6 June 2023

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 2023-24

We appreciate the opportunity to provide our feedback on the proposed supervisory levy for the Private Health Insurance (PHI) industry. In making our submission, we acknowledge the ongoing and constructive engagement between the Australian Prudential Regulation Authority (APRA) and the PHI industry. We particularly commend the high standards met by APRA's front line supervisory staff and the efforts made by senior management to consult with the sector on various matters, including the Deferred Claims Liability, premium round application process, and development of new standards. The dedication shown by APRA 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. This sets private health insurance apart from the financial service industries regulated by APRA.

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.


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In the context of any proposed 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 2023-2024 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 25 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 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 levy for the PHI industry is intended to reflect alignment with the APRA allocation approach. This is the second year that the PHI industry is subject to 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 decrease from $11.8 million in/2022/23 to $10.4 million in 2023/24. This represents a $1.4 million, or 11.86 per cent decrease.

While the discussion paper states an expected levy decrease for the coming period, we note that since 2016, that the cumulative increase in the annual levy for the PHI industry has been 77.5 per cent. See table 1 below:

[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


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Members Health FUND ALLIANCE

| | Table 1: APRA Financial Institutions Supervisory Levies revenue | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Private health insurers** | **2024*** | **2023*** | **2022*** | **2021** | **2020** | **2019** | **2018** | **2017** | **2016** |
| Annual supervisory levy $ | $10,400 | $11,800 | $9,900 | $7,700 | $6,090 | $4,533 | $6,715 | $4,136 | $6,231 |
| Annual increase/decrease $ | -$1,400 | $1,900 | $2,200 | $1,610 | $1,557 | -$2,182 | $2,579 | -$2,095 | $0 |
| Cumulative increase/decrease $ | $4,169 | $5,569 | $3,669 | $1,469 | -$141 | -$1,698 | $484 | -$2,095 | $0 |
| Annual increase/decrease levy % | -11.86% | 19.2% | 28.6% | 26.4% | 34.3% | -32.5% | 62.4% | -33.6% | 0.0% |
| Cumulative increase/decrease % | 77.5% | 89.4% | 58.9% | 23.6% | -2.3% | -27.3% | 7.8% | -33.6% | 0.0% |

* Treasury, Proposed Financial Institutions Supervisory Levies for 2023-24 : Table 7: Total levies required by industry, p.10. https://treasury.gov.au/sites/default/files/2023-05/c2023-388960-discussionpaper.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

We acknowledge the need for APRA to have appropriate resources. However, the long-term increase in the supervisory levy fee is significant. Such an increase over time appears inconsistent with public expectations and does not align with government efforts to improve the affordability of private health insurance for consumers.

The PHI industry operates as a mature and well-run sector with robust mechanisms in place to ensure prudential safety. We particularly emphasise the role of the independent appointed actuary, minimum capital requirements, short-tail risk, absence of catastrophic risk, and the legislated collapsed insurer levy. This should be reflected in supervisory levy fee.

Private health insurers are focused on keeping premiums as affordable as possible and we would encourage Treasury to continue to consider the impact any future levy changes will have on health consumers and look for further savings and efficiencies.

We also believe that any future adjustments for levies for PHI should be decided upon after a comprehensive consultation process, which should span a minimum of two months and include an invitation for health funds to provide feedback anonymously through a survey or another appropriate method.

Consistent with our submission last year, we recommend that future consultation materials prepared by Treasury regarding the APRA Supervisory Levy be accompanied by a table outlining all past supervisory levy increases. This will ensure completeness and provide a clear historical perspective, as demonstrated in Table 1 of this submission.

Finally, we would encourage Treasury to provide a written response to each submitter.

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,

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CEO, Members Health Fund Alliance


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