



2 February 2018

TO: ALL PRIVATE HEALTH INSURERS

REQUEST FOR INFORMATION – INTERNAL STRESS TESTING SCENARIOS

A key element of APRA's mandate is to promote financial system stability, and this is achieved through its three core functions of supervision, policy and resolution. Stress testing¹ complements APRA's prudential requirements and risk-based supervision activities as a key part of this mandate. It improves the readiness of the financial system to withstand adversity, by enhancing capital management, informing recovery planning and reducing the likelihood for failure and resolution.

As you may know, APRA has performed a number of stress tests across the banking, general insurance and life insurance industries, utilising multi-year severe, but plausible scenarios tailored to each industry and relevant to the risk outlook. APRA considers broad and structured industry stress testing to be a necessary adjunct to individual enterprise-wide stress testing undertaken by authorised deposit-taking institutions, general insurers and life insurers as part of the internal capital adequacy assessment process.

For private health insurers, outside of the stress test amount component of the capital adequacy requirement, stress testing per se is not a mandated component of a private health insurer's capital management policy.² Additionally, APRA has yet to engage the private health insurance industry as part of its formal stress testing regime. However, APRA anticipates that there are segments of the industry that undertake stress testing and/or reverse stress testing in the interests of capital and risk management best practice, and would like to identify the extent to which stress testing is utilised across the industry.

Therefore, APRA is requesting private health insurers to provide information on:

- whether stress testing is utilised; and if so provide details of,
- the scenarios underpinning such testing (including any pandemic scenarios);
- the level of resources allocated;
- the frequency of the activity;
- the extent of board, board committee and management reporting on outcomes; and
- how the outcomes have informed internal capital targets or have had an impact on any other internal business practices.

¹ Stress testing is a quantitative what-if exercise, aimed at assessing vulnerabilities and resilience in the context of severe but plausible financial shocks.

² Stress testing in this context is distinct from the sensitivity or scenario testing that is undertaken as part of the Financial Condition Report.

APRA requests private health insurers to participate by providing the requested stress testing information to DataAnalytics@apra.gov.au, by 16 March 2018. The information provided will remain confidential, and be used internally to help inform APRA's thinking on potential future private health insurance stress testing scenarios.

Should there be any questions on the information request or its purpose, please contact your Responsible Supervisor

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'LS', written in a cursive style.

Louis Serret
General Manager
Specialised Institutions Division