



CBHS Group Submission

Re: The role of the Appointed Actuary & Actuarial Advice within insurers

20 September 2016

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Introduction

The CBHS Group of Companies (**CBHS Group**) comprised of CBHS Health Fund Limited (**CBHS**) and CBHS Corporate Health Pty Ltd (**CBHS Corporate**) is supportive of the work undertaken by APRA in conjunction with actuaries and the insurance sector, more broadly to explore ways to significantly improve the functioning of the Appointed Actuary role and to ensure that it remains fit for purpose. CBHS Group acknowledges that the proposals in *The role of the Appointed Actuary & Actuarial advice within insurers* discussion paper (**Discussion Paper**) are not addressed to health insurers but may in due course apply to private health insurers so welcomes the opportunity to provide feedback on the proposals outlined in the Discussion Paper.

About CBHS Health Fund Limited

CBHS was set up in 1951 as a shared, not-for-profit health fund to provide current and former employees, contractors and franchisees of the Commonwealth Bank Group (which includes the Commonwealth Bank of Australia, CommSec, Commisure, Colonial First State, the State Bank of Victoria and Bankwest) and their immediate and extended families access to high-quality affordable health insurance at every life stage.

As one of Australia's leading not for profit health funds, CBHS is run solely for the benefit of our members. This commitment to our members is demonstrated in CBHS winning the Roy Morgan Customer Satisfaction Awards for Private Health Insurer of the Year for 2012 and 2014. CBHS was also recently announced as CHOICE Magazine's top ranked restricted health fund in both the Comprehensive Hospital policy with Nil Excess and Comprehensive Extras policy categories.

At the heart of CBHS' approach and continued growth and success is our ability to provide our over 93,000 members and 213,000 people who are covered by our policies, with the best service, exceptional value and competitive products that offer better benefits. At CBHS we pride ourselves on delivering policy information to our members in an appropriate, transparent and consistent way.

Further information about CBHS can be found at www.cbhs.com.au

About CBHS Corporate Health Pty Ltd

CBHS has been providing quality private health insurance to CBA Group employees and their families since 1951. Its success at providing this service lead to the creation of CBHS Corporate. CBHS Corporate aims to partner with employers and organisations who want the best health care for their employees. The objective of this partnership is to assist employers in the attraction and retention of quality staff.

CBHS Corporate commenced trading on the 26th July 2016. It is a for profit private health insurer, wholly owned by CBHS.

Submission

The CBHS Group in preparing this submission consulted with the Appointed Actuary for CBHS, Mr Bevan Damm from Ernst & Young and considered the effects the proposed changes outlined in the Discussion Paper will have with respect to the existing arrangements in place for private health insurers as outlined in each of the Prudential Standard HPS 320 Actuarial and Related Matters ("HPS 320") and the Private Health Insurance (Prudential Supervision) Act 2015 ("Act").

Responses to Appointed Actuary Review Proposals with numbering as per the Discussion Paper:

2.1.1 Purpose Statement for the Appointed Actuary

The CBHS Group is supportive of the proposed Purpose Statement for the Appointed Actuary outlined in paragraph 2.1.1 and believes this is consistent with the notifiable circumstances framework in HPS 320.

2.2.1 Implement a clear Actuarial Advice Framework

The CBHS Group is supportive “in principle” of reshaping HPS 320 in line with the principles and attributes guiding paragraph 2.2.1 but are of the view that the notifiable circumstances framework in HPS 320 already achieves many of the goals outlined in paragraph 2.2.1 by providing a list that is sufficiently flexible to accommodate a multitude of insurer activities/proposals that will be notified to the Appointed Actuary.

HPS 320 also provides in effect, the Appointed Actuary with the responsibility for determining materiality and whether written or other advice is required and in any event providing opportunities for dialogue between the Appointed Actuary, Management and the Board. The advantage in maintaining the notifiable circumstances framework is that the items are determined on a case by case basis which allows for different circumstances to be treated appropriately.

The proposal outlined in 2.2.1.2 may potentially reduce some of the Appointed Actuaries current oversight of insurer activities/proposals and inherent flexibility and so the CBHS Group would recommend that the existing notifiable circumstances framework remain for the PHI sector.

2.3 Improving the Management of Potential Conflicts of Interest

The CBHS Group is supportive “in principle” of APRA’s proposal to clarify that insurers be expected to manage potential sources of conflicts for the Appointed Actuary role.

2.4/2.5 Improving Reporting Requirements

Insurance Liability Valuation Report (ILVR)

Health insurance liabilities are generally short tailed in nature and therefore the CBHS Group believes a formal ILVR will not provide users improved transparency. The current standards already make provisions for the Appointed Actuary to value or review the valuation of the insurance liabilities and any deficiencies in the process can be identified over a period of two to three months. However, we note that it is always good practice to document the business processes, which are largely documented in the FCR and Risk Margin advice from the Appointed Actuary.

Financial Condition Report (FCR)

HPS 320 already requires the Appointed Actuary to prepare a FCR and reference the requirements of the Institute of Actuaries (IAA) PS600. Whilst this is different to Life and General Insurance standards, the outcomes and areas in which the Appointed Actuaries need to consider are broadly the same. The CBHS Group therefore does not expect a material change to the FCR process should HPS 320 be harmonised with Life and General insurance standards.

The CBHS Group is supportive of APRA’s proposal to provide greater discretion to the Appointed Actuary to focus on the risks and issues that are material to the financial condition of the insurer. APRA should note that HPS 320 (via PS600) already allows the Appointed Actuary to make these materiality judgments.

The CBHS Group's general view is that regulatory requirements tailored to the individual situation of each insurer, if implemented appropriately, results in more effective outcomes from the perspectives of the regulator and the insurer.

The CBHS Group's view on "*the costs and benefits of seeking actuarial advice to assess the risk management framework and ICAAP on a prospective basis*" will depend on the individual circumstances of each insurer. ICAAP currently does not apply to the PHI sector, however this will formalize in a different way what health insurers have already been doing.

2.6 Simplifying Prudential Standards

The proposed alignment is Life and General insurance related. However, the CBHS Group considers that the Notifiable Circumstances in HPS320 is effective in practice and can be used as a model for future regulatory reforms.

Conclusion

The CBHS Group is supportive in principle of many of the proposals outlined in the Paper, (subject of course to the proviso's referenced in each of the responses). The CBHS Group is also of the view that many of the proposals are already addressed in the PHI sector via HPS 320 and more notably the notifiable circumstances framework in HPS 320.

The CBHS Group appreciates the opportunity provided by APRA to provide a submission on the Discussion Paper.