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Health Insurance (prudential standard) determination No. 5 of 2015

Prudential Standard HPS 320 Actuarial and Related Matters

Private Health Insurance (Prudential Supervision) Act 2015

I, [insert name of delegate], delegate of APRA under subsection 91(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (the Act) DETERMINE *Prudential Standard HPS 320 Actuarial and Related Matters*, in the form set out in the Schedule, which applies to all private health insurers.

This instrument takes effect on 1 July 2015.

Dated: xx June 2015

[To be signed]

Interpretation

In this Determination:

APRA means the Australian Prudential Regulation Authority.

Private health insurer has the meaning given in section 4 of the Act.

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Schedule

Prudential Standard HPS 320 Actuarial and Related Matters comprises the 7 pages commencing on the following page.



Prudential Standard HPS 320

Actuarial and Related Matters

Objectives and key requirements of this Prudential Standard

This Prudential Standard sets out the requirements for the roles and responsibilities of an Appointed Actuary.

The key requirements of this Prudential Standard are:

- a person must meet certain eligibility criteria for appointment as a private health insurer's appointed actuary, and written notification of the appointment must be given to APRA;
- the Appointed Actuary must value the insurance liabilities including risk margins of each health benefits fund conducted by the private health insurer for inclusion in the insurer's annual financial statements. The Appointed Actuary must also assess the reasonableness of the amount of uncertainty allowed for by the insurer in calculating the stress test amount in *Prudential Standard HPS 110 Capital Adequacy*;
- the Appointed Actuary must provide an assessment of the overall financial condition of the private health insurer on an annual basis. In particular, the Appointed Actuary must prepare a Financial Condition Report and provide this report to the company; and
- a private health insurer must submit the Financial Condition Report to APRA.

Authority

1. This Prudential Standard is made under subsection 91(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (the Act).

Application

2. This Prudential Standard applies to all **private health insurers**¹, except where expressly noted otherwise.
3. This Prudential Standard includes requirements that apply to all actuaries appointed under the Act. These requirements are statutory functions and duties of an actuary for the purposes of subsection 106(2) of the Act.
4. This Prudential Standard applies to private health insurers from 1 July 2015.

Interpretation

5. Terms that are defined in *Prudential Standard HPS 001 Definitions* appear in bold the first time they are used in this Prudential Standard.
6. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.
7. Unless otherwise indicated, the term **health benefits fund** will be used to refer to a health benefits fund of a **private health insurer**, as relevant.

Insurers to notify appointed actuaries of certain circumstances

8. A private health insurer must:
 - (a) notify its **appointed actuary** about any notifiable circumstance; and
 - (b) provide to the actuary all relevant information and documents about the circumstance that the actuary requires to perform the duties and exercise the powers of the actuary imposed by or under the Act.
9. The private health insurer must notify the appointed actuary and provide the relevant information and documents as soon as practicable after becoming aware of the notifiable circumstance.
10. Each of the following is a notifiable circumstance:
 - (a) proposed changes to the rates of premiums charged under a product of a health benefits fund conducted by the private health insurer;
 - (b) proposed changes to the benefits provided under a product of a health benefits fund conducted by the insurer;

¹ Refer to subsection 91(1) of the Act.

- (c) significant redevelopment or revision of the strategic or business plans of the insurer;
- (d) significant redevelopment or revision of the strategic or business plans of a health benefits fund conducted by the insurer;
- (e) development of a new product of a health benefits fund conducted by the insurer;
- (f) major revision of an existing product of a health benefits fund conducted by the insurer;
- (g) significant changes to the investment policies of the insurer;
- (h) significant redetermination of the risk profile of the insurer;
- (i) development of, or changes to, a capital management plan, being a plan dealing with the management of capital of the insurer or a health benefits fund conducted by the insurer;
- (j) any other event that the insurer reasonably expects to have a significant impact on the conduct of the business of a health benefits fund of the insurer;
- (k) significant business diversification activity; and
- (l) any event specified in writing to the insurer from the actuary.

Insurers to prepare financial condition report

11. A private health insurer must, as soon as practicable after the end of each financial year:
 - (a) request its appointed actuary to prepare a **financial condition report**; and
 - (b) provide a copy of the report to APRA within 3 months after the end of the financial year.

Eligibility for appointment

12. For subsection 105(3) of the Act, a person is eligible for appointment as a private health insurer's appointed actuary if:
 - (a) the person:
 - (i) is ordinarily resident in Australia;
 - (ii) is a Fellow of the Institute of Actuaries of Australia;
 - (iii) has been a Fellow for at least 5 years; and

(iv) is not, in relation to the insurer, the chief executive officer or a member of the board; or

(b) APRA has approved the appointment of the person.

Notification of appointment

13. Note that under subsection 107(1) of the Act written notification of the appointment of a person as an appointed actuary must be given to APRA by the private health insurer within 14 days of appointment.

14. For paragraph 107(1)(d) of the Act, the notice must include:

(a) a telephone number, mailing address and email address by which the person can be contacted;

(b) the name of the employer of the person appointed or, if the person appointed is a partner in a partnership, the name of the partnership;

(c) the names of companies to which the person has been appointed a director; and

(d) a note of any interest that the person has in the operations of the private health insurer that may conflict with the duties of an appointed actuary.

