



18 May 2015

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

Dear Mr Brennan,

Re: Proposed prudential and reporting framework for APRA's supervision of private health insurers in Australia

Thank you for the opportunity to provide input regarding the proposed prudential and reporting framework for the Australian Prudential Regulation Authority's (APRA) supervision of private health insurers in Australia. After reviewing the discussion paper and associated draft standards, it is clear that efforts have been made to minimise the initial impact on industry of the change from the incumbent regulator - the Private Health Insurance Administration Council (PHIAC), to APRA. This is evident both within the proposed standards themselves as well as the reporting framework, which appear largely consistent with current requirements.

HBF is looking forward to working with APRA and is encouraged by the methodical and consultative way in which the proposed prudential and reporting framework is being socialised and rolled out. With regard to HBF's feedback on APRA's draft rules and standards, specific observations have been gathered after discussions with key stakeholders across the organisation. Summary outcomes from this process are detailed below for your attention and consideration.

In providing a response, efforts have been made by HBF to provide feedback to you "by exception", such that comments are made where differences or areas of clarification may be required. This is as opposed to discussing each standard and reporting requirement in detail where these are viewed by HBF to be consistent with current obligations.

1. Data Confidentiality

1.1 APRA Act, Financial Sector (Collection of Data) Act and PHIAC 1 and 2 Information

HBF notes APRA's proposal to make certain PHIAC 1 and 2 data non-confidential under s.57 of the APRA Act as discussed at APRA's consultation sessions held on 24 April 2015 and 11 May 2015.

HBF does not have any serious objections to the deeming of the returns "non-confidential". However HBF would simply ask that APRA consider whether there is specific public benefit in making such information which is currently commercial in confidence, non-confidential. It is unclear to HBF what exactly this benefit is and how it will assist policyholders and the public at large particularly given



potential implications for hospital provider commercial negotiation processes as discussed at APRA's 11 May 2015 consultation session with industry.

Specifically of potential concern however is whether the alternative option of deeming the information "confidential" might impact the current industry practice under PHIAC, where funds receive detailed quarterly data through its peak industry body "Private Healthcare Australia" (PHA). This data (contained within the PHIAC 1 and 2 returns specifically) enables the following industry and policyholder benefits:

- Data/calculation anomalies are immediately picked up by other insurers and/or Private Healthcare Australia; and
- Up to date data as requested by consumers, other regulators, Members of Parliament and others to show industry returns to members is prompt and transparent.

HBF would like to see the provision of quarterly data to industry continue and would simply request that legislative amendments be considered to facilitate this, given the inherent implications of the deeming of certain information "confidential" under the APRA Act. Alternatively, as communicated by APRA during consultation, the consent option exists to both maintain confidentiality whilst enabling insurers to share quarterly return data via PHA. In that regard, HBF confirms that it does indeed consent to continuing the current process of sharing the quarterly return information with PHA.

However, as consent by any PHI if withdrawn would result in the cessation of this useful practice for industry, again it is hoped that specific legislative changes might be considered in order to protect both confidentiality of the quarterly return data whilst upholding the current practice of return socialisation amongst PHIs.

2. Draft APRA Rules

2.1 Private Health Insurance (Prudential Supervision) Rules

HBF considers that the great majority of the new Prudential Supervision Rules are consistent with the outgoing Private Health Insurance (Health Benefit Fund Administration) Rules 2007.

The new rules replace the PHI (Health Benefit Fund Administration) Rules 2007, with key differences nevertheless arising in the areas of risk equalisation, solvency and capital adequacy. HBF notes that these areas of the outgoing rules are now governed separately under APRA's draft prudential standards and other draft rules. In that regard, HBF has reviewed specifically the new PHI (Risk Equalisation Administration) Rules and notes that risk equalisation jurisdiction rules are not specifically detailed. This area was captured previously under Section 5 of the outgoing PHI (Health Benefit Fund Administration) Rules 2007 and HBF simply seeks clarification as to where the governing authority for risk equalisation jurisdiction will now reside.

2.2 Private Health Insurance (Registration) Rules

HBF notes the reference made in section 4, paragraph (a) of the Private Health Insurance (Registration) Rules to the Financial Sector (Collection of Data) Act 2001. The broadly stated objective of this act is



to enable APRA to collect certain information in order to discharge its prudential regulation obligations.

HBF notes that, as the title of this act would suggest, the Financial Sector (Collection of Data) Act 2001 is applicable only to entities as defined in section 5 of this Act (i.e. those within the Financial Sector). Whilst the act is broad enough to capture the PHI industry through reference to paragraph 5(4) (a), HBF would simply seek confirmation from APRA that if the Financial Sector (Collection of Data) Act 2001 is to be amended to accommodate Private Health Insurance, that there would not be any additional disclosures and reporting requirements from health funds anticipated as part of this consequential amendment process.

2.3 Private Health Insurance (Risk Equalisation Administration) Rules

HBF notes the “Part 3 – Transition” section within APRA’s draft Private Health Insurance (Risk Equalisation Administration) Rules. The current rules as detailed by Part 3 of the outgoing Private Health Insurance (Health Benefit Fund Administration) Rules 2007 refer to quarterly returns and the requirement pertaining to both the form of these reports, as well as independent audit requirements.

The definition of “Quarterly Return” within the new rules now refers again to the Financial Services (Collection of Data) Act 2001. HBF seeks confirmation that, as stated within Part 3 – Transition, the quarterly returns and independent audit process will remain as is.

3. Draft Prudential Standards

3.1 HPS 001 – Definitions

HBF notes the definition standard as a general improvement in terms of clarity of information and succinctness of explanation. A natural observation upon reviewing this standard against other draft prudential standards and rules however, is that some definitions are housed within HPS 001 though others lie within the draft prudential standards and rules themselves. An example of this being the “Quarterly Return” definition noted above.

HBF’s observation and comment here is that where definitions lie in subsidiary prudential standards or rules and reference other acts or standards, that consideration be given to detailing these explicitly within the master definition standard provided through HPS 001. HBF nevertheless considers this quite a minor point to note.

4. Conclusion

The HBF Group has reviewed the proposed prudential and reporting framework for APRA’s supervision of private health insurers in Australia. HBF is comfortable with the content of both the draft rules, prudential standards and reporting standards as all are largely consistent with the current requirements. Observations and areas for potential clarification have been identified by HBF and relate to:



- Data confidentiality and the future of the sharing of quarterly data with industry via the industry's peak body PHA;
- Risk equalisation jurisdiction articulation and description;
- Applicability of the Financial Sector (Collection of Data) Act 2001 and the specificity of any new consequential amendments to this Act made in order to acknowledge Private Health Insurance;
- Quarterly return definition within the Private Health Insurance (Risk Equalisation Administration) Rules and broader definition strategy within HPS 001.

Once again I would like to thank you for the opportunity to provide input regarding the proposed prudential and reporting framework for APRA's supervision of private health insurers in Australia. If you have any queries, please feel free to contact me on .

Kind Regards

A handwritten signature in black ink, appearing to read 'Rob Bransby'. The signature is stylized and cursive, with a prominent initial 'R' and 'B'.

Rob Bransby
Managing Director – HBF Health Limited