

13 June 2025

General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear General Manager,

Re: Governance Review - Discussion Paper – June 2025

Members Health Fund Alliance (Members Health) welcomes the opportunity to provide feedback on the Australian Prudential Regulation Authority (APRA) Governance Review Discussion Paper which contains a series of proposals to strengthen APRA's core prudential standards and guidance on governance.

As the peak industry body for not-for-profit, member-owned, regional, and community-based health insurers, Members Health's 24 member funds are committed to providing quality and affordable health insurance for over 5.4 million Australians.

Members Health funds provide a highly valued service to key communities and industry groups, including military families, teachers, police, nurses and midwives, transport, mining and doctors. Members Health funds offer highly competitive products, they consistently achieve excellent customer service ratings, grow their membership year on year and have high policyholder retention rates. Members Health funds are run to benefit members, not to generate profits or dividends for shareholders or overseas investors. This means they can run on very narrow margins and return more of the premiums paid back to policyholders as benefits.

Our member funds are committed to a strong, stable, and consumer focused private health insurance sector, and we recognise the critical role of robust governance practices in achieving this.

General comments

Members Health acknowledges APRA's role to maintain fit for purpose prudential standards and guidance on governance across regulated industries and are grateful for the opportunity to contribute to this Discussion Paper. We also wish to acknowledge and put on record our appreciation to APRA for being forthcoming with briefings on these important matters both for Members Health's management team and members of the Members Health Governance Risk and Compliance Committee. We understand the proposals impact APRA's core prudential standards and guidance on governance (currently set out in CPS 510 and SPS 510 Governance, CPS 520 and SPS 520 Fit and Proper, and SPS 521 Conflicts of Interest), and that this is the first material revision since 2012.

We remind APRA that the private health insurance sector is very different to all other APRA regulated industries. It operates under the *Private Health Insurance Act* (not the *Financial Services Act*), carries only short tail risk, has full portability, and has never experienced the systemic prudential challenges experienced elsewhere, such as those identified through the Hayne Royal Commission. The prudential risk profile of private health insurers is significantly lower than the risk profile of other APRA regulated industries. It is difficult to foresee a situation where the failure of a private health insurer could result in a significant direct financial loss for a consumer, which is in stark comparison to the failure of a bank, life insurance or superannuation fund - which could result in the loss of a customer's life savings or the inability of the customer to access cash to fund the most basic living expenses. If APRA is seeking to take a risk-based approach to regulation, there is strong argument that the level of regulation applied to private health insurers in almost all areas should be lower than that applied to other APRA regulated industries.

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Members Health's submission outlines our collective response to the key proposals within the Discussion Paper which have been developed in close consultation with our member funds. It should be noted that the points raised may not apply equally - or at all - to every individual Members Health fund but rather, represent the broad feedback of our member funds.

Where possible we have related feedback to the impact on health insurers, specifically the not-for-profit and member owned health insurers that Members Health represent. Given the unique ownership structures and community focus of Members Health funds, 'Director tenure and board renewal' is a key proposal we have identified where our member funds hold significant concerns.

A consistent theme throughout our submission across all eight proposals is the need for proportionality and flexibility in the application of any new requirements. As this submission will further detail, a "one-size-fits-all" approach, could inadvertently create unintended consequences for healthcare consumers and risks imposing undue burden on health funds, separating them from their communities of interest and reducing their accountability and connection to their member communities.

We encourage APRA to maintain a degree of flexibility in developing guidance to allow for proportionality and practicality in application. This is particularly the case for smaller, regional, member owned and restricted access health insurance funds. Members Health believe it is crucial for APRA to consider the unique operating models, ownership structures, and community-focused objectives of not-for-profit and member-owned health insurers when developing prudential standards and guidance on governance.

1. Skills and Capabilities

Members Health supports in-principle APRA's focus on guidance to assist regulated entities with ensuring their board members possess the necessary skills and capabilities to enable effective governance.

We support the broad principle of identifying the skills and capabilities for board directors, noting that a mixture of skills and experience provides a good balance for effective management and aligns with good governance practices.

