

11 February 2021

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

By email PolicyDevelopment@apra.gov.au

Dear Sir/Madam,

Re: Strengthening prudential requirements for remuneration (CPS511)

We refer to the Australian Prudential Regulation Authority (APRA) updated prudential standard for remuneration (CPS 511) released for a second round of consultation and the accompanying response paper published 12 November 2020.

nib holdings limited (nib) welcomes the opportunity to provide feedback on the revised standard and would like to thank APRA for considering our initial consultation response. We are supportive of the revisions to the original proposed standard which take a more principles-based approach and also appreciate the clarification provided regarding transition arrangements.

nib's previous consultation response submitted on 22 October 2019 provided further information on our organisation, our approach to remuneration and nib's sound progress in recent years in aligning our Executive remuneration framework with the changes proposed by APRA in CPS 511.

As previously highlighted, for ASX-listed companies like nib and many other Australian financial institutions bound by APRA's regulatory supervision, it is a requirement to seek shareholder approval on matters relating to remuneration, including Remuneration Report (non-binding) and LTI Plan, including performance hurdles.

Through this process we engage and seek feedback with a range of stakeholders including major shareholders, proxy advisors and the Australian Shareholders Association. Shareholders have continued to be overwhelmingly supportive of our remuneration strategy, with our Remuneration Report and LTI Plan both receiving over 98% approval from shareholders at our 2020 Annual General Meeting. This level of support has been the trend since nib listed on the ASX in 2007 and reinforces the view that we've aligned our remuneration framework with shareholder interests.

Overall we agree with the intent of APRA's draft CPS 511 to strengthen the link between remuneration and accountability. This is evident in nib's current objective to ensure our remuneration framework and Executive reward outcomes are transparent and suitably robust, and aligned with the interests of our members, travellers, employees, shareholders, and the community's expectations.

Within this submission, we've outlined further feedback we ask APRA to consider when finalising the new prudential standard.

Significant Financial Institutions (SFIs) and Proportionality

Under the revised CPS 511, APRA has further reduced minimum requirements for non-SFIs. The exclusion of Private Health Insurers (PHIs) as SFIs has also been removed and APRA proposes to include an asset threshold of \$3 billion AUD for determining PHIs as SFIs (parallel to qualitative criteria).

nib notes that following release of the finalised standard, APRA intends to notify entities of their SFI status with relevant reasoning by September 2021. Although nib does not currently meet the asset threshold, we have been advised by APRA that nib will be considered an SFI for the purposes of the application of the standard.

nib reiterates our prior observations that PHIs represent a lower risk compared to other financial institutions due to PHIs having a short-tail policy risk, relatively low financial exposure for private health insurance (PHI) members compared to other financial sector services as well as the current level of 'high touch' regulatory supervision and approval for PHI premium setting.

This is consistent across the industry irrespective of size and complexity of PHIs. By applying two-tiered regulatory compliance requirements based on determination of funds as SFIs, this would reduce equity and fairness of operations across the industry. For example, funds determined as SFIs could expect to experience:

- Increased cost of complying with additional regulatory requirements; and
- Potential for reduced ability to attract and retain talent due to more complex remuneration frameworks (particularly deferral periods) between non-SFI and SFI PHIs.

Further to the above final point, nib highlighted in our previous submission that aligning our remuneration and executive award framework with our overall business strategy and growth aspirations is critical to our ability to attract, motivate, develop and retain the right people to lead the nib Group.

Our concerns remain that the impact of CPS 511 on the Australian financial services sector, including PHI, may put the sector at a material competitive disadvantage compared to other industries or geographies and subsequently impact our ability to attract and retain talent.

Reporting and Disclosure

nib supports APRA's intent to improve transparency and accountability of remuneration practices across regulated entities. We look forward to engaging further on the proposed reporting and disclosure requirements in the next phase of consultation.

We do however note that ASX-listed companies are already subject to extensive disclosure obligations under the Corporations Act. As such, there is concerns that adding further prescription to remuneration disclosures for APRA-regulated entities could result in longer, more complex remuneration reports. In addition, this may create inconsistency between the remuneration disclosures of APRA-regulated entities and non-regulated entities.

In developing the proposed reporting and disclosure requirements, we ask that APRA give consideration to how these obligations can be streamlined to minimise duplication for entities and ensure disclosures are simple and able to be understood by a range of stakeholders.

Further Clarification Required

CPS 511 proposes to strengthen an entity's oversight and risk assessment of remuneration arrangements with third-party service providers. nib requests inclusion of a 'service provider' definition within the standard to minimise ambiguity and ensure consistent application across industries.

We also note that deferred remuneration obligations do not apply to non-SFIs in the proposed standard. Although still to be determined, the deferral requirements under the Government's proposed Financial Accountability Regime are expected to apply (limited to 'Accountable Persons') to all APRA regulated entities. nib requests that APRA considers the need for alignment of deferral requirements across these regulations where possible to support remuneration framework execution and ongoing adherence to obligations.

Lastly, nib seeks clarification from APRA for the use of 'significant' versus 'material' when referencing adverse outcomes, failures and errors (referred to in CPS 511 section 38 and 55) to provide greater understanding of appropriate application.

We welcome further discussion on our feedback. Please don't hesitate to contact me on [REDACTED] if you require any further information.

Yours sincerely,

[REDACTED]

[REDACTED]
Chair
People and Remuneration Committee