



EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 600: FINANCIAL CONDITION REPORTS FOR PRIVATE HEALTH INSURERS

June 2011

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding Professional Standard 600, which is the Institute's first professional standard covering Financial Condition Reports for Private Health Insurers ("PS 600"). PS 600 replaces Guidance Note 670 (Financial Condition Reports for Health Insurers) ("GN 670") which has been in effect from July 2004.

Background to development of standard

The role of Appointed Actuaries in health insurance is set out in the Private Health Insurance Act 2007 (Cth). GN 670 has been developed into a Professional Standard, consistent with the Professional Standards applying to statutory Appointed Actuary roles in both general and life insurance.

The new standard reflects the requirements of the Institute's Policy for Drafting Professional Standards, which is designed to ensure that all Professional Standards use consistent and objective terminology such that mandatory duties and requirements for Members are clearly defined and understood. It also reflects the requirements of the current Code of Professional Conduct.

Consultation process

On 20 October 2010, an Exposure Draft of the proposed professional standard was released for comment. Six formal submissions were received (including a submission from the Private Health Insurance Administration Council ("PHIAC")), as well as informal feedback from various parties during the subsequent review process.

On 11 May 2011, a Second Exposure Draft was released for comment. Four formal submissions were received (including a submission from PHIAC). The Explanatory Memorandum to the Second Exposure Draft described the changes that had been made to the Exposure Draft.

In developing the final standard, a number of discussions were held with various parties, including PHIAC. The Institute thanks both Members and PHIAC for their contributions and input.



Key changes since the Second Exposure Draft

The key changes made since the Second Exposure Draft were:

1. in clause 8.1 (business overview): clarifying that the relevant rules are those of the Insurer for its health benefit fund(s);
2. in clause 9.4 (recent experience): expanding the FCR reporting requirements in relation to areas of Material adverse experience. This change ensures that readers of the FCR have a fuller understanding of such areas and a context in which to place any recommendations made by the Appointed Actuary in relation to such;
3. in clause 11.3 (assets): specifying, in more specific terms, the obligations of the Appointed Actuary in relation to any significant changes in the method of valuation of the assets;
4. in clause 12.3 (projections of financial position): the clause has been expanded to require an Appointed Actuary to both discuss and, where he or she considers it appropriate, analyse, the range of potential profit and capital outcomes for the Insurer over the projection period which the Appointed Actuary considers are plausible and relevant to the Insurer's circumstances. Many Appointed Actuaries already undertake such analysis and the inclusion of such in the FCR, where considered appropriate, provides additional support on the face of the FCR for the Appointed Actuary's opinion about the financial soundness of the Insurer;
5. in clause 13 (premium rates): many of the changes from the Second Exposure Draft in this clause clarify that it is future premium changes, not past changes, which are relevant, resolving some ambiguity in the Second Exposure Draft. The changes also require consideration of the impact of assumed premium changes in the context of the Insurer's business plans and capital position;
6. clause 15.2 (capital management): this clause has been amended to be consistent with the outcomes considered in clause 12.3;
7. in clause 16 (risk management): paragraph (a) has been expanded in order to provide the reader of an FCR with a deeper understanding of the Material risks of particular concern in the circumstances and to avoid the situation of a mere 'shopping list' of Material risks being cited in FCRs;
8. in clause 17.1 (recommendations): the words "the financial condition and risk management of the Insurer" which appeared in the Second Exposure Draft have been deleted as it was considered that the previous wording may have suggested an unintended limitation as to the matters the Appointed Actuary makes recommendations upon; and
9. in clause 17.4 (recommendations): the obligations have been clarified.



Institute of Actuaries of Australia

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Commencement date

PS 600 applies to financial condition reports in respect of reporting periods ending on 30 June 2011 or later.

END OF EXPLANATORY MEMORANDUM