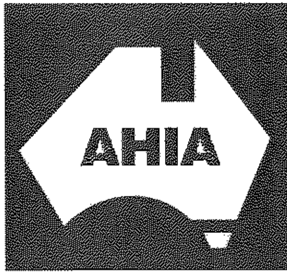

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Professor David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
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AUSTRALIA

Dear Professor Boymal,

Request for Comment on IASB Discussion Paper *Preliminary Views on Insurance Contracts*

Thank you for providing the opportunity to submit comments in relation to the IASB's discussion paper, *Preliminary Views on Insurance Contracts.* The following comments represent those of the Private Health Insurance Administration Council (PHIAC) and the Australian Health Insurance Association (AHIA).

PHIAC is the prudential regulator of the private health insurance industry in Australia. The AHIA is a representative association of registered private health insurers (RPHI's) in Australia.

Both bodies actively contributed to the development of AIFRS in support of the AASB during Phase 1 of the IASB's insurance contract project culminating in RPHI's for the first time being required to adopt AASB 1023 General Insurance.

During that process the specific and unique features of private health insurance in Australia were highlighted. These features encompass community rating, government regulation of pricing and the restricted number of both for profit and not for profit insurers participating in the private health insurance market in Australia.

With Phase II of the IASB's insurance project moving further to a single standard for insurance contracts, the features of private health insurance in Australia continue to be key issues for the industry when considering suitable standard setting.

Presented in this paper is the view that health insurance contracts are not, in substance, long-term contracts and, in measuring insurance liabilities, health insurers should continue to recognise all cash flows to the later of the date of the next practicable price review and the expiry of the period of prepaid insurance cover. Our specific comments are outlined below.

If you have any questions, please contact Brett Comer on (03) 9937 4106.

Yours sincerely

HON DR MICHAEL ARMITAGE
CHIEF EXECUTIVE OFFICER
Australian Health Insurance Association

MS GAYLE GINNANE
CHIEF EXECUTIVE OFFICER
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2 November 2007

Comments - Preliminary Views On Insurance Contracts

Private health insurance premiums - Guaranteed insurability

The discussion paper raises the concept of Guaranteed Insurability with implications for how insurance contracts would be viewed as either long-term or short-term in nature.

The key features of the legislative and regulatory environment governing RPHI insurance contracts are –

- RPHI's cannot refuse to issue a person with a new policy, or to renew that policy unless the policyholder is more than 2 months in arrears for premiums due.
- Policyholders have full portability between RHBO's on equivalent levels of cover without the need to re-serve waiting periods previously served or pay any furher premiums to previous RPHI
- Mandatory community rating of policy pricing meaning RPHIs are prohibited from price discrimination for policyholders by reason of age, health status, sex or other distinguishing factors
- The Australian Government controls pricing through a legislated approval process. This process usually comprises annual review that potentially limits an insurer's capacity to change contract prices more frequently than annually
- Minimum coverage requirements for most policies
- Policies have benefit limitation periods or waiting periods before full benefits are payable, but these can be waived at the discretion of RPHIs
- RPHIs cannot re-insure risks but there does exist an industry wide government controlled risk equalization program which distributes across the industry the cost of high claims and claims of older policyholders

Insurance contracts issued by RPHIs are currently treated as short term contracts under AASB 1023, where the period of cover is principally determined by the period for which premiums are paid in advance. In some circumstances these contracts can give rise to constructive obligations, but any liability in relation to constructive obligations are also short term in nature and, in practice, do not extend beyond the next price change opportunity, usually a maximum of 12 months.

Having regard to the features detailed above, both PHIAC and the AHIA continue to view RPHI insurance contracts to be, in substance, short term in nature. Both PHIAC and the AHIA are concerned that the discussion paper presents an alternate view, which would have significant implications for RPHIs. The guidelines for guaranteed insurability detailed in the discussion paper are considered below.

a) Policyholder must pay premiums and at a price contractually constrained

RPHI's are not, in general, constrained in re-pricing premiums. Once the advance payments for cover expire, there is no contractual constraint in changing prices or benefits relating to cover.

However, a different view could be expressed because some short term constraints do exist such as the necessity for premium changes to be approved by the Australian Government or where a policyholder has paid in advance for cover.

b) insurer can compel policyholder to pay premiums

RPHIs can compel payment of premiums only if the policyholder wishes to retain cover or is in arrears more than 2 months and wishes to make a claim.

On the other hand, legislative requirements guarantee a policyholder's right to continue the current level of cover with a different insurer, eroding the concept of compulsion.

In light of the, it is not clear as to whether RPHI issued contracts would continue to be viewed as short term in nature, or as long term contracts. This gives rise to some concern as differing interpretations may lead to inconsistent and uncertain treatment for RPHIs.

Both PHIAC and the AHIA would welcome further clarification of requirements in relation to contracts issues by RPHIs.

Measurement of insurance liabilities using Current Exit Model

The Current Exit Model requires measurement of liabilities as the amount the insurer would pay to transfer it's liabilities to another entity.

Of concern to PHIAC and the AHIA is the lack of observable data to form the basis of an exit valuation. The transfer of RPHI contracts is rare in the industry, and may only be conducted through a process established in legislation.

Compounding the difficulties associated with valuation are the varied characteristics of the 38 extant RPHIs;

- 25 RPHIs are open to all members of the public, 13 RPHIs are restricted access insurers (that is, closed to the general public)
- 6 RPHIs are for profit, tax paying entities, the remaining 32 being not for profit entities that are mutual in nature.
- The three largest insurers have a combined market share of over 59%, 23 insurers have less than 1% market share
- there are currently no publicly listed RPHIs, however at least two are moving to listing

Both PHIAC and the AHIA are concerned that RPHIs would be unable to consistently and reliably identify suitable entities that provide a reference for them to perform this type of measurement approach. RPHIs would therefore need to use their own internal estimate of cash flows in measuring liabilities.

Such circumstances would have implications for the reliability and comparability of financial information, which PHIAC and the AHIA note is a critical input for the prudential regulation of the private health insurance industry.