount calculated by  
11 multiplying the statutory upper limit for the previous  
12 financial year by the indexation factor for the later financial  
13 year.

14 **6 Imposition of authorised deposit-taking institutions supervisory**  
15 **levy**

16 Levy payable in accordance with subsection 8(1) of the *Financial*  
17 *Institutions Supervisory Levies Collection Act 1998* is imposed.

18 **7 Amount of levy**

19 (1) Subject to subsection (2), the amount of levy payable by an ADI  
20 for a financial year is:

- 21 (a) unless paragraph (b) or (c) applies—the amount that, for the  
22 financial year, is the levy percentage of the ADI's asset  
23 value; or  
24 (b) if the amount worked out under paragraph (a) exceeds the  
25 maximum levy amount for the financial year—the maximum  
26 levy amount; or  
27 (c) if the amount worked out under paragraph (a) is less than the  
28 minimum levy amount for the financial year—the minimum  
29 levy amount.

## Section 7

Note. The levy percentage, maximum levy amount, minimum levy amount and the method of working out the ADI's asset value, are as determined under subsection (3).

- (2) If the levy imposition day for the ADI for the financial year is later than 1 July in the financial year, the amount of levy payable by the ADI for the financial year is the amount worked out using the following formula:

$$\frac{\text{The amount worked out under subsection (1)}}{\text{The number of days in the financial year}} \times \left( 1 + \frac{\text{The number of days in the financial year after the levy imposition day}}{\text{The number of days in the financial year}} \right)$$

- (3) The Treasurer is, in writing, to determine:
- (a) the *maximum levy amount* for each financial year; and
  - (b) the *minimum levy amount* for each financial year; and
  - (c) the *levy percentage* for each financial year; and
  - (d) how an *ADI's asset value* is to be worked out.
- (4) An amount determined under subsection (3) as the maximum levy amount must not exceed the statutory upper limit as at the time when the determination is made.
- (5) The Treasurer's determination under paragraph (3)(d) of how an ADI's asset value is to be worked out is to include, but is not limited to, a determination of the day as at which the ADI's asset value is to be worked out. That day must be:
- (a) if the ADI was an ADI on 1 July of the financial year—a day between 17 March and 14 April of the previous financial year; or
  - (b) if the ADI was not an ADI on 1 July of the financial year—the day after 31 March of the previous financial year on which the ADI became or becomes an ADI.
- (6) A determination under subsection (3) may make different provision for different classes of ADIs.

1 (7) A determination under subsection (3) is a disallowable instrument  
2 for the purposes of section 46A of the *Acts Interpretation Act*  
3 *1901*.

#### 4 **8 Calculation of indexation factor**

5 (1) The indexation factor for a financial year is the number worked out  
6 by dividing the index number for the March quarter immediately  
7 preceding that financial year by the index number for the March  
8 quarter immediately preceding that first-mentioned March quarter.

9 (2) The indexation factor is to be calculated to 3 decimal places, but  
10 increased by .001 if the 4th decimal place is more than 4.

11 (3) Calculations under subsection (1):

12 (a) are to be made using only the index numbers published in  
13 terms of the most recently published reference base for the  
14 Consumer Price Index; and

15 (b) are to be made disregarding index numbers that are published  
16 in substitution for previously published index numbers  
17 (where the substituted numbers are published to take account  
18 of changes in the reference base).

#### 19 **9 Regulations**

20 The Governor-General may make regulations for the purposes of  
21 subsection 2(3).