While acknowledging the positive intent of this proposal, Members Health is concerned that an overemphasis on individual skills assessment could inadvertently undermine the collective accountability of a board, where all directors are ultimately responsible for board decisions. An overt focus on individual skills might inadvertently promote or incentivise individual directors as solely responsible for matters related to their nominated skills (e.g., cyber security), which could ultimately detract from the holistic function and shared responsibility of the board.

Members Health believes flexibility is paramount. Members Health fund boards possess a broad mixture of skills, experiences, and a strong connection to their local communities and the industries they serve.

Overall, Members Health supports the intent of this proposal but strongly urge APRA to ensure sufficient flexibility is maintained to accommodate the unique characteristics of member-owned and not-for-profit health funds.

2. Fitness and Propriety

While we agree with the importance of robust fitness and propriety assessments for directors and senior executives, Members Health holds some concerns about the extent to which this process might evolve into a 'de facto approval right' for APRA over individual health fund appointments.

As the Australian Institute of Company Directors stated in their [initial assessment](#) of this proposal, the proposal provides a significant layer of uncertainty of what will be required by a SFI by having to consult with APRA prior to making an appointment.

. This proposal represents a significant overreach that could fundamentally undermine a health fund board's essential role and responsibilities in selecting its own leadership. The proposal risks usurping a board's autonomy and accountability. It is important that not-for-profit and member

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owned health funds be empowered and health fund boards, and management teams (who are already accountable under frameworks like the Financial Accountability Regime (FAR) and the Corporations Act) are able to manage their business effectively and identify individuals who possess not only the right experience and skills but also the appropriate organisational fit and culture.

Members Health believes that while strengthening fitness and propriety standards is commendable, the implementation, particularly for SFIs, must carefully balance enhanced prudential oversight with the board's inherent responsibility and autonomy in selecting its leadership. Members Health encourage APRA to provide clear guidance on the scope and nature of the pre-appointment consultation process to ensure transparency and minimise any potential for it to become a de facto approval mechanism.

3. Conflicts Management

Members Health believe that proportionality is key in conflicts management and acknowledges the significance of effective conflicts of interest management in safeguarding the integrity of governance arrangements. We believe that clear frameworks and proactive management of conflicts are essential, particularly within member-owned organisations where various stakeholder interests may need to be balanced.

Members Health does not support the introduction of a single cross-industry set of requirements for addressing the issue of conflict management.

Members Health funds already have strong and robust mechanisms in place to manage the overall integrity of their governance arrangements. The proposed further requirement to maintain and disclose registers of duties and interests will place further undue burden on health funds without any tangible benefit.

4. Independence

We understand APRA's emphasis on director independence as a crucial element of good governance and appreciate the intent to strengthen independent oversight and decision-making at the board level. However, we note there is no clear evidence suggesting a widespread problem in the private health insurance sector that this specific intervention would solve.

Therefore, **Members Health does not support** further mandates being placed on entities boards to extend the requirement for insurer boards to have a majority of independent directors.

Members Health's position is that it is neither proportionate or practical for our health fund members, especially those health fund members that operate with simpler group structures or as standalone entities.

We wish to emphasise that for not-for-profit and member-owned health funds, the concept of independence can carry nuances. Members Health funds have inherent connection to their membership and local communities. The concept of independence can often extend beyond strict formal definitions to encompass a deep commitment to member interests. While structural independence is important, so too is the inherent independence of thought and action that comes from a director's primary duty to the health fund.

Members Health holds significant concerns about this proposal. There is the potential for disruption to current governance models and weakening of strategic alignment and risk oversight processes across our group. Further, there is a high risk of director turnover that is detrimental to the organisation and its consumers. This risk is particularly acute in regional communities, where the pool of suitable candidates is often limited, and director turnover could lead to the loss of invaluable local knowledge, deep community connections, and critical skills that are difficult to replace."

We encourage APRA to consider how any new independence requirements could instead be applied flexibly and proportionately, acknowledging the diverse structures and purposes of not-for-profit and member owned health insurers including those that operate in regional areas. Any

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guidance must ensure that it helps facilitate genuinely enhance governance outcomes without creating undue burdens or unintended negative consequences for strategic oversight and collaboration.

5. Board Performance Review

Members Health supports in principle APRA's view that effective board performance reviews are vital for continuous improvement, identifying areas for development, and ensuring the board remains effective in its oversight responsibilities. However, Members Health believes this proposal should be implemented via changes to the specific prudential standards themselves, rather than solely in guidance.

