



Australian Government

National Mental Health Commission

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Response to Submissions: Review of the role of the Appointed Actuary and actuarial advice within insurers.

The National Mental Health Commission (the Commission) provides cross-sectoral leadership on policy, programs, services, and systems that support better mental health, and social and emotional wellbeing in Australia. There are three main strands to the Commission's work: monitoring and reporting on Australia's mental health and suicide prevention systems; providing independent advice to government and the community; and acting as a catalyst for change.

The Commission welcomes the opportunity to provide comment on the Australian Prudential Regulation Authority's (APRA) proposals in relation to the Appointed Actuary and the role of actuarial advice within insurers. This stage of the consultation has been targeted at application of actuarial principles from the general and life insurance industries to the private health insurance industry. Such a focus is timely, given the reforms to private health insurance announced in October 2017, with changes to incentives for policyholders under 30, and removal of waiting periods for patients with mental illness seeking inpatient care.¹ These reforms have arguably been introduced both for the benefit of policy holders, and to ensure the ongoing viability of the insurance industry and the Commission recognises the challenge that maintaining a balance between these demands presents.

The consultation issues raised by APRA include a request for feedback on the proposed purpose statement relating to the role of the Appointed Actuary and feedback on whether the expectations of private health insurers and their Appointed Actuaries are clearly articulated in the draft Prudential Standard CPS 320. The Commission strongly supports the wording of paragraphs 2 and 3 of the purpose statement, and would echo the position of the APRA that the Appointed Actuary should ensure that the insurer "gives adequate consideration to the protections of policy holder interests". The Appointed Actuary role is clearly dual-faceted, and while sound and prudent financial management of the insurer are critical to the interests of policyholders as acknowledged above, there is a fiduciary duty which entails that policy holders receive the best possible return on their premiums when care is required under the policy.

'Attachment C – Private health insurance matters' of the draft Prudential Standard CPS 320 itemises matters for inclusion under the actuarial advice framework of private health insurers. Items (e), (f), (i), and (j), concerning rates of premiums and benefits, and development of new or revision of existing products are prime examples of the potential for the Appointed Actuary to serve the interests of the policyholder. As described in the proposed purpose statement, the actuarial functions include the provision of 'effective challenge' to activities and decisions that affect both policyholders, and the insurer's financial integrity. Currently, the Commission is aware of issues relevant to mental health across almost all insurance products, with universal concerns about

¹ Media Release. Major reforms to make private health insurance simpler and more affordable. 13 October 2017
<http://www.health.gov.au/internet/ministers/publishing.nsf/Content/health-mediarel-yr2017-hunt106.htm>





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difficulties associated with product design and definition². Discrimination in relation to eligibility for insurance is also a known issue for individuals with diagnosed mental health conditions although statistics on the extent of exclusions and restrictions placed on coverage for mental health are not widely available.

The Commission's aspiration is that the Appointed Actuary role across the general, life and health insurance industries would address such opacity and discrimination as a routine part of their function. This includes issues that are currently known, and those that may be anticipated. In the first case, insurers may elect which hospitals they will choose to contract with in order to provide gap-free coverage, with further discretion about whether or not to fund specific programs. In some cases, policy holders presenting for admission to private hospitals for psychiatric care are advised that cover is insufficient due to the insurer paying only the minimum default benefit, with out of pocket costs of up to \$600 per day. Further, while the Commission applauds the recent amendments to private health insurance permitting policyholders to upgrade cover and access mental health services without a waiting period, it can be anticipated that take up of this exemption may lead to increased excesses for mental health related hospital admissions in lieu of the standard 2-month waiting period.

In closing, the Commission re-iterates its support for the proposed purpose statement as drafted, giving equal emphasis to sound and prudent management of insurers and protection of policy holder interests. We would be pleased to provide further comment on the issues raised above as required, and look forward to engaging with further reforms and progress in this area.

Peggy Brown
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² Actuaries Institute. Mental Health and Insurance. Green Paper. August 2017.

