



Prudential Standard HPS 001

Definitions

Objectives and key requirements of this Prudential Standard

This Prudential Standard ~~aims to ensure that~~ defines key terms referred to in other prudential standards which are applicable to private health insurers. All prudential standards applicable to private health insurers must be read in conjunction with this Prudential Standard.

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Authority

1. This Prudential Standard is made under subsection 92(1) of the *Private Health Insurance (Prudential Supervision) Act 2015* (the Act).

Application

1. This Prudential Standard takes effect on ~~the day the *Private Health Insurance (Prudential Supervision) Act 2015* commences~~[insert date].
2. Unless the contrary intention appears, definitions in this Prudential Standard apply to all prudential standards made under subsection 92(1) of the Act (collectively ‘HI Prudential Standards’).

Definitions

2. Key terms in the HI Prudential Standards are defined as follows:

Act means the *Private Health Insurance (Prudential Supervision) Act 2015*.

Annual balance date is 30 June each year for private health insurers.

Appointed actuary has the same meaning as in the Act.

Approved loss absorbing subordinated debt of a health benefits fund means a security or other debt instrument, which has been approved by APRA prior to the time of issue. APRA must consider the quantum of the proposed issue and the timing for draw down, in making its decision on approval. APRA must consider that Approved loss absorbing subordinated debt must be created by a debt instrument or agreement which meets and continues to meet the following terms and conditions:

- (a) it must comprise a mechanism which specifies the conditions and process for loss absorption, through diminution of value, conversion or other means, of the instrument or agreement on a going concern basis, such that prior to non-compliance with *Prudential Standard HPS 110 Capital Adequacy* the value of the debt would be reduced to the relevant extent, and if necessary exhausted; and
- (b) it must have a minimum term of 10 years from the commencement of the loan; and
- (c) there must be no circumstances where repayment may be accelerated or called at the lender’s or any third party’s option; and
- (d) interest payments must not be payable where the payment of these would cause the fund to breach the requirements of *Prudential Standard HPS 110 Capital Adequacy*; and
- (e) interest payment obligations may be capitalised and interest may be charged on capitalised interest; and

- (f) capital repayments must not be made where repayment would cause the fund to breach the requirements of *Prudential Standard HPS 110 Capital Adequacy*; and
- (g) delayed capital repayments may be subject to continuing interest charges on the interest charge and repayment conditions specified in this paragraph.

Approved loss absorbing subordinated debt of a health benefits fund approved by PHIAC for the purposes of Rule 3A of the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007* as it was in effect between 1 April 2014 and 30 June 2015 is taken to have been approved by APRA for the purposes of this Prudential Standard.

APRA-regulated institutions includes private health insurers registered under the Act.

ASIC means the Australian Securities and Investments Commission.

Assets has the same meaning as in the Act.

Associates has the same meaning as in clause 4 in Schedule 1 of the *Financial Sector (Shareholdings) Act 1998*.

Australian Accounting Standards means the accounting standards issued by the Australian Accounting Standards Board.

Authorised deposit-taking institution means a body corporate in relation to which an authority under subsection 9(3) of the *Banking Act 1959* is in force.

Billed risk equalisation special account liability means the amount of risk equalisation special account payments, on the relevant day, for which an invoice from APRA has been received by the private health insurer but that have not yet been paid by the private health insurer.

Board means the board of directors of an -APRA-regulated institution. private health insurer or, if the insurer is not a company within the meaning of the Corporations Act 2001, the governing body of the insurer.

Business day means a day that is not a Saturday, a Sunday or a public holiday or bank holiday in the place concerned.

Business plan a written plan that sets out an APRA-regulated institution's approach for the implementation of its strategic objectives. The business plan must cover the entirety of the APRA-regulated institution and be approved by the Board.

Cash has the meaning given in *Australian Accounting Standards Standard 107.6*.

Central estimate means an estimate of the mean of the range of possible outcomes of any calculation required under either *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*.

Chief executive officer has the same meaning as in the Act.

Company means:

- (a) a company within the meaning of the *Corporations Act 2001*; ~~or~~ and
- (b) a constitutional corporation.

Complying health insurance product has the same meaning as in the Act.

Constructive obligation has the meaning given in the liability adequacy test in *Australian Accounting Standard Board Standard 137*.

Constitutional corporation has the same meaning as in the Act.

Corporate governance means a system by which an APRA-regulated institution ~~insurer~~ is directed and controlled.

Corporations legislation has the meaning given by section 9 of the *Corporations Act 2001*.

Director has the same meaning as in the Act.

Ensure when used in relation to a responsibility of the Board, means to take all reasonable steps and make all reasonable enquiries as are appropriate for a board so that the board can determine, to the best of its knowledge, that the stated matter has been properly addressed.

Executive director, for a private health insurer, means a director who is:

- (a) a member of management of the insurer; and
- (b) an employee of the insurer.

Financial condition report means a report on the financial condition of a private health insurer, including a report on the financial condition of each health benefits fund conducted by the insurer.

Financial interdependency in relation to a group of related counterparties, means a circumstance in which the financial soundness of one counterparty in the group may affect the financial soundness of another counterparty in the group.

FSCODA means the *Financial Sector (Collection of Data) Act 2001*.

Group refers to a corporate group that comprises more than one company that are related bodies corporate within the meaning of section 50 of the *Corporations Act 2001*.

Group of related counterparties means two or more counterparties which are related parties, or are linked by either of the following:

- (a) financial interdependency; or

- (b) any other connection or relationship that might expose the counterparties in the group to a single risk.

Health benefits fund has the same meaning as in the Act.

Health business revenue estimate of a health benefits fund, is its premium income estimate plus a central estimate of the gross revenue that it will earn in relation to its health related business in the 12 months after the relevant day, less any premium ceded to reinsurers in relation to health-related business within that 12 month period.

Health-related business has the same meaning as in the Act.

Internal Capital Adequacy Assessment Process means, in relation to a private health insurer, the capital management policy required under *Prudential Standard HPS 110 Capital Adequacy*.

Material risks are those risks that could have a material impact, both financial and non-financial on the APRA-regulated institution, or on the interests of shareholders and/or policyholders of the APRA-regulated entity. Material risks may include, but are not limited to the examples included in section 26 of CPS 220.

New product means a product that:

- (a) has not previously been offered by a private health insurer; and
- (b) contains characteristics that are different from other products offered by the insurer.

Non-executive director means a director who is not an executive director.

Officer has the same meaning as in the Act.

PHIAC means the former Private Health Insurance Administration Council established under the *National Health Act 1953*, whose prudential functions transferred to APRA on 30 June 2015.

Policy-holder has the same meaning as in the Act.

Premium income estimate of a health benefits fund, is the central estimate of the amount of health insurance business premium income that it will earn in the 12 months after the relevant day, where the premium increase assumption is the lesser of:

- (a) the central estimate of the amount of revenue the private health insurer's health benefits fund will earn in the 12 months after the relevant day; and
- (b) the amount determined in accordance with the methodology published by APRA, as amended from time to time.

Previously approved subordinated debt of a health benefits fund, means debt of a kind previously approved by PHIAC as subordinated debt, for the purposes of the *solvency standard* or *capital adequacy standard* established by the *Private Health Insurance (Health Benefits Fund Administration) Rules 2007* (made under the *Private Health Insurance Act 2007*), as in force as immediately prior to 31 March 2014.

Private health insurer has the same meaning as in the Act.

Probability of adequacy means the percentile required to meet individual elements of either the *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*.

Prudential requirements includes requirements imposed by the Act, prudential standards and APRA rules made under the Act, reporting standards made under the FSCODA, conditions imposed at the time of registration under the Act and any other requirements imposed by APRA in writing.

Referable has the same meaning as in the Act.

Related party has the meaning given by the *Australian Accounting Standards Board Standard 124*.

Relevant day means the day on which the calculation is based for the purposes of assessing compliance with the *Prudential Standard HPS 100 Solvency Standard* or *Prudential Standard HPS 110 Capital Adequacy*, as the case may be.

Risk management framework the totality of systems, structures, policies, processes and people within an APRA-regulated institution that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk.

Risk management strategy a document that describes an APRA-regulated institution's strategy for managing risk and the key elements of the risk management framework that give effect to this strategy.

Senior management for the purpose of the definition of 'officer' in section 4 of the Act, senior management means the chief executive officer of the insurer, or any other person who has or exercises senior management responsibilities within the meaning of the prudential standards for the insurer.

Senior management responsibilities for the purpose of the definition of 'officer' in section 4 of the Act, means the responsibilities of making, or participating in making, decisions that affect the whole, or a substantial part, of the business of the private health insurer.

Single equivalent units (SEUs) for a policy – if a policy falls into one of the categories of policies specified below, the single equivalent unit for the policy is the number shown next to the category:

- (a) a hospital policy under which only one person is insured – 1;

- (b) a hospital policy under which 2 adults are insured (and no-one else) – 2;
- (c) a hospital policy under which 2 or more people are insured, none of whom is an adult – 1;
- (d) a hospital policy under which 2 or more people are insured, only one of whom is an adult – 1;
- (e) a hospital policy under which 3 or more people are insured, only 2 of whom are adults – 2;
- (f) a hospital policy under which 3 or more people are insured, at least 3 of whom are adults – 2.

Size margin of a health benefits fund, is the lesser of:

- (a) the margin based on the number of SEUs of the health benefits fund as calculated by the following formula:

$$0.75 \times (\text{SEUs})^{-0.16}; \text{ and}$$

- (b) 0.25.

Subordinated debt means the sum of any previously approved subordinated debt and any approved loss absorbing subordinated debt.

Substantial shareholder means a person with a substantial holding within the meaning given by section 9 of the *Corporations Act 2001*.

Terminating management has the same meaning as in the Act.