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Dear APRA

By email: [Insurance.Policy@apra.gov.au](mailto:Insurance.Policy@apra.gov.au)

CC: [REDACTED]

**Bupa HI Pty Ltd (BHI) submission on APRA's AASB 17 Quantitative Impact Study for Private Health Insurers and Integrating AASB 17 insurance contracts into the capital and reporting framework for insurers.**

Bupa HI Pty Ltd (BHI) has completed APRA's targeted Quantitative Impact Study (the QIS) for the implementation of AASB 17 *Insurance Contracts* and reviewed APRA's discussion paper *Integrating AASB 17 insurance contracts into the capital and reporting framework for insurers* (Discussion Paper) released on 25 November 2020.

BHI welcomes the opportunity to comment on the proposed approaches under APRA's QIS and Discussion Paper. Please see attached BHI's feedback for the QIS template and Discussion Paper consultation questions.

Yours sincerely

[REDACTED]

[REDACTED]

Chief Financial Officer

[REDACTED]

[REDACTED]

Director of Actuarial, BHI

## Background

In November 2020, APRA issued the AASB 17 targeted Quantitative Impact Study (the QIS) for AASB 17 and an information request for consultation on *Integrating AASB 17 insurance contracts into the capital and reporting framework for insurers* (the Discussion Paper).

Bupa's feedback on the QIS and the Discussion Paper is presented below.

## Quantitative Impact Study Feedback

Bupa was selected to respond to the November 2020 targeted QIS which contains information requests for:

- Capital and Earnings
- Qualitative Questions
- Liabilities Disclosures
- PL & OCI
- Balance Sheet
- Roll forward tables

The following feedback is to be read in conjunction with APRA's QIS workbook for Private Health Insurance (PHI).

### General comments

Overall, the new format appears to be less bespoke to PHI, especially with the inclusion of multiple reinsurance sections.

### Liabilities Disclosures

We note that disclosure of the central estimate in the QIS is split between HIB Hospital and HIB General as well as HRB. The allocation across HIB Hospital and HIB General is a new requirement in the QIS.

### PL & OCI

- We note that a number of HIB vs HRB splits and reporting by state are no longer required – ie for premium revenue, claims and other expenses in HRF 602.3 and HRF 602.4 of the existing APRA returns.

We seek clarity regarding the following:

- Will "outside HBF" be required to be disclosed separately for PL and OCI,
- Will HIB and HRB be required to be disclosed separately for PL and OCI,
- Or will the above be scoped out for PL and OCI going forward.
- Will additional information need to be supplied for the reporting of APRA Product Groups, as indicated in the Discussion Paper?

- Due to the above, we note that the QIS format does not discretely present performance metrics such as gross margin, MER and net margin for HIB.

The current APRA HRF 602 returns have a format which separately reports HIB. Should the QIS be indicative of future PHI reporting requirements, the new format suggests a departure which will not easily allow for comparison and benchmarking.

- There is no item in the current QIS for finance expenses (ie from external borrowings, interest expenses on lease liabilities). We note that finance expenses are distinct from **18. Insurance finance expenses for insurance contracts issued** which have a specific definition under AASB 17.

We seek clarification as to whether APRA will introduce a separate item for finance expenses or will this continue to be allocated to **26. Other expenses**.

- We request APRA provide additional guidance on the intended application for **2.1.5. Adjustments to liabilities for incurred claims**.

#### Balance Sheet

- Recent industry discussions through the AASB PHI TRG Focus Group have determined that the Risk Equalisation Special Account (RESA) is included within Liability for Incurred Claims (LFIC) and not as **Item 2.3 Other receivables** or **Item 16.2 Other Payables** as described in the QIS instructions. This was on the basis that RESA qualifies as a type of fulfilment cashflow that arises due to an insurance contract. Bupa has reflected the RESA in the LFIC for the QIS.
- We request APRA provide further guidance for the classification of **5.1 Other financial assets**. Existing HRF 602 allocates financial investments between directly held and indirectly held assets but not across investment types, rather across investment grades. We seek clarity as to whether the QIS requires financial investments to be presented using a look through basis, in line with expected LAGIC requirements.

In the event that we need to provide look through reporting, Bupa would require further guidance/definitions to assist in reporting, especially in relation to the following:

- 5.1.3 Other financial assets - Securities purchased under agreements to resell
- 5.1.5.1 Non-indexed interest bearing securities (IBS)
- 5.1.5.2 Indexed interest bearing securities (IBS)
- 5.1.6 Other financial assets - other

Additional data from external fund managers will also be required to classify investments across these categories.

#### Roll forward table Part A - Roll forward 1

- Bupa completed the QIS based on our most recent statutory reporting year end – 1 January to 31 December 2020. For future APRA submissions, we seek clarity as to whether the rollforward table will be required to be completed based on the APRA year end – ie 1 July to 30 June 2020.
- **(6) Assets for insurance acquisition cash flows** is presented separately in the rollforward table, however deferred acquisition costs are classified within the balance of the Liability for Remaining Coverage under AASB 17. Greater consensus for the application of disclosure requirement AASB 17.105A is required.

### Integrating AASB 17 insurance contracts into the capital and reporting framework for insurers

#### Q5: (All insurers) What types of challenges would the new product groups bring to your entity, including any transitional challenges?

No new product groups are proposed for PHI, but reflecting APRA's desire to improve understanding of the non-insurance business of insurers and their potential to generate prudential risks, APRA is proposing that the definition of health-related business is further clarified.

This should not impact Bupa as non-insurance health related business is already outside of the health fund and we currently include OVC and OSHC in HRB.

We request clarification on point 3.2.4 in the discussion paper. Does this indicate that we would be required to provide separate APRA HRF 602 returns for business covered under AASB 17 and business not covered?

**Q7: (All insurers) Are the allocation principles outlined in this Discussion Paper adequate for reporting of APRA product group data? Are there any ways to make the allocation principles more effective?**

We request clarification on *Principle 1: Allocation of AASB 17 income statement items should be performed in a way that reflects the underlying profitability of each APRA product group.*

Is APRA suggesting the need for a full P&L for HRB further down than gross margin (i.e. would we need to allocate investment returns and tax)? This will be a difficult exercise and we question the necessity.

**Q13: (All insurers) Are there any supplementary data collections that insurers deems unnecessary in the AASB 17 environment?**

The example given in the Discussion Paper for PHI for which APRA is proposing to continue the collection of information important for APRA's capital assessment was for premiums receivable and the unearned premium reserve.

Bupa believes that these items are necessary, and there is nothing in what is currently collected that we deem unnecessary.