

14 April 2017

General Manager
Policy Development
Australian Prudential Regulation Authority
12/1 Martin Place
Sydney, NSW 2000

Email: insurance.policy@apra.gov.au

Dear Sir/Madam

Submission on APRA Discussion Paper

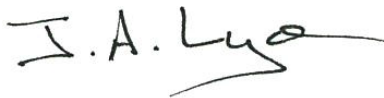
Risk management prudential standard for private health insurers

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents over 4,600 members. Our members have had significant involvement in the development of insurance regulation, financial reporting, risk management and related practices in Australia and Asia.

The attached submission sets out the Institute's response to APRA's discussion paper on the introduction of a risk management prudential standard for private health insurers released for consultation in December 2016.

Should you wish to discuss any aspects of this submission or meet with Institute representatives please contact Chief Executive Officer of the Actuaries Institute, David Bell on (02) 9239 6106 or by email david.bell@actuaries.asn.au.

Yours sincerely



Jenny Lyon
President



Summary

As the prudential regulator of Australia's private health insurance (PHI) industry, the Australian Prudential Regulation Authority (APRA) has commenced making enhancements to the governance and risk management of PHIs as it reviews the prudential standards applicable to the industry.

In December 2016, APRA released a discussion paper on the adoption of Prudential Standard CPS220 Risk Management by PHIs, with limited modifications to reflect the standards and terminology used within the industry. The purpose of the standard is to harmonise risk management regulations across all of APRA's regulated industries with the exception of superannuation.

The Actuaries Institute supports the introduction of a formalised risk management standard for private health insurance and the overarching objective of Prudential Standard CPS220 to enhance risk management across industries.

Nevertheless, the Actuaries Institute recommends some changes to the proposed prudential standard as outlined below.

Overall recommendations

Chief Risk Officer role

We support APRA's decision to require the Chief Risk Officer (CRO) role within private health insurance. It will guarantee the ability of the designated individual to raise risks directly with the Board if required. That the CRO is a 'designated' rather than 'dedicated' role will help ease the administrative cost burden on small to medium size insurers. However there is still likely to be a financial impost for an insurer to employ a single individual to fulfil this position, particularly given that the role is likely to be currently shared across multiple individuals within the insurer (including the CEO and CFO who are unable to fulfil the function).

As many of the material risks associated with private health insurers are financially driven, we believe there is benefit in the CRO reporting to the CFO in some circumstances, provided that the CRO maintains direct, independent access to the CEO and Board.

The requirement for a designated CRO and an appropriately resourced 'operationally independent' risk management function may be difficult for small to medium insurers to maintain.

Clauses 41-42 allow insurers, if approved, to operate under alternative arrangements. APRA should demonstrate how it has seen the application of CPS220 successfully work within small to medium insurers, examples of what these alternative arrangements could be and indicative benchmarks under which they will be accepted.

Interaction of CRO and AA

From the discussion papers released, APRA views the CRO role sitting within the second line of defence. Currently the substantial aspects of the Appointed Actuary (AA) role within private health insurance sits across the first line and second line of defence.



Unlike the AA role within general insurance and life insurance, Appointed Actuaries within PHI are required to provide advice (or be notified) under a wider range of conditions as per the notifiable circumstances outlined in prudential standard HPS320 *Actuarial and Related Matters*. In this area we see overlap with the CRO role, particularly as the notifiable circumstances cover areas that would affect the risk appetite or management of the insurer, and therefore could be considered a primary responsibility of the CRO.

APRA should clearly articulate its expectation of the differing roles and responsibilities of the AA and CRO and how those roles may interact and complement each other within the PHI industry, particularly given the less prescriptive scope of the AA role compared to general insurance and life insurance.

Length of transition period

APRA has stated its aim for the risk management standard for the PHI industry to take effect from 1 January 2018. Where insurers are unable to make this deadline, we note that section 58 allows insurers to apply to APRA, in writing, for an extension for full compliance with CPS220.

The 1 January 2018 commencement date does assume that the standard will be finalised in the first half of 2017, which may be unlikely if a second round of consultation is required. If finalisation of the standard does not occur prior to 30 June 2017, we suggest that APRA extend the commencement date to 31 March 2018 or later, depending on the actual finalisation date. This will ensure an orderly implementation and transition to the new prudential standard for PHIs.

Detailed recommendations

Below is a series of recommendations with respect to the wording of CPS220 and proposed amendments to HPS001 Definitions that APRA should action to increase consistency across standards.

Section of CPS220	Section of CPG220	Recommendation
23. (g) a management information system (MIS) that is adequate, both under normal circumstances and in periods of stress, for measuring, assessing and reporting on all material risks across the institution;	79. APRA expects that an APRA-regulated institution would, as part of its risk management framework, establish, maintain and document effective Management Information Systems (MIS) commensurate with the size, business mix and complexity of its operations.	<p>The wording of CPS220 23(g) be changed to: (g) management information system(s) (MIS)</p> <p>The introduction of a plural will reflect that an insurer may use multiple systems depending on the size, scale or type of risk being reported on.</p> <p>This change will align it with CPG220</p>



30 (e) 'ensuring all persons within the institution have an awareness of the risk management framework'.	Sections 21 – 26 CPG220 does not make reference to individuals being aware of risk management framework discussing risk culture only.	<p>We support APRA's requirement for insurers to instil an appropriate risk culture but recommend 30 (e) be reworded to reflect individuals need to have an awareness of the risk management framework <i>as it relates to their role</i>.</p> <p>For example it is unlikely that a claims manager will need to have detailed awareness of the capital risks faced by the insurer, or a janitor to have detailed awareness of the risk management of risks outside OH&S and building security.</p> <p>The current wording may be interpreted as all individuals need to be aware of the entirety of the RMF.</p>
23 (f) an Internal Capital Adequacy Assessment Process (ICAAP)	Sections 39.-41.	<p>APRA should explicitly reference the Capital Management Policy requirements for PHI within the body of CPS220, rather than a footnote.</p> <p>We note that the CPG220 directly references the CMP in the body of the text.</p>
HPS001		
Material risks		<p>Definition of APRA regulated entity is not defined.</p> <p>It is recommended that this be changed to APRA-regulated institution.</p>
ICAAP		<p>As CPS220 and CPG220 explicitly reference CMP under HPS110, the inclusion of ICAAP is unnecessary.</p> <p>APRA should remove reference to ICAAP to avoid confusion.</p>