Members Health believes clarifying delegation avenues within the prudential standards will empower boards to manage their workload more efficiently and effectively, aligning responsibilities appropriately with board committees and management. This is particularly relevant for health funds which aim to streamline operations while maintaining robust oversight.

Furthermore, we believe this clarification on delegation should be a first step implemented before the specific governance proposals outlined in the discussion paper are finalised and commence. This would provide boards with greater certainty and allow them to optimise their governance structures and workloads in anticipation of other changes.

6. Role Clarity

Members Health agrees that clear articulation of roles and responsibilities within the governance framework are essential for effective operations and accountability. Ambiguity in roles can lead to inefficiencies and governance gaps.

Members Health holds some concerns regarding this proposal if there is an expectation that private health insurers would need to provide additional documentation or if other additional reporting requirements are placed on insurers beyond what is currently in place. This would add significant and unnecessary regulatory burden on member funds without providing any material improvement to governance standards.

Members Health's position is that clarity on roles and responsibilities already exists and is sufficiently addressed through existing documentation and processes. Specifically, Board and Board committee charters, as well as documents supporting FAR, are considered to have already established clear delineations of roles. This is also typically considered part of any regular board review exercise.

Furthermore, there is a strong sentiment across our member funds that APRA should not prescribe what is or is not allocated to the Board, Board sub-committees, or other management roles. This is viewed as a fundamental responsibility of the Board itself, which needs the flexibility to consider the unique needs and risks of its business, rather than being constrained by a "one-size-fits-all" model.

Members Health advocates for APRA to recognise and leverage existing robust governance documentation and practices within our sector. We strongly urge APRA to avoid introducing prescriptive requirements that could lead to redundant efforts and unnecessary compliance costs, without a demonstrable improvement in governance outcomes.

7. Board Committees

Members Health recognise the important role of board committees in supporting the board's overall oversight functions. We agree that well-structured and effective committees contribute significantly to robust governance.

Members Health support this proposal in-principle, with an important caveat that APRA's framework must permit separate risk and audit committees for licensed entities, reflecting the preference and current practice of many health funds, enabling specialised oversight and reducing potential conflicts within a single committee structure.

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Allowing discretion for separate risk and audit committees provides an effective governance framework, enabling dedicated focus and expertise on these critical areas. This approach aligns with best practice in corporate governance and allows for more granular oversight of both financial integrity and risk management.

We anticipate that APRA's guidance will provide sufficient flexibility to accommodate this structure where appropriate for health insurers, rather than mandating a combined approach that may not suit all entities.

8. Director Tenure and Board Renewal

Members Health does not support APRA's proposal to set a lifetime tenure limit of 10 years for directors at an entity, with the ability to request a two-year extension from APRA.

While we appreciate APRA's aim to foster board renewal, we also hold significant concerns that this proposal is a blunt instrument that risks creating unintended consequences for the private health insurance sector.

Furthermore, our members have raised significant practical concerns about the impact of a fixed 10-year term on Chair succession and board stability. It has been our experience that an effective Chair is often appointed from within an existing board after serving for a period, allowing them to gain deep institutional knowledge. A hard tenure limit will shorten their potential term as Chair, creating a risk of instability with more frequent leadership transitions and a loss of valuable corporate history. This risk of destabilisation is a tangible concern.

Arbitrary term limits could also weaken competition and diversity within the health insurance industry and unnecessarily disrupt effective leadership transitions and strategic continuity.

With increasing regulation already contributing to a broader trend of consolidation and mergers, there is a tangible risk that consumers could face a more limited range of options if smaller, community-focused funds find it harder to comply with rigid governance requirements.

We acknowledge that a small number of APRA's proposals have proportionality built in, with smaller entities (i.e. non-SFIs) not being required to meet certain requirements, such as commissioning an external board performance review every three years. However, in general, the wording of the proposal suggests that tenure limits will apply in uniform, which is a significant concern for Members Health funds.

Members Health strongly advocate that health funds need to be provided with a level of flexibility to ensure they can act in the best interest of their business. This is particularly the case when examining the impact arbitrary term limits may have on regional based health funds.

