



18 May 2015

Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

email: privatehealthinsurance@apra.gov.au

Dear Mr Brennan

RE: Discussion Paper – Proposed prudential and reporting framework for APRA's supervision of private health insurers in Australia

This letter contains considerations that the Actuaries Institute wishes to raise in relation to APRA's proposed prudential and reporting framework for the supervision of private health insurers in Australia. This letter reflects the views of the Institute and its members and in particular the members who are practitioners in the private health insurance industry.

Overview

We understand that the overarching principle of the proposed changes is that APRA does not intend that 'the substance of any existing obligations of private health insurers will change at 1 July 2015 following the transfer to APRA'¹.

We support this principle as good for the stability of the industry in the short term. Our submission focuses on beyond the short term and raises specific suggestions for possible reviews and clarifications of the proposed changes.

Summary

In summary,

1. We believe that using Section 56 of the APRA act to facilitate the continued release of data to health funds is appropriate and would support further discussions to develop a long term solution for this data.
2. We support the proposal to continue publication of data currently publicly released by PHIAC. We would like APRA to confirm that all data currently included on the PHIAC website is migrated to the APRA website including historical information.
3. We support further discussions, and have made suggestions, for APRA to collect and publish additional information that could benefit both the PHI, and wider Australian health system.

¹ APRA Discussion paper: Proposed Prudential and Reporting framework for APRA's supervision of private health insurers in Australia, Page 4,
<http://www.apra.gov.au/POLICY/Documents/Discussion-Paper-Private-Health-Insurers-March-2015.pdf>



4. We support the proposed adoption of the definition of "officer" but would request that APRA provide some clarification and guidance on its implications under the Corporations Act.

Confidentiality of Data submitted to APRA under FSCODA

APRA has proposed two options for the collection and publication of data. The focus of our submission is on our preferred approach for one specific category of data; data that is currently shared with the funds, but is confidential and not released publicly.

We otherwise support APRA's proposed approach to data collection and publication for other categories of data:

1. Publicly available, such as the Operations of Private Health Insurers reports; and
2. Confidential information that is kept within PHIAC and never publicly released.

For the purposes of the remainder of this submission, no further comment will be made on these two categories of data. The remaining comments apply only to the category of data that PHIAC currently shares with funds, but is confidential and not released publicly.

For this category of data, our preferred approach for collection and publication ("Section 56 approach") is as follows:

1. Declare it an exemption to Section 56 of the APRA Act, and
2. Along with other proposed changes to regulation, include this in further detailed discussions with industry participants after 1 July 2015. The goal of these discussions would be to confirm the approach to data and also explore what additional data should be both collected and made public. In line with the publicly stated position, any changes should be introduced after 1 July 2016.

As APRA has stated in its discussion paper, the risk of the "Section 56 approach" is that it requires each fund to give its consent to the release of data and the refusal of any single fund will cause a disruption to this process. We believe that this risk is low and that the approach would be a suitable temporary measure that will facilitate greater discussion to develop a long term solution between industry participants on the data to publish. As we will discuss in the next section, we believe that the industry will also benefit from reviewing the scope of data being collected and published.

Review of Data Collection Scope

We would like APRA to consult with industry to review the scope of data being collected. In determining the specification of data for publication, we believe that APRA should be guided by the following principles:

- ▶ Greater transparency is generally beneficial for the Private Health Insurance industry (as well as the broader Health system). As a principle, data that allows for more comprehensive and meaningful analysis that ultimately improves the efficiency, financial stability and performance for the industry as a whole should be made public. The following is a list of data we have identified that may fall into this category:



- Greater granularity of benefits data at an industry level by service type or diagnosis. This would allow the industry to identify and manage the trends in incidence of different medical treatments or conditions. We would be happy to consult further with APRA to specify this in more detail.
- Industry level data of claims cost and membership counts by duration. This would allow the industry to identify the “new to private health insurance” members that have been attracted as a result of changes to public policy levers and private health insurance industry initiatives. In addition, the impact of “new to industry” members on claim cost is a phenomenon that would benefit from greater analysis so that this risk can be appropriately managed.
- ▶ Notwithstanding our stance on greater transparency, we support APRA's position that certain data not be declared non-confidential if it can be demonstrated that the disclosure of such information will be detrimental to policyholders and to private health insurers' or other parties' commercial interests. However, we do not believe there is any data that is currently already made public by PHIAC that falls into this category.
- ▶ A single source of truth and ease of use of data. As a principle, multiple versions and hence inconsistent interpretations and analysis of the same data is in direct opposition to the principle of greater transparency. Across the industry, analysts and other advisors would benefit from having such data provided directly by a trusted source. The following is a list of data we have identified in this category:
 - Quarterly risk equalisation calculations. These are currently provided to each insurer. However, as this data is in direct support for the public policy of operating risk equalisation, we do not believe this data is commercial in confidence. This data can currently be deduced from other publicly available information and is often obtained informally. However, it would be preferable if it was provided publicly from a single source. This would also improve the ease of use across the industry.

We would be happy to consult further with APRA on any of the above. Please note that we do not consider the list of data above to be exhaustive and would expect that other data items can be added to this list if and when consultation occurs.

In addition, we would like APRA to confirm that all data that is currently made available on the PHIAC website will be migrated to the APRA website. This includes all historical PHIAC returns and the annual operations reports.

Definition of Officer

APRA has proposed that the definition of “officer” previously used in the Private Health Insurance Act be adopted for the purposes of HPS 001 inside the definition of “senior management responsibilities”.

We understand that under this definition, as was the situation under PHIAC, an Appointed Actuary is an officer of the company for the purposes of the Corporations Act.



While we are not proposing any changes to APRA's proposal, we wish to highlight that the implications of adopting this definition are not well understood and would benefit from some clarification and guidance from APRA. This will also be useful given the current review taking place around the role of the Appointed Actuary in the Life Insurance and General Insurance industries.

The Actuaries Institute thanks APRA for their attention to the considerations raised above. We would be happy to actively engage with APRA to discuss any of the above in more detail. Please contact our CEO David Bell on [redacted] or via e-mail [redacted].

Yours sincerely

Estelle Pearson
President