

# The Australian Health Insurance Appointed Actuary

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**Public-Private Health Insurance Partnership**

# Overview

- Private Health Insurance in Australia
- The developing actuarial role in Health Insurance
- The Health Insurance Appointed Actuary role
- Professional Guidance for Health Insurance Actuaries
- Review of the Appointed Actuary role
- References

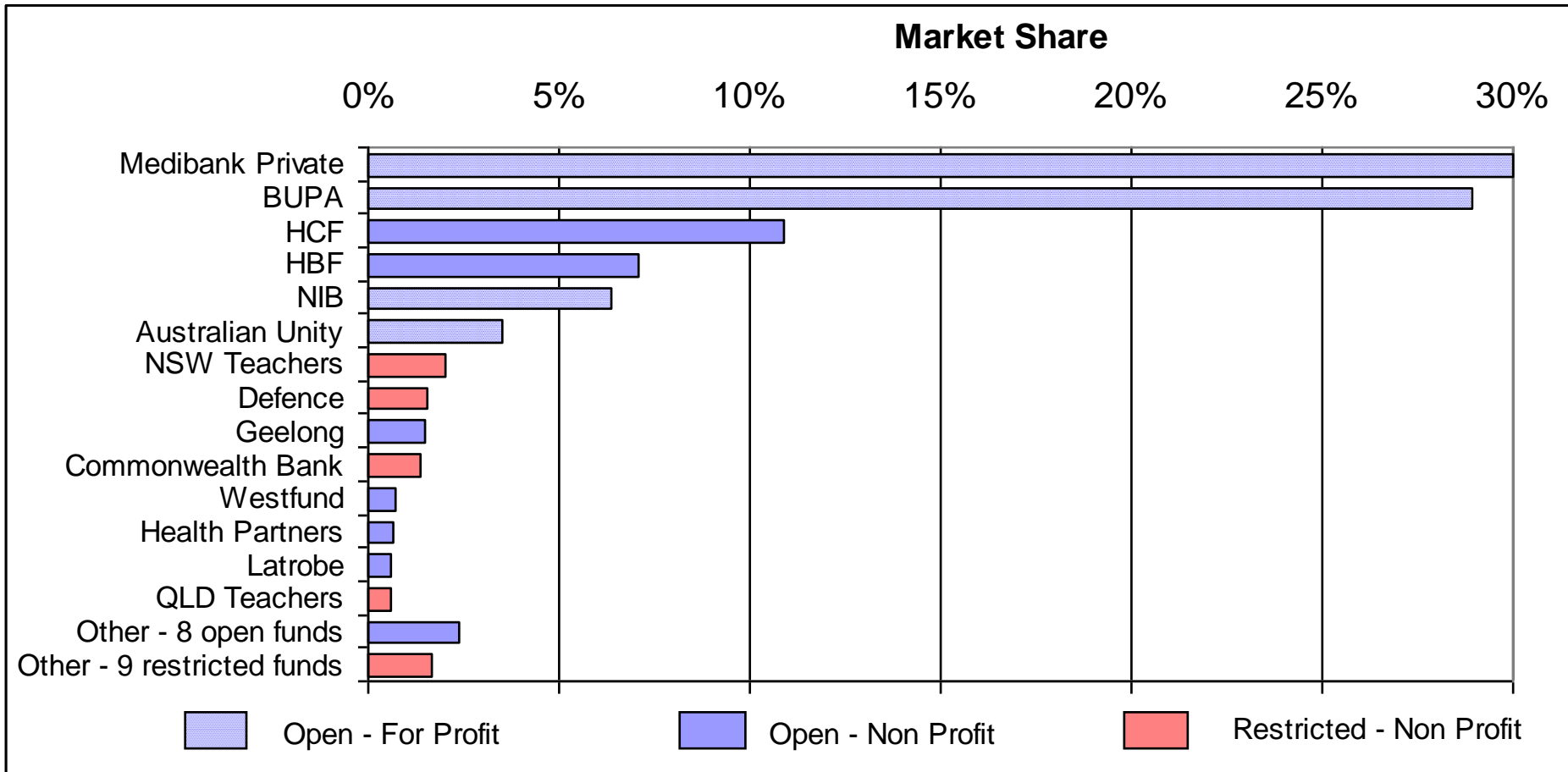
# Private Health Insurance in Australia

- A\$13 billion of revenue
- 31 insurer groupings
- 45% of the population covered by Private Health Insurance
- Private Health Insurance Act 2007 and regulations
- Health insurance is:
  - Undertaking of liability by way of insurance ... for hospital treatment or general treatment

Hospital treatment: - manage a disease, injury or condition  
- provided, managed or controlled by a hospital

General treatment: - manage or prevent a disease, injury or condition  
- not hospital treatment  
- no Medicare (Government health system) benefit is payable  
(includes dental, optical, physiotherapy, chiropractic treatment)

# PHI in Australia: Market Share



# PHI in Australia: Prudential Regulator

Private Health Insurance Administration Council (“PHIAC”)

- solvency & capital adequacy rules
- prudential advice to Department of Health & Ageing
- operate Risk Equalisation pool supporting Community Rating

# Developing actuarial role in health insurance

**Pre 2001:** No formal requirement, except for funds in financial distress

**Nov 2001:** Actuarial opinions required to support price increase applications

**July 2004:** PHIAC issues Appointed Actuary rules:

- price increases
- new products
- solvency and capital adequacy requirements
- risk margin
- Financial Condition Report

**April 2007:** Private Health Insurance Act formalises Appointed Actuary regime

Appointed Actuary can be: internal (Medibank & BUPA)

or external (11 actuaries for 29 insurers)

# The Health Insurance Appointed Actuary

The Appointed Actuary must perform or review:

- outstanding claims provision and outstanding claims provision model
- determination of any discretionary margin used in the capital adequacy assessment
- risk margins for annual financial statements
- Financial Condition Report for the Board

# The Health Insurance Appointed Actuary

‘Notifiable Circumstances’: The insurer must notify the Appointed Actuary of:

- Proposed changes to premium rates
- Proposed changes to product benefits
- Significant changes to strategic or business plans
- Development of a new product
- Significant changes to an existing product
- Significant changes to investment policies
- Significant changes in risk profile
- Changes to the capital management plan
- Any other event with a significant impact on the business
- Significant business diversification activity
- Any event specified by the Appointed Actuary



# The Health Insurance Appointed Actuary

The Appointed Actuary must:

- Provide actuarial advice
- Notify the insurer of any event which is expected to have a material impact on the fund
- Advise the insurer of any matter that requires action to avoid a breach of the Private Health Insurance Act
- Notify PHIAC of a potential breach of the Private Health Insurance Act if the insurer fails to act following a notification
- Notify PHIAC if its believed there has been a breach of the Private Health Insurance Act that may significantly affect the interests of policy holders

# The Health Insurance Appointed Actuary

The Private Health Insurance Act provides the Appointed Actuary with:

- Access to information and documents
- Qualified privilege for statements made
- Attendance of meeting of directors relating to solvency, capital adequacy or actuarial advice
- Attendance at meeting of members to consider financial statements or actuarial advice

# The Health Insurance Appointed Actuary: demutualisations

- Four recent health insurance demutualisations with actuarial involvement
- Actuary's opinion on:
  - fairness and reasonableness of allocation rules
  - impact on reasonable benefit expectations
  - impact on future contribution rates
  - impact on security of benefits
- Determining allocation basis:
  - windfall gain
  - ease of understanding and calculation
  - equity: size of policy and membership duration

# Health Insurance Actuarial Professional Guidance

## Guidance Notes

- GN650 Actuarial Reports and Advice on Outstanding Claims in Health Insurance
- GN660 Financial Projections for Health Insurers
- GN670 Financial Condition Reports for Health Insurers

# GN650: Outstanding Claims in Health Insurance

- Issued June 1999

Procedures

Data

Central Estimate

Administrative Expenses

Risk Equalisation

Provision

Reporting

Checklist

# GN660: Financial Projections for Health Insurers

- Issued December 2002
- Supports actuarial opinion on projections supporting price changes

Business Context

Financial Projections:

Models

Data

Assumptions

Reporting

# GN670: Financial Condition Reports for Health Insurers

- Issued July 2004

- Appointed Actuary

- Business Context

- Scope

- Data

- Recent Experience

- Insurance Liabilities

- Investments

- Projections

- Solvency and Capital Adequacy

- Contribution Rates

- Risk Management

- Recommendations

- Checklist

# Review of the Appointed Actuary role

- Formal Health Insurance Appointed Actuary role in place for 5 years
- A review of the role is now underway, with a focus on:
  - What has worked well
  - Where can improvements be made
  - Next 5 years and beyond
- Institute of Actuaries of Australia working together with PHIAC



# References

- **Regulatory Framework for Health Insurance Appointed Actuary role:**
  - Private Health Insurance Act [www.tinyurl.com.au/8vm](http://www.tinyurl.com.au/8vm)
  - Insurer Obligations Rules [www.tinyurl.com.au/8vo](http://www.tinyurl.com.au/8vo)
  - Health Benefits Fund Administration Rules [www.tinyurl.com.au/8vp](http://www.tinyurl.com.au/8vp)
- **Institute of Actuaries of Australia**
  - health insurance newsletters [www.tinyurl.com.au/8vq](http://www.tinyurl.com.au/8vq)
  - health insurance professional guidance
    - GN 650: Outstanding Claims [www.tinyurl.com.au/8vr](http://www.tinyurl.com.au/8vr)
    - GN 660 Financial Projections [www.tinyurl.com.au/8vt](http://www.tinyurl.com.au/8vt)
    - GN 670 Financial Condition Reports [www.tinyurl.com.au/8vu](http://www.tinyurl.com.au/8vu)
  - Evolving role of the health insurance actuary (Lurie 2005) [www.actuaries.asn.au](http://www.actuaries.asn.au)
- **Private Health Insurance Administration Council (PHIAC)** [www.phiac.gov.au](http://www.phiac.gov.au)

# Discussion & Questions

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