Members Health's inaugural ['Economic and Social Impact of the Members Health funds of Australia'](#), released in October last year, shows not-for-profit and member-owned health insurers serve more than 1.1 million Australians living in regional and remote areas and collectively, provide almost 28,000 direct and indirect jobs for Australians living outside of the big cities.

Regional hubs where Members Health insurers are headquartered include Townsville, Lithgow, Wollongong, Newcastle, the Latrobe Valley, Launceston, Burnie and Mildura. In many cases, members of a Members Health fund who live in regional and rural communities are able to access world-class healthcare in their local community, without having to travel long distances to the city. Many of the dental, optical, and physio services available outside metropolitan areas are dependent on the support of Members Health funds. For example, in locations such as Gippsland and Sunraysia in Victoria, not for profit health funds provide access to vital healthcare services through the hospitals they own and run. In the NSW towns of Lithgow, Orange, and Dubbo, not-for-profit health insurance funds provide access to vital healthcare services through the dental clinics they own and operate.

Longer-serving Board directors of regional health funds often embody and reinforce this critical community connection, bringing invaluable local insights and relationships that are fundamental to a fund's ability to effectively serve its members in these areas. These funds, face particular

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challenges in recruiting and retaining skilled directors. The pool of available talent with relevant expertise and a connection to the local community is often limited, making strict tenure limits particularly problematic. It is integral that these Members Health funds maintain their deep connection to the local communities they serve.

One regionally based Members Health fund provided Members Health with an example of a long-serving Board Director who has been their Chair for approximately seven years. This Chair is the only serving director with a connection to the major industry their fund serves and only one of two directors residing in the geographic area where the largest group of the fund's membership resides. The fund highlighted that while succession plans are in place, it is difficult to attract suitably qualified directors within regional areas who also have a strong connection to the fund's member base. Furthermore, the issue of corporate history and institutional knowledge is paramount in shaping the board's overall capabilities to make the best possible decisions. Arbitrary limits risk the loss of invaluable insights and context that have helped make this category of insurers so attractive and successful across areas such as customer satisfaction, trust, growth and retention.

Members Health urges APRA to reconsider the prescriptive nature of the 10-year lifetime tenure limit. Instead, we advocate for a more flexible approach that:

- Recognises the unique context of not-for-profit and member-owned health funds, especially those who serve regional and rural communities and provide access to important healthcare services that may otherwise not be available locally.
- Allows for longer periods of tenure where a director provides critical skills, deep institutional knowledge, or essential community connections that are difficult to replace.
- Emphasises robust board performance reviews and effective succession planning as the primary mechanisms for ensuring board vitality and renewal, rather than arbitrary time limits.

We believe that a focus on outcomes – a high-performing, well-governed board – should take precedence over rigid prescriptive rules on tenure limits, especially when such rules could negatively impact the ability of member-owned funds to serve their communities effectively.

Members Health is keen to work with APRA to develop guidance that allows for flexibility in director tenure for member-owned funds, acknowledging their unique characteristics while still promoting effective board renewal processes.

Conclusion

Members Health commends APRA for initiating this important review of its governance prudential standards. Robust governance has been foundational to the stability, integrity and success of the not-for-profit and member owned health insurance sector, and we are committed to seeing appropriate enhancements implemented where there is a demonstratable need.

We note that the private health insurance industry is bespoke, operates to a very high prudential standard and has had a much more positive experience to some other APRA regulated industries operating under the Financial Services Act. Therefore, we see very little practical justification for a change to regulatory settings for governance of health insurers.

Members Health believe that effective governance is achieved not through rigid prescription, but by empowering boards to adapt best practices to their specific circumstances while upholding the highest standards of accountability.

We strongly urge APRA to consider the unique operating models and community focus of the member owned and not-for-profit health insurers, especially concerning director recruitment and retention and the preservation of crucial institutional knowledge and connection to community that often comes with longer-serving directors.

Members Health is keen to work constructively with APRA to refine these proposals, ensuring that the final prudential standards are robust, practical, and effectively enhance governance

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across all regulated entities without inadvertently undermining the critical services and community connections provided by our member funds.

If you have any questions or wish to discuss our submission further, please contact Members Health Head of Policy and Research, [REDACTED] via email:

[REDACTED]

We look forward to continued engagement on these important matters.

Yours sincerely

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[REDACTED]

CEO, Members Health Fund Alliance