We are hirmaa

30 May, 2016

Manager
Banking, Insurance and Capital Markets Unit
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Sir/Madam

Thank you for the opportunity to comment on the Treasury's *Proposed Financial Institutions Supervisory Levies for 2016-17*.

hirmaa represents 19 not-for-profit, member-owned and community-based private health insurers including both restricted and open access funds, which provide health insurance to more than one million Australians.

Since its formation in 1978, hirmaa has advocated for the preservation of competition in the private health insurance industry believing it to be fundamental to Australians having access to the best value health care services.

hirmaa has done this by promoting and supporting legislation, regulations, policies and practices that increase the capacity of its member organisations to deliver best value health care services, and that also consider the unique nature of the private health insurance industry as a whole.

hirmaa funds are characterised by a number of key attributes including;

- Being member-owned, not-for-profit and community based
- Representing key pillars of Australian society including the armed forces, the police, medical professionals, rural and farming communities and vital industry groups such as mining and steel working
- Providing year-on-year lower than average premium increases, compared to the larger for-profit funds
- Maintaining low management expenses, low to negative net margins, and re-investing almost 90 per cent of all premiums paid, back into providing benefits for their membership.

hirmaa notes that APRA operates under a cost recovery model that is consistent, transparent, accountable and requires the collection of industry levies to fund the continuation of its regulatory and supervisory activities. hirmaa further notes that key considerations taken into account by APRA when setting industry levies include:

- The impact of cost recovery on competition, innovation or the financial viability of those who may need to pay charges and the cumulative effect of other government activities.

- Whether it is efficient to cost recover the activity (e.g. are the costs of administering cost recovery appropriate to proposed charges for and revenue from the activity?)

- Government entities should aim to minimise cost recovery charges through the efficient implementation of cost recovered activities, in the context of the specific policy outcomes and legislation. The cost recovery framework is underpinned by three principles that must be applied across all stages of the cost recovery process:

- efficiency and effectiveness
- transparency and accountability
- stakeholder engagement.

All hirmaa funds are not-for-profit, community based and member owned so only operate to serve their policyholders as opposed to shareholders. Under the not-for-profit, community based and member owned business model, hirmaa funds have consistently outperformed for-profit insurers in terms of policy holder growth, lower than average premium price increases, customer satisfaction and provision of high cover policies. This superior performance makes hirmaa funds central to competition and consumer choice within the private health insurance industry.

hirmaa therefore welcomes the fact that the proposed cost recovery model does not disadvantage smaller to mid-sized not-for-profit, community based and member owned health insurers and that APRA's operating costs remain as low as prudently possible in order to minimise the financial impact of regulation on the private health insurance industry.

Preserving competition and choice within a well-run and prudentially sound private health insurance industry is critical to the sustainability of Australia's health system as a whole. Private health insurance alleviates pressure on the public purse by providing $18 billion in healthcare benefits annually with more than 13 million Australians insured. As such, hirmaa welcomes the fact that levies collected from private health insurers are utilised exclusively for the supervision and regulation of private health insurance, and are quarantined from other industries regulated by APRA.

With regards to the *Proposed Supervisory Levies for the private health insurance industry 2016/17,* hirmaa acknowledges the following;

- That that levies funding from private health insurance will total $4.1 million during 2016/17, down from $5.7 million during the 2015/16 period – a reduction of more than $1.5 million; and,
- From 1 July 2016, APRA will recover the costs of supervising the private health insurance industry under the Private Health Insurance Supervisory Levy Imposition Act 2015, annually(from 2016-17 onwards) rather than quarterly to maintain consistency with other APRA-supervised industries; and,
- The formula and rate for the levy will continue to be applied to the number of single and joint health insurance policies held by insurers; and,
- Insurers can expect to be invoiced for the annual levy in August.

hirmaa welcomes the reduction in regulatory costs, as outlined in the discussion paper. This is in line with Government's objectives for the machinery of government reforms of reducing and simplifying the cost of prudential oversight to private health insurance through the transition from PHIAC to APRA.

hirmaa supports transparency in private health insurance and across the entire health supply chain, and therefore welcomes efforts to modernise APRA's data capabilities, as stated in the discussion paper. Modernising APRA's data capabilities will enhance the regulator's internal efficiencies, hirmaa funds' ability to assess their prudential standing and performance against the industry, and improve information provision and transparency for the public and stakeholders alike.

Since taking responsibility for the prudential regulation of private health insurance, APRA has diligently engaged with the sector in order to comprehensively understand its nuances and foster a sound working relationship, and this is to be commended.

The health insurance industry is well run, meets very high regulatory requirements and professional standards, which in-turn results in very low prudential risk. Unlike some other industries regulated by APRA, such as banking, finance and life insurance, health insurers are well capitalised, have built a sound record for performance, good governance and compliance, and do not hold long tail risks - given policy premiums are adjusted every April with full portability guaranteed under legislation. hirmaa suggests that the private health insurance industry's historically sound performance and low prudential risk should be reflected in the cost of the supervisory levy.

By keeping the cost of regulation low, health insurers are able to pass on more benefits and lower premiums to their policyholders. As was touched on earlier in this submission, hirmaa funds have consistently proven themselves to be consumer-focused and willing to pass on savings wherever they are realised. This is evidenced in hirmaa funds' lower-than-average premium increases year-on-year, their tight management expense ratios, low to negative net margins and in the simple fact that they reinvest around 90 per cent of all premiums paid, back into providing benefits to their memberships.

In conclusion, hirmaa welcomes the fact that supervisory levies will fall by more than $1.5 million and offers broad support for the proposed *Financial Institutions Supervisory Levies for 2016-17* outlined in the discussion paper for consultation.

Yours Sincerely

MATTHEW KOCE
Chief Executive Officer, hirmaa

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