



Level 2, 10-12 Brisbane Avenue, Barton ACT 2600  
PO Box 4549, Kingston ACT 2604  
T 02 6215 7900, F 02 6215 7977  
[www.phiac.gov.au](http://www.phiac.gov.au)

**PHIAC ref:** 130829 Ltr to OPBR Certifying Capital Standards Details-Stage RIS v2

29 August 2013

**Your ref:** 130822 Office of Best Practice Regulation ID No 2012 / 14174

Mr Jason McNamara  
Executive Director  
Office of Best Practice Regulation  
Department of Finance and Deregulation  
John Gorton Building  
King Edward Terrace  
PARKES ACT 2600

Email: [helpdesk@obpr.gov.au](mailto:helpdesk@obpr.gov.au)

Dear Mr McNamara

### **Details-stage Regulation Impact Statement – for assessment**

I am writing in relation to the attached final details-stage Regulation Impact Statement (**RIS**) prepared by the Private Health Insurance Administration Council (**PHIAC**) concerning proposed changes to the Capital Adequacy and Solvency Standards (**the Standards**) for private health insurers.

I am satisfied that the final details-stage RIS addresses the concerns raised in your letter of 22 August 2013. Specifically, the RIS incorporates changes to take account of the following key points raised by the Office of Best Practice Regulation (**OBPR**).

#### ***Problem identification and evidence***

The first point raised in OBPR's letter relates to clarifying the problems with the existing Standards, providing evidence and identifying the significance of each problem. In this RIS, the problems with the existing Standards have been clarified and how significant they are has been addressed by placing their importance in descending order. Additional detail has been added pertaining to the problems which have been identified particularly in respect of illustrating the prescriptive approach used in the current Standards and how this means that the current Standards are unable to fully take into account the changes in the risk profile of the industry over the last decade or so.

The RIS now makes that point that while individually each of the problems with the current Standards are not insurmountable, cumulatively these problems create a strong case for improving the current Standards. In this context, the RIS now makes the important point that the proposed changes seek to improve the Standards rather than addressing the need for regulatory intervention per se.

## ***Options***

The second point raised by OBPR relates to the link between the options consulted on and those options identified in the RIS and the need to identify which option is the 'light-handed' option. The RIS now clarifies the link between the options consulted on and the three options in the RIS. In particular, there has been extensive consultation over the period July 2012 to August 2013 on the option of overhauling the current Standards (Option 1). While there has not been recent consultation on the option of incrementally changing the current standards (Option 2), this possibility was considered in detail in 2007 and 2008 including the release of two consultation papers to industry.

The RIS now identifies the option of overhauling the current Standards (Option 1) as the 'light-handed' regulatory option. This reflects the view that the proposed new Capital Adequacy Standard empowers insurers to use their own data and methodology to determine the amount of regulatory capital they need to hold, and is less prescriptive and heavy-handed than the current Standards and the option of incrementally changing the current Standards. Further, the proposed Solvency Standard under Option 1 is more principle-based than the current Solvency Standard which relies on detailed rules.

## ***Impact assessment***

The third point raised in OBPR's letter relates to providing more detail on the costs and benefits section and providing an assessment of the net benefits. The RIS now provides detailed and clear analysis of the costs and benefits of each option. It also now includes a discussion of the net benefits of each option. In terms of quantifying the impacts, the RIS now provides a summary of the results of the Quantitative Impact Study undertaken as part of the second round of consultations, in terms of the impact on the amount of capital health insurers need to hold. It also now provides further information on the impact of the proposed new Solvency Standard.

However, it is not possible to precisely quantify the costs of implementing the proposed new Standards in terms of systems adjustments and resources for each insurer. That said, these costs are expected to be short term and small relative to the benefits of the proposed new Standards and relative to insurers total revenue and costs. The RIS also now indicates that any costs incurred by PHIAC (that is, government) in implementing the proposed new Standards including adjusting current systems for managing data will be absorbed within existing resources.

## ***Distributional and competition effects***

The fourth point raised in OBPR's letter relates to identifying the distributional and competition effects. The RIS now indicates that the distributional and competition effects on consumers and insurers are not expected to be material.

## ***Reasons for preparing a single-stage RIS***

The fifth point raised in OBPR's letter relates the reasons for preparing a single-stage RIS. The RIS now provides this reason. In particular, the RIS now indicates that as no decision has been previously announced, an options-stage RIS is not required. Further, the RIS indicates that, given the release of two consultation papers and extensive discussions with industry stakeholders over the past 20 months on the option of overhauling the current Standards (Option 1), PHIAC has effectively complied with an options-stage RIS.

**Conclusion section**

The final point in OBPR's letter relates to updating the conclusion particularly in respects of the net benefits of each option. This has now been done.

I also note that PHIAC has added to the RIS references to a small number of consequential changes to the *Private Health Insurance (Insurer Obligations) Rules 2009*, which have been made in order to bring the instrument better in line with the proposed new Capital Standards. These changes are consequential, minor and machinery, and do not represent any actual regulatory change.

In light of the abovementioned changes being made to the RIS, I am satisfied that the final details-stage RIS now meets the Government's best practice regulation requirements.

Accordingly, I submit the RIS for formal assessment.

Yours sincerely



**Paul Groenewegen**  
Deputy Chief Executive Officer