

House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

Division/Agency: Australian Prudential Regulation Authority
Question No: APRA07QW
Topic: Speech to the Members Health Directors Professional Development Program
Reference: Question in writing
Member: Jason Falinski MP

Question:

In reference to the speech Mr Geoff Summerhayes gave on 4 February 2020 at the Members Health Directors Professional Development Day in Sydney:

- (a) Mr Summerhayes claimed that only three health funds will be sustainable by 2022. Which three health funds was he referring to?
- (b) Has the APRA modelling (including the data, assumptions, and key definitions such as ‘sustainable’ and ‘well-capitalised’) used to support these claims been made available to all health insurers and their independent actuaries?
- (i) If not, why?
- (ii) What was the rationale behind setting an APRA 3 per cent cap modelled over two years?
- (iii) Were other scenarios modelled or considered (e.g. modelling a 2 per cent cap or modelling over three or five years)?
- (c) Was an advanced copy of Mr Summerhayes speech provided to the CEOs of ASX-listed insurers Medibank private and NIB? If so, why; and why was an advanced copy not provided to other insurers?
- (d) Was Mr Summerhayes speech released to the media under embargo? If so, why?
- (e) On 5 February 2020, there was an article in *The Australian* titled ‘Call for review as exodus leaves health funds exposed: Just three health insurers “viable”’:
- (i) Does APRA believe that Mr Summerhayes speech and the resulting media coverage have damaged confidence in private health insurance?
- (ii) Did APRA consider the risk that this speech could result in a run on health funds?

Answer:

- (a) The speech highlighted that many insurers may not have a sustainable business model in 2022 if the current trends continue. The speech encourages insurers to address the current trends and build their own resilience to better prepare for the challenges so the forecast situation does not arise. The insurers better placed to weather the current trends are those with higher margins and capital.
- (b) (i) Following the speech, APRA indicated to industry stakeholders that it was open to discussing the speech with insurers and made offers to insurers or their actuaries to discuss the speech and modelling.
- (ii) The 3 per cent assumption reflects that the average premium increase approved by the Government over 2019 and 2020 was 3.085 per cent.
- (iii) APRA assesses various scenarios for each insurer and for the industry. These include: different levels of benefit growth and premium changes, changes in demographic profile and investment income among others. These are similar to those undertaken by insurers themselves.
- (c) Nobody in industry was provided a briefing or an advanced copy of the speech prior to delivery. The two industry associations, Private Health Australia and the Members Health Fund Alliance, were notified in advance that the speech would reinforce themes that APRA had previously raised on the sustainability of health funds. The two ASX listed health funds were not given a briefing or an advanced copy, but were notified that the speech would be delivered the next day.
- (d) Embargoed copies were provided to the media, as is usual practice.
- (e) (i) No. The speech highlights the challenges facing the industry and the implications if they are not addressed, and gives insurers a number of questions that boards should be asking to address these challenges.

APRA has been increasingly concerned by the state of private health insurance and the industry's lack of action to address these challenges. See APRA's [media release](#) and [letter](#) of 3 June 2019.

The speech noted private health insurers were "profitable, well capitalised and comfortably able to meet their obligations to policyholders" but also highlighted that this could not be assured into the future unless the challenges facing the industry were addressed.

(ii) APRA's aim is for a sustainable, resilient industry. The speech gives greater encouragement for insurers to address the key challenges of affordability and perception of low value.

The speech was followed-up with an op-ed article in the Australian by APRA Member Geoff Summerhayes to further explain APRA's position.