



Health Insurance Restricted
Membership Association of Australia

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5 November, 2010

Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

E-mail: standard@asb.gov.au

Dear Mr Stevenson

RE : IASB exposure draft - Insurance Contracts

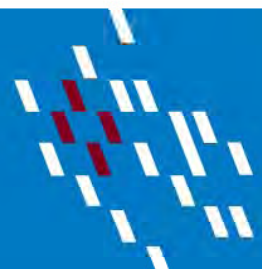
By way of introduction, the Health Insurance Restricted and Regional Membership Association of Australia (HIRMAA) is a peak industry body representing all thirteen (13) restricted access insurers and four (4) non-restricted access regional private health insurers (Attachment A). In summary, HIRMAA funds exist because of their unique historical and contemporary links to various professions, trades, industries, unions, employers and geographic regions. They are *not-for-profit* organisations with over 470,000 contributors providing private health insurance (PHI) coverage for over one million Australians.

After some initial discussions with David Torrance of KPMG Actuarial Pty Limited, a summary of our concerns are detailed below.

The key issue for private health insurers in the exposure draft appears to be the definition of the contract boundary. Under the exposure draft there appears to be two types of insurance contracts:

www.hirmaa.com.au

President – Mr John Rashleigh, Navy Health
Executive Director – Mr Ron Wilson



- A contract that can be risk rated individually e.g. car insurance in Australia, where the insurer can re-rate a policy on renewal (or even decline to renew a policy). Here the contract boundary is clearly the duration of the contract which is usually 1 year;
- A contract that cannot be risk rated individually and the insurance company has limited scope to change the terms and conditions and can only do so for a class of policyowners. This is a life insurance style contract where once the policy has been purchased, the life insurance company has limited, if any, ability to change the benefits and limited ability to change the premiums, and when it can do so, it must do it for the entire class of policyowners. Here the contract boundary could be considered to be the expected duration of the contract.

PHI in Australia does not fit neatly into either of these two categories. While an insurer cannot individually risk rate a policy (as in general insurance) neither does it have restrictions upon its ability to change premiums and benefits similar to a life insurer. Reference is made to the provisions of the Private Health Insurance Act (the Act) and the principles of community rating which prevents health insurers from discriminating between people based on their health status or for any other reason defined in the Act.

A private health insurer can:

- Change the rules relating to a class of policies (a product) with 60 days notice including changing premiums and benefits;
- Close a product and offer the policy owners an alternate product with potentially significantly different premiums and benefits;
- Close the health benefits fund and not renew all the policies referable to the health benefits fund (PHI Act Section 149-20).

It would seem that these conditions lead to the conclusion that the contract boundary is not the expected duration of the policy (as in life insurance) as we are dealing with significantly different abilities to change the terms and conditions.

Currently the exposure draft seems to say that unless the contract is a short duration contract, it is treated as a long term contract (e.g. life insurance). However, the nature of PHI means that it does not fit the definition of a short duration contract and therefore falls into the default long term contract requirements.

It is our contention that an insurer's ability to change any of the terms and conditions (and in particular not renew) means that it is not a long term contract and applying the long term contract rules is not appropriate.

On that basis, it is our submission that, reflecting business practice and the regulatory regime in Australia (including community rating, guaranteed acceptance, portability and annual premium increases), PHI contracts should be treated as short duration contracts.

Thank you for the opportunity to lodge a submission on the Insurance Contracts
Exposure Draft.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ron Wilson', followed by a horizontal line.

RON WILSON
Executive Director

Attach.

Attachment A – HIRMAA funds

ACA Health Benefits Fund Ltd

CBHS Health Fund Ltd

Defence Health Ltd

Health Care Insurance Ltd

Health Partners Ltd*

Lysaght Peoplecare Ltd*

Navy Health Ltd

Phoenix Health Fund Ltd

Police Health Ltd

Queensland Country Health Ltd*

Railway and Transport Health Fund Ltd

Reserve Bank Health Society Ltd

Teachers Health Ltd

Teachers' Union Health Fund Ltd

The Doctors' Health Fund Ltd

Transport Health Pty Ltd

Westfund Ltd*

* denotes regional open fund