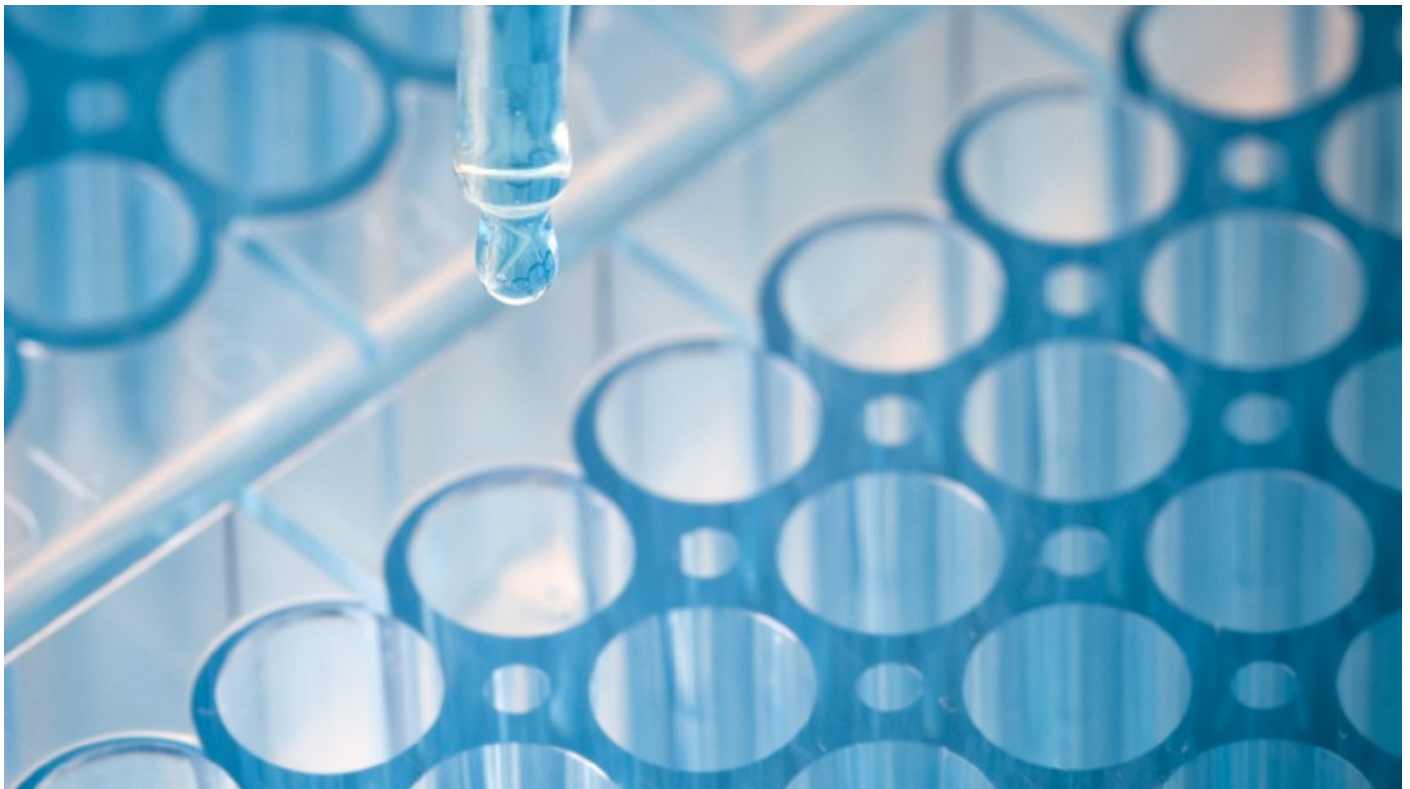


## New era of supervision of Australian private health insurers

January 14, 2015 | Written by Dean Carrigan, Troy Mossley and John Gallagher



### Reduction in government bodies

As part of the initiatives announced by the Federal Government in the 2014-15 Budget, it has been proposed that the Private Health Insurance Administration Council (**PHIAC**) will cease to exist as a statutory body and the prudential supervision of the private health insurance industry that is currently managed by PHIAC under the *Private Health Insurance Act 2007* (**PHI Act**) will be transferred to the Australian Prudential Regulation Authority (**APRA**).

On 12 January 2015, the Treasury commenced a consultation process and has released an exposure draft of the proposed bill – the *Private Health Insurance (Prudential Supervision) Bill 2015* (**the Bill**) as well as explanatory material and a consultation paper on the changes that will be made to the current PHI Act. The consultation period for these documents is open until 31 January 2015.

If enacted, the *Private Health Insurance (Prudential Supervision) Act 2015* (**the Act**) will empower APRA to administer the prudential regulation of the private health insurance industry in Australia and the provisions of the PHI Act relating to the establishment, functions and responsibilities of PHIAC will be repealed.

## Changes to the regulatory regime for private health insurers

Based on the current version of the Bill, the Act will largely mirror the regulatory regime set out in the PHI Act *ie* with regards to registration of private health insurers, requirements for health benefit funds and the regulations on the restructure, merger and acquisitions of health benefit funds etc.

While private health insurers should not expect too many surprises from the Bill, one of the proposed changes is the simplification of the existing prudential standards for private health insurers by replacing the three standard-making powers currently in the PHI Act with a single prudential standard making power. This change of itself is not significant however, more importantly perhaps, is that it potentially reflects the intentions of APRA to have a set of uniform standards that are applicable across the different financial institutions that it regulates including ADI's, superannuation funds, general insurers, life insurers and private health insurers.

Therefore, given that APRA will be empowered under the Act to regulate the private health insurance industry, it is likely that under APRA, private health insurers will need to meet the same prudential standards for risk management, outsourcing and business continuity as other APRA-regulated financial institutions. It remains to be seen whether APRA also implements new prudential standards for capital adequacy requirements of private health insurers that are more in-line with existing APRA standards for other regulated entities. These changes and the harmonisation of prudential standards in particular any changes to capital adequacy requirements for private health insurers, are likely to have a greater impact than the Act itself.

### Future developments

We will keep you informed of any developments with respect to the consultation process, the new Act and the implementation of prudential standards by APRA with respect to private health insurers. We note that the period of consultation for the Bill is very short and therefore, if you are interested in making submissions, we would suggest you do so with some urgency.

Should you require further information, please contact [Dean Carrigan](#), [Troy Mossley](#) or [John Gallagher](#).

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