Note: Subsection of 107(1) of the Act also requires the notice to include the name of the person appointed, details of the actuarial qualifications and experience of the person and the date of the appointment

15. For paragraph 14(d), an interest may include, but is not limited to, pecuniary interests of the actuary, or a related person of the actuary, such as:

(a) a security in, or a contract with, the appointing private health insurer; or

(b) the receipt of any remuneration from the appointing private health insurer.

16. Note that under section 107 of the Act the private health insurer must give written notification of the cessation of an appointment of a person as an appointed actuary to APRA within 14 days after the cessation of the appointment. Such notice must include the date on which the appointment ceased.

17. The notification of cessation of appointment must also include the reasons for the cessation of the appointment.

18. Related person, for an appointed actuary, means:

(a) the actuary's spouse;

(b) a dependent child of the actuary;

(c) a business partner of the actuary;

- (d) an employer (other than the appointing private health insurer) of the actuary; or
- (e) a company of which the actuary is a director.

Duties of appointed actuaries

19. For subsection 108(1) of the Act, an appointed actuary must:
- (a) perform each of the duties mentioned in paragraph 20; or
 - (b) if the insurer has carried out a duty mentioned in paragraph 20, other than the duty in paragraph 20(c), and the actuary is satisfied the insurer has provided him or her with sufficient material—review the insurer’s material and advise the insurer on the matter.
20. For paragraph 19, the duties are:
- (a) the development of insurance liability valuation methodology to be used by the insurer for the purpose of returns of financial information required by APRA;
 - (b) the valuation of insurance liabilities of each health benefits fund conducted by the private health insurer for inclusion in the insurer’s annual financial statements that are to be lodged under the *Corporations Act 2001* and returns of financial information required by APRA;
 - (c) the assessment of the reasonableness of the amount of uncertainty allowed for by the insurer in calculating the stress test amount in *Prudential Standard HPS 110 Capital Adequacy*; and
 - (d) the determination of risk margins for annual financial statements prepared in accordance with AASB 1023 and other relevant Australian equivalent international financial reporting standards or statements.

Application of skill and diligence

21. An appointed actuary must comply with professional requirements applicable to the actuary and must apply skill and diligence in carrying out the duties and exercising the powers of an appointed actuary.

Notifiable circumstances

22. The appointed actuary must advise the private health insurer whether he or she considers that actuarial advice on a notifiable circumstance is warranted.

Note: Notifiable circumstances are set out in paragraph 10.

23. If the private health insurer requests advice from the appointed actuary in relation to a notifiable circumstance, the actuary must provide a report to the insurer on the notifiable circumstance.

24. If the appointed actuary has not received a request for advice on a notifiable circumstance, but gives notice to the insurer that he or she believes an advice is warranted, the actuary must inform APRA if the insurer does not seek an advice from the actuary with 21 days after the notice.
25. The report mentioned in paragraph 23 must include details of the appointed actuary's assessment of the actual impact, and the potential impact, of the notifiable circumstance on the health insurance business conducted by the private health insurer.
26. The appointed actuary must notify the private health insurer of any event occurring within the fund's operations that is known to the actuary which the actuary reasonably expects to have a material impact on the private health insurer's health insurance business.
27. Paragraph 26 does not apply if the disclosure would breach a duty of confidentiality owed by the appointed actuary to a person other than the insurer, its officers or a related entity.

Financial condition report

28. The appointed actuary must:
 - (a) on request by the private health insurer, prepare a financial condition report in respect of each financial year;
 - (b) prepare the report in accordance with the *Professional Standard 600: Financial Condition Reports for Private Health Insurers*, made by the Institute of Actuaries of Australia; and
 - (c) submit the report to the insurer.

Transition arrangements

29. Any approval, determination or other exercise of discretion by PHIAC under Schedule 2 – Appointed Actuaries Standard of the *Private Health Insurance (Insurer Obligations) Rules 2009* as they existed prior to 1 July 2015 will continue to have effect following 1 July 2015 as though exercised pursuant to a corresponding power under this Prudential Standard. In particular, exemptions or modifications made by PHIAC under section 11 of Schedule 2 – Appointed Actuaries Standard of the *Private Health Insurance (Insurer Obligations) Rules 2009*, and in force immediately before 1 July 2015, continues in effect as if determined under paragraph 30 of this Prudential Standard.
30. If an approval of the appointment of a person as an actuary of a private health insurer under subsection 160-1(5) of the *Private Health Insurance Act 2007* was in force immediately prior to 1 July 2015, the appointment of that person as actuary will be taken to have been approved, in writing, by APRA under paragraph 12(b) of this Prudential Standard.

Exemptions and modifications by APRA

31. APRA may, on written application by a private health insurer or on its own initiative, in writing:
 - (a) exempt the insurer from all or specified provisions of this Prudential Standard; or
 - (b) modify the application of specified provisions of this Prudential Standard in relation to the insurer.