

11 May 2015

Mr Pat Brennan
General Manager, Policy Development
Policy, Statistics and International
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email: privatehealthinsurance@apra.gov.au

**Australian Health Service Alliance Limited ('AHSa') - Submission in response to the Discussion Paper:
"Proposed prudential and reporting framework for the Australian Prudential Regulatory Authority's
(APRA) Supervision of private health insurers in Australia" – March 2015**

Dear Sir,

This submission by the Australian Health Service Alliance Limited ('AHSa') responds to APRA's proposal to implement a prudential oversight and reporting framework for supervision of private health insurers effective from 1 July 2015.

This submission focuses on APRA's proposed reporting framework and the confidentiality of data submitted to and released by APRA under the Financial Sector (Collection of Data) Act 2002 ('FSCODA') as noted at Chapters 3 and 4 of APRA's Discussion Paper – 'Proposed prudential and reporting framework for APRA's supervision of private health insurers in Australia', issued in March 2015.

Background

AHSa specialises in the provision and management of collective services to twenty-three (23) member funds and select services for other non-member funds (hereafter defined collectively as 'participating funds') that includes the:

- Management of Provider Relations including negotiation of provider contracts for hospital, medical, broader health cover and ancillary health services on behalf of participant funds;
- Collection, dissemination, analysis and reporting of participant fund and provider data;
- Provision of advice on Access Gap Cover to medical providers;
- Integrating Health Management Services including Prosthesis and claims support; and
- Provision of participant fund educational support and training.

AHSa also support participant funds through the provision of strategic advice on health care services and contributes to private health insurance industry and fund initiatives.

A listing of AHSa participating funds is noted at *Appendix A*.

Summary of Submission

AHSA requires ongoing access to the PHIAC B and Fund Comparison data set. PHIAC B data is currently a consolidated data set collated by the Private Health Insurance Advisory Council ('PHIAC') from PHIAC 1 and 2 returns; that is entity level data which would be defined as 'protected information' under the APRA Act 1988 and not available for distribution and publication.

PHIAC B data is currently provided by PHIAC, on request, unilaterally to all private health insurers. AHSA members then on-forward the PHIAC B data set to AHSA for our analysis on their behalf.

AHSA's access to and utilisation of PHIAC B data benefits participating funds through:

1. Enabling data access for independent analysis by AHSA participating funds of their benefit payments and cost data;
2. Enabling the provision of medical advisory and research services by AHSA to participant funds;
3. Enhancing AHSA's negotiating position, notably for individual participant fund hospital and medical agreements;
4. Enabling verification of industry based reporting of Access Gap Cover provided by the Private Health Insurance Ombudsman (PHIO); and
5. Enabling the ongoing analysis and monitoring of market share information by AHSA for participant funds.

An analysis of these benefits and the consequential impact of any loss of access are detailed on the following pages.

AHSA is of the firm view that it is important that PHIAC's current statistical dissemination functions continue seamlessly, in full and on a quarterly basis. APRA has indicated that the only possibility for continuing current arrangements is that all of PHIAC 1 and 2 data need to be declared non-confidential. AHSA strongly favours this approach over other alternatives (all of which may result in more limited data being released to our member funds).

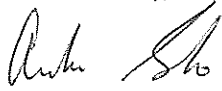
PHIAC B data is de-identified in accordance with the Privacy Act 1988 (Cwth.) and related Australian Privacy Principles. We do not consider the PHIAC B data is confidential data as it relates solely to de-identified patient services, benefits paid and gap benefits.

PHIAC B data does not contain financial or prudential information of any form in relation to an individual fund. As such, we believe that the benefit of disclosure to the market and the public outweighs any detrimental commercial interests that the disclosure may cause.

AHSA requests that, without any limitation, the current PHIAC B data set (including data definitions and categorisations) is classified as non-confidential aggregated data under the process outlined at S.57 of the APRA Act 1988. With this classification, the PHIAC B data would continue to be available for release to AHSA, via our member funds, after regulatory transition on 1 July 2015.

AHSA is grateful for the opportunity to comment on the proposed prudential and reporting framework. If you require any clarification on the substance of this submission, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Andrew Sando', written in a cursive style.

Andrew Sando
Chief Executive Officer

Service Provision to Participant Funds

Through the provision of provider relations and reporting services, AHSA assists their members to compete effectively in the Australian private health insurance (PHI) market and in so doing help to ensure the PHI market is characterised by robust competition.

To this end, AHSA have historically received PHIAC B data from PHIAC. This data set is a pivotal resource for AHSA and its participant funds. PHIAC B data provides information on policy categories, benefits paid for services, number of services, benefits paid by age category and gender and gap benefits by individual fund for all PHIs; that is AHSA and non-AHSA funds.

This data is provided by PHIAC in de-identified formats and is managed by AHSA in accordance with Australian Privacy Principles and specific health sector privacy requirements, as defined by the Office of the Australian Information Commissioner and/or State legislation and regulation.

PHIAC B data is currently provided by PHIAC, on request, to all funds in the PHI market. AHSA participant funds then on-forward the data set to AHSA. It is analysed independently by AHSA at both the fund and industry level and also by select participant funds to assess and benchmark their operational performance against the PHI industry. Data analysis by AHSA, in turn, assists AHSA in formulating its negotiating strategy for contracting hospital and medical services on behalf of participant funds.

The benefits of these services and the impact of any future loss of access to PHIAC B data for participating funds are explored in further detail.

1. Independent Analysis by Participating Funds

For fifteen (15) years AHSA has managed a relational database of PHIAC B data on behalf of participant funds. Funds do not duplicate this process in-house. AHSA receives a copy of the PHIAC B spreadsheet which is based on data collected through the PHIAC 1 form. This includes data by fund and by State/Territory. The data is then loaded into AHSA's Data Warehouse and a series of OLAP cubes are built using IBM's Cognos Business Intelligence data management tool.

OLAP cubes facilitate efficient, ad-hoc and routine analysis of the data whilst reducing the risk of analysis error. These cubes are published to a secure version of IBM Cognos BI running on the AHSA website that authorised named users from participant funds can access, via login, in order to perform their own analysis. Saved reports are housed on AHSA's servers which are subject to IT firewall, user access control and encryption protection.

Impact from loss of access to PHIAC B data

AHSA participant funds have not been managing PHIAC B data independently since 1999 so the immediate impact will be a loss of time series data dating back ~15 years. This will impact directly on a participant funds' ability to analyse its own data and compare itself to industry-wide trends over time.

In the longer term, participant funds would need to incur the considerable cost of implementing their own systems to perform any such analysis directly. Smaller funds are unlikely to have the resources to implement their own systems and would then lose the benefits of AHSA analysis.

2. Provision of Medical Advisory and Research Services to Participant Funds

AHSA undertakes PHI industry-wide medical analysis and research to aid participant funds in their recruitment and retention of their participants/policyholders and in projecting changes in medical services and costs impacting premium settings and fund margins.

Specifically AHSA uses the PHIAC B data set to:

- Track and understand the drivers of benefit changes within the PHI industry;
- Analyse PHI industry recruitment and retention rates relative to changes in benefits and provider costs;
- Identify and compare differential growth factors by State and fund; and
- Project benefits and changes in funding margins as a key determinant in fund premium setting. Analysis of fund margins also informs AHSA's health provider negotiations through assessing the participant funds level of exposure to price escalations.

Impact from loss of access to PHIAC B data

AHSA medical advisory analysis and research informs participant funds and the PHI industry on trends in costs, services and market growth. Loss of this analytical capability would adversely impact information used by participant funds and the PHI industry for strategic planning.

3. Negotiation of hospital and medical agreements

AHSA negotiates hospital agreements on behalf of AHSA participant funds. PHIAC B data enables AHSA to benchmark benefit payments per episode and by State/Territory. This enables an assessment as to the efficiency of payment models adopted by AHSA participant funds in comparison to other PHIs.

AHSA also manages a medical gap cover scheme called Access Gap Cover as well as negotiating with numerous providers to establish individual medical contracts. Provision of this data enables AHSA to benchmark medical benefits and associated patient gaps.

Impact from loss of access to PHIAC B data

AHSA participant funds rely on AHSA monitoring of benefit payment models to assess the efficiency of their contracting model and costs relative to their competitors; any withdrawal of this analysis could adversely impact PHI market cost efficiency and related product pricing, particularly given the 30% tax rebate granted to PHI premiums.

4. Verification of PHIO Access Gap Cover Reporting

Access Gap Cover is a medical agreement structure developed by AHSA. It is a State/Territory based fee schedule that medical providers can choose to use for their patients who belong to participating AHSA participant funds.

The Private Health Insurance Ombudsman (PHIO) considers information relating to the level of 'No Gap and Known Gap' service provision, included in a funds product disclosure, as important information for consumers. The State/Territory based 'No Gap and Known Gap' service provision rates for health funds are published in the annual PHIO Publication '*State of the Health Funds*'. This information is based on a calculation defined by the PHIO and not on data directly reported to the PHIO by funds.

Importantly, the PHIO report does not list AHSA funds individually. Rather, the PHIO reports 'No and Known Gap' rates for Access Gap Cover for AHSA participant funds as a consolidated whole enabling comparison to other non-AHSA PHIs. Whilst the PHIO's report may not be a high profile document, many tables, notably those relating to medical gaps, are republished by multiple media outlets and quoted by consumer advocacy groups such as 'Choice'.

AHSA, as manager of Access Gap Cover on behalf of participant funds, reviews the PHIAC B data to ensure the figures quoted in the PHIO report accurately represents the data that was reported to PHIAC by AHSA participant funds. Furthermore, AHSA believe it is prudent to validate that the calculation applied to Participating Access Gap Cover Funds is accurate; as such an annual verification is undertaken across all market participants on an ongoing basis.

Impact from loss of access to PHIAC B data

The PHIO's analysis and reporting of AHSA participant funds 'No and Known Gap' rates for Access Gap Cover may be materially inaccurate and impact the market reputation of AHSA participant funds. Access to this data by AHSA provides a method to verify the accuracy of the data.

5. The analysis and monitoring of market share of AHSA Participant Funds

In order to effectively negotiate on behalf of participant funds, AHSA is dependent on AHSA funds collectively representing and maintaining significant PHI market share in each State/Territory.

AHSA continues to monitor the collective market share and reach of its participant funds, through analysis of PHIAC B data, to ensure AHSA meets its competition law obligations and that AHSA actions do not significantly lessen competition in the PHI market.

Ongoing fund access to industry-wide PHIAC membership data delivers all participants in the industry a highly transparent view of the market and allows monitoring of collective groups such as AHSA and the ARHG.

Impact from loss of access to PHIAC B data

Market share analysis by AHSA enables AHSA to demonstrate its market power in key provider and State/Territory markets benefiting AHSA negotiations with all health providers.

AHSA Participating Funds (Members and other participants)
Member Funds
ACA Health Benefits Fund
Australian United Health Limited
CBHS Friendly Society Limited
CUA Health Limited (Credicare Health Fund)
Defence Health Limited
GMHBA
Grand United Corporate Health Limited
Health.com.au
Health Care Insurance Limited
Health Insurance Fund of Australia Limited
Health Partners Limited
Healthguard Health Benefits
Navy Health Limited
Peoplecare Health Insurance
Phoenix Health Fund
Police Health Limited
Queensland Country Health Limited
Queensland Teachers Union Health Fund Limited
Reserve Bank Health Society Limited
rt Health Fund
Teachers Health Fund
The Doctor's Health Fund Pty Limited
Westfund Limited
Non-Member Funds
HBF Limited
NHBA Australia Limited (trading as Onemedifund)
Transport Health Limited