

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: APRA08QW

Topic: Consolidation of health funds

Reference: Question in writing

Member: Jason Falinski MP

Question:

What is APRA's view on forced consolidation of health funds?

- (a) How many health funds does APRA believe will be in existence in 5 years' time?
- (b) What impact would the forced consolidation of health funds have on health funds that are headquartered in rural and regional Australia?
- (c) Is APRA concerned that the loss of rural and regional based health funds will lead to the closure of small private hospitals located in the country?
- (d) How will APRA ensure healthy competition remains in private health insurance for consumers?

Answer:

The private health insurance industry faces significant challenges. Affordability and declining participation rates (particularly amongst the young) pose threats to all insurers. This is occurring despite substantial taxpayer subsidies and the Medicare levy surcharge. Ultimately, the viability of the industry and its participants will be determined by a combination of insurer actions and any Government policy changes that impact (positively or negatively) the attractiveness private health insurance to consumers. Given insurers should not rely on Government action to improve their situation, APRA has been encouraging insurers to take their own action now.

Based on APRA's review of insurer preparedness, not all insurers have a strategy to manage these issues.

APRA has requested all private health insurers develop a 'Recovery Plan' to ensure that there will not be a disorderly exit or undue consolidation of health funds. However, should insurers not manage the risks and not successfully implement their recovery plan, then APRA may need to step in to protect the interests of policyholders.

- (a) APRA's recent speeches and letters on Private Health Insurance have centred on encouraging insurers to do more to address its key challenges and giving guidance on how this might be done. How many insurers will exist in 5 years' time will depend on the decisions insurers take to address these challenges.

- (b) Regional and rural health funds have a number of natural advantages including specialised knowledge of niche markets, deep connections to local communities and a not-for-profit ethos that appeals to many customers. However, regional and rural insurers are not immune to the challenges facing the industry, APRA's actions encourage all insurers to ensure they are well managed and have strategies to address challenges they face.
- (c) APRA's intent in outlining its observations on the sustainability of the industry is to encourage greater action to ensure that insurers remain viable and can continue to serve communities into the future. APRA's preference is that insurers develop viable business models that allow them to continue to serve their policyholders well into the future.
- (d) APRA's actions to highlight industry challenges and provide guidance will ideally encourage more insurers to develop a sustainable business model. Differing strategies amongst insurers will assist in ensuring healthy competition for consumers.