



EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 699.01 (PRICING AND FINANCIAL PROJECTIONS FOR PRIVATE HEALTH INSURERS)

September 2012

A. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared to assist Members in understanding the new Practice Guideline 699.01 (Pricing and Financial Projections for Private Health Insurers) ("PG 699.01") which replaces Guidance Note 660 (Financial Projections for Health Insurers) ("GN 660").

B. Background to review

In August 2008, the Institute issued a Policy for Drafting and Developing Practice Guidelines ("Policy"). The Policy is designed to ensure that all Practice Guidelines are drafted and developed in a consistent manner and in consultation with relevant and interested members of the Institute (and, where necessary, external parties). As a result, all existing Guidance Notes are to be re-drafted in accordance with the Policy.

GN 660 was issued in December 2002. Changes to GN 660 were also made necessary following the adoption of a revised Code of Professional Conduct in November 2009, the introduction of the Private Health Insurance Act 2007 (Cth) ("Act") and its accompanying Rules, and changes to the accounting standards.

C. Review process and consultation

A Drafting Group consisting of members of the HPC and Institute staff was established to