10 June 2022

Director
Regulator Oversight and Engagement Unit
Financial System Division
Treasury
Langton Crescent
Parkes ACT 2600

Email: SupervisoryLevies@treasury.gov.au

Dear Director,

Proposed Financial Institutions Supervisory Levies for 2022-23

Members Health has consulted extensively with its membership and welcomes the opportunity to provide a response on the proposed Financial Institutions Supervisory Levies that will apply for the 2022-23 financial year, based on the feedback it has received.

In making our submission, we acknowledge the Australian Prudential Regulation Authority's (APRA) ongoing and constructive engagement with the private health insurance (PHI) industry throughout the COVID-19 global pandemic. We particularly note the high standards met by the APRA front line supervisory staff and efforts by senior management to consult with the sector over matters such as the Deferred Claims Liability, premium round application process and development of new standards. This is greatly appreciated by the Members Health community.

At the outset we note that PHI is a highly regulated industry that is stable, well managed and carries a very low short tail prudential risk.

We also note that PHI is highly regulated with significant oversight and impost from the Australian Department of Health, APRA/Treasury, Commonwealth Ombudsman, ACCC, ASIC and the ATO.

Members Health remains of the view that the framework for PHI prudential regulation should be underpinned by principles that:

- Reduce the financial impost on insurers and consumers by avoiding unnecessary complexity and costly red tape.
- Ensure standards are as easy to implement, administer and oversee as practicable for both regulators and insurers.
- Recognise the bespoke nature of PHI, which is very different to the financial service entities regulated by APRA.
- Set and maintain standards that are commensurate with the level of risk inherent in the PHI business model, that reflect the short-tail nature of PHI claims and the absence of catastrophic exposures which are experienced in other sectors.

We also believe that it is an important principle that APRA provide transparency relating to the expenditure of all funds collected through the supervisory levies.

In the context of any proposed increase in supervisory levies, it is a reasonable expectation that APRA operates within and does not exceed the scope of prudential regulation, which is to ensure regulated entities are able to keep their promise to consumers. We note that according to APRA's 2021 -2025 Corporate Plan and Policy Priorities[1], the aim of prudential policy development over 2022-2023 is to deliver three key outcomes, aligned to APRA's long-term strategy:

- ensuring resilient and prudently managed financial institutions;
- promoting the stability of the Australian financial system; and
- contributing to the community's ability to achieve good financial outcomes.[2]

About Members Health

As the peak body for 26 not-for-profit (NFP), member owned and community-based health insurers, Members Health advocates for a successful PHI industry and acknowledges the importance of an appropriately resourced and fit-for-purpose regulatory framework.

Our alliance of Members Health funds represents more than 35 per cent of Australia's private health insurance market. APRA data consistently validates the prudential and sound market positioning of our funds. As a group: they hold capital well above the regulatory minimum required; continue to grow with all age cohorts and importantly, with younger policyholders; offer competitively priced products; return more of the premium dollar back to members as benefits; and lead the industry when it comes to customer satisfaction and retention.

Proposed levy increase for the Private Health Insurance Industry

Members Health supports APRA's risk-based approach for identifying and assessing areas of greatest risk and impact to consumers and directing its resources to best mitigate against those risks.

Our expectation is that a targeted risk-based approach will **lessen** the regulatory impost and costs for the PHI industry and will ultimately benefit consumers through reduced costs and improved efficiency and effectiveness of prudential regulation.

The proposed increase in the levy for the PHI industry is intended to reflect alignment with the APRA allocation approach. APRA notes that 2022-23 will be the first year that the PHI industry will fully adopt the regulator's time allocation methodology following the transition of the industry to APRA regulation on 1 July 2015.

The impact of the proposed levy suggests the PHI industry can expect an increase from $9.9 million in 2021/22 to $11.8 million in 2022/23. This represents a $1.9 million, or 19.2 per cent increase, which like any additional cost, will place upward pressure on premiums for consumers of private health insurance.

[1] Australian Prudential Regulation Authority (2022), Information Paper: APRA's Policy Priorities https://www.apra.gov.au/sites/default/files/2022-02/Information%20Paper%20-%20APRA%E2%80%99s%20Policy%20Priorities%20February%202022.pdf
[2] Australian Prudential Regulation Authority (2021), APRA Corporate Plan 2021-25 p.8, https://www.apra.gov.au/apra-2021-25-corporate-plan

A. 601 Canterbury Road, Surrey Hills, VIC 3127 P. PO Box 172, Box Hill, VIC 3128
T. (03) 8831 3372 E. info@membershealth.com.au W. membershealth.com.au ABN. 43 358 871 550

Members Health
FUND ALLIANCE

The proposal also notes a significant increase the PHI industry's share of total levies collected: *"Levies funding from private health insurers in 2022-23 represents 4.5 per cent of the total levies, compared to 3.8 per cent in 2021-22." (p 14).*

In light of these proposed increases, we are concerned that the '*Machinery of Government*' reforms, do not appear to be delivering the ongoing long term savings that were promised at the time the Private Health Insurance Administration Council (PHIAC) was replaced with APRA. The transfer of the PHIAC's prudential supervision functions to APRA were expected to deliver economies of scale, resulting in savings for the PHI industry over time. Since 2016, the cumulative increase in the annual levy for the PHI industry has been 89.4 per cent. The proposed annual increase for 2023 is 19.2%. See table 1 below:

Table 1: APRA Financial Institutions Supervisory Levies revenue

Private health insurers	2023*	2022*	2021	2020	2019	2018	2017	2016
Annual supervisory levy $[3]	$11,800	$9,900	$7,700	$6,090	$4,533	$6,715	$4,136	$6,231
Annual increase/decrease $	$1,900	$2,200	$1,610	$1,557	-$2,182	$2,579	-$2,095	$0
Cumulative increase/decrease $	$5,569	$3,669	$1,469	-$141	-$1,698	$484	-$2,095	$0
Annual increase/decrease levy %	19.2%	28.6%	26.4%	34.3%	-32.5%	62.4%	-33.6%	0.0%
Cumulative increase/decrease %	89.4%	58.9%	23.6%	-2.3%	-27.3%	7.8%	-33.6%	0.0%

* Treasury, Proposed Financial Institutions Supervisory Levies for 2022-23 : Table 7: Total levies required by industry, p.10. https://treasury.gov.au/sites/default/files/2022-05/c2022-248869-dp_0.pdf

Sources:
APRA Annual Reports, https://www.apra.gov.au/news-and-publications/apra-annual-reports
Treasury, Proposed Financial Institutions Supervisory Levies for 2021-22, https://treasury.gov.au/sites/default/files/2021-05/c2021-169634_discussion_paper_0.pdf

Members Health submits that the proposed increase is well above the movement of the Consumer Price Index (CPI) over the same period. While we recognise the importance of APRA being appropriately resourced, an increase in the supervisory levy fee of 19.2% for 2023 and 28.6% for 2022 appears excessive. In particular it appears inconsistent with public expectations, out of alignment with Government efforts to improve the affordability of private health insurance for consumers and out of step with efforts to reduce the cost of regulation.

The private health insurance industry is prudently sound and well run. Given experiences in other regulated industries from the Global Financial Crisis through to the Hayne Royal Commission and on to the present day, and the ultimate risk profile perceived for each of these industries, it is not clear how Authorised Deposit-taking Institutions (ADIs) and Life Insurers could be slated for a **reduction** in APRA levies (General Insurers are being asked for a 5.23% increase and Superannuation 7.44%) compared with PHI at 19.2%.

It has not been demonstrated why circumstances would warrant such a large increase in Supervisory Levy for PHIs against other industries.

Private health insurance is a mature well run industry. It has strong and effective mechanisms in place to ensure prudential safety and there is no compelling justification to require expanded supervision at increased regulatory cost to the end consumer. In particular we point to the role of the independent appointed actuary, minimum capital requirements, short tail risk, absence of catastrophic risk and the legislated collapsed insurer levy.

With respect to the proposed increase in 2022/23, it is the policyholders who ultimately bear the costs, and we believe the proposal would benefit from a clearer acknowledgment of this impact. Private health insurers are focused on keeping premiums as affordable as possible and we would encourage Treasury to consider the impact the levy impact will have on health consumers and look for further savings and efficiencies. It is Members Health's view that, unless there is a compelling reason otherwise, the Supervisory Levy for private health insurers should increase by no more than the annual movement in CPI.

We believe that the proposed increase in levies for PHI should be:

- Revised downwards by Treasury to better reflect a justifiable level of APRA supervisory activity over the PHI industry.
- Set in future years after the completion of a more fulsome consultation process that should be conducted over a minimum of two month period and include an invitation for health insurance funds to provide unidentified feedback on any proposal via a survey or another anonymous method.

We are also of the view that future consultation materials prepared by Treasury, on the APRA Supervisory Levy, be accompanied with a table outlining all past supervisory levy increases for completeness - such as that presented in Table 1 of this submission.

Once again, Members Health thanks Treasury for the opportunity to provide our feedback on this proposal. We welcome any further engagement with Treasury and invite any queries relating to the matters we have raised here.

Yours Sincerely,

MATTHEW KOCE

CEO, Members Health Fund Alliance