Members Health
FUND ALLIANCE

23 June 2022

General Manager
Data Analytics and Insights
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email: Redacted

Dear General Manager,

APRA Direction for data collections

Following consultation with our community of health funds, Members Health welcomes the opportunity to provide a response to the Australian Prudential Regulation Authority's (APRA) *Discussion Paper: Direction for data collections*, which sets out the regulator's approach to data collection.

At the outset, we note that the health insurance industry is one of, if not the, most transparent and heavily regulated industries in Australia. Health insurance transparency is underpinned by robust and consistent data collection and reporting frameworks. Those frameworks are overseen by the Department of Health, APRA and the Commonwealth Ombudsman, in addition to statutory reporting to the ATO and ASIC.

The value to industry, government and consumers of collecting and publishing health insurance industry data is indisputable. It helps facilitate the transparent monitoring of Risk Equalisation, assists with benchmarking across key business metrics, empowers consumer choice and informs government and regulators. The high standard met by health insurers offers a useful example for government to apply to others in the health service provider chain (such private hospitals, medical device sponsors and clinicians), as well as those across other APRA regulated industries.

In making our submission, we acknowledge APRA's ongoing and constructive engagement with the private health insurance industry throughout the COVID-19 global pandemic. We particularly note the high standards met by the APRA front line supervisory staff and efforts by senior management to consult with the sector over matters such as the deferred claims liability, premium round application process and development of new standards.

Members Health remains of the view that the framework for private health insurance prudential regulation should be underpinned by principles that:

- Reduce the financial impost on insurers and consumers by avoiding unnecessary complexity and costly red tape.
- Ensure standards are as easy to implement, administer and oversee as practicable for both regulators and insurers.

- Recognise the bespoke nature of PHI, which is very different to the financial service entities regulated by APRA.
- Set and maintain standards that are commensurate with the level of risk inherent in the PHI business model, that reflect the short-tail nature of PHI claims and the absence of catastrophic exposures which are experienced in other sectors.

Whilst acknowledging the issues raised in the discussion paper are primarily focused on how APRA collects data, these principles above are intrinsically linked, and we encourage the regulator to measure its proposal against them, with particular regard to ease of implementation, minimising prudential impost and value adding.

About Members Health

Our alliance of Members Health funds represents more than 35 per cent of Australia's private health insurance market. APRA data consistently validates the prudential and sound market positioning of our funds. As a group: they hold capital well above the regulatory minimum required; continue to grow with all age cohorts and importantly, with younger policyholders; offer competitively priced products; return more of the premium dollar back to members as benefits; and lead the industry when it comes to customer satisfaction and retention.

As the peak body for 26 not-for-profit (NFP), member owned and community-based health insurers, Members Health advocates for a successful private health insurance industry and acknowledges the importance of a modern and fit-for-purpose regulatory framework.

Members Health's response to APRA's direction for data collections

While acknowledging the principles for private health insurance prudential regulation that outlined above, Members Health supports the broad direction that APRA has set out in its discussion paper. Specifically, we support a data collection framework that is more efficient and further reduces the burden on health insurers.

Addressing APRA's four questions under 1.2.2 of the Discussion Paper, we note:

1. Direction

APRA has set out a '*direction*', rather than a detailed plan for data collection. For the PHI industry, it is our understanding that the '*direction*' is largely limited to a transition from its current data collection system, D2A to APRA Connect. However, we also note that this is not a certainty.

2. Implementation

The health insurance industry is not a direct participant in the APRA implementation and presently lacks the information required to provide detailed comment. However, we would anticipate that APRA develop an implementation plan that addresses key project

specifications, timelines, milestones, risks, and experiential learnings from past implementations (such as Superannuation). Ideally this his would include a detailed Project Risk Management Plan and Risk Analysis to provide common understanding and project management rigor and to assist entity assessment through the provision of factual project parameters.

3. Anticipated Costs and Benefits

A thorough costs and benefits analysis by APRA should be undertaken and shared with stakeholders as a priority. This will assist in providing a practical understanding of the public benefit of implementation.

4. Engagement

To maximise the opportunity for effective stakeholder feedback, we suggest APRA provides industry with a fully scoped working plan that includes timing, milestones, and anticipated costings.

In addition, where action other than high-level feedback is being sought, clearly setting out the scope for APRA's expectations around the length, breadth and depth of industry engagement would be beneficial for industry.

Additional Feedback

While health insurers have some familiarity with APRA Connect and a wider transition to this system may offer an opportunity to improve current data collection processes, our additional feedback focuses on four key areas:

A. **Regulatory burden:** Will the changes lead to increased/decreased burden on PHI?

B. **Industry data:** What changes, if any, will be made to the presentation of industry data?

C. **Granularity of data:** Will there be changes to the level of PHI data that is collected?

D. **Transitional arrangements:** How will the transition be managed?

A. Regulatory burden

We note that proposed changes to data collections have arisen during a time where health funds are managing significant regulatory impost due to the introduction of several new standards (such as AASB17 and PHI Capital reforms), enhancements to 'Risk Culture', Operational and IT Operational Risk frameworks and Financial Contingency and Resolution Planning. We further note the ongoing disruption caused to business operations by the global COVID-19 pandemic.

It is important that implementation of any proposed changes to the data collection process avoid adding further regulatory impost on the health insurance business, achieves demonstrable efficiency gains and delivers tangible benefits to the regulated cohort.

Several different software providers are used across industry. Therefore any new system of data collection must be mindful of interoperability and be capable of working seamlessly so that data extraction and validations can be easily, efficiently and reliably uploaded in APRA Connect, without a reliance on manual processes or costly changes to software.

Should a change to requirements be deemed necessary, then allowing sufficient lead times to facilitate smooth implementation will be an important consideration requiring further consultation with industry.

B. Industry data

Members Health notes that APRA is yet to provide details as to whether it plans to introduce changes to the standard templates it uses to publish industry data. Therefore, it is difficult to provide comment on how data collections may impact on the presentation of industry data.

In general terms, the current format (e.g.xlsx) that APRA uses to publish industry data should not change as funds already have well established processes and systems in place.

Similarly, large variations in the existing presentation and data fields used in the standard templates will require changes to established processes and systems. This would add significant regulatory impost to industry and should be avoided.

Should the regulator wish to seriously consider the introduction of changes to the standard templates used to publish industry data, it should do so only after first undertaking a comprehensive and thorough industry consultation process that includes an independently assessed cost benefit analysis.

C. Granularity of data

Members Health notes that the discussion paper does not provide any detail as to the further granularity of data, if any, which APRA proposes to collect from the PHI industry.

We submit that APRA already comprehensively collects and publishes private health insurance data at a granular level and sees no scope for expanding data collection further.

D. Transitional arrangements

APRA notes that collections impacted by AASB 17 and PHI capital reforms will take place in 2023.[1] In the immediate term, health funds will be keen to understand how these changes will impact on their current data processes – including what changes might be required to

[1] APRA, Directions for Data collections, "Table 8. Private health insurance collections" p.20 https://www.apra.gov.au/sites/default/files/2022-03/Discussion%20paper%20-%20Direction%20for%20data%20collections.pdf

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extract data from their systems in a manner which conforms to new templates that will need to be uploaded to APRA Connect.

The regulator is encouraged to continue its engagement with industry on the development of this project and the impacts of any proposed changes so these can be managed appropriately and in a way that minimises regulatory impost and maximises benefit.

In terms of data collections from 2024 onward, APRA has suitably noted that these will require further development. Members Health supports this approach while anticipating such development would require further engagement with the PHI industry.

In general terms, whilst industry is keen to participate in feedback sessions about APRA's proposed changes to data collection, we do not believe that we are in a position to constructively consult on the development of new data sets that APRA might consider desirable in the expansion of its data collection base. Given APRA's experience with the Superannuation industry, we feel it more appropriate that APRA fully details the data it is desirous of collecting, the reasons for its inclusion in the proposed data collection suite and the benefits that the collection of such data will bring to the PHI industry.

Once again, Members Health thanks APRA for its engagement with the industry and the opportunity to provide our feedback on its direction for data collections. We look forward to continuing further constructive engagement to ensure this initiative delivers benefits to industry and health consumers, and invite any queries relating to the responses we have outlined here.

Yours Sincerely,

MATTHEW KOCE

CEO, Members Health Fund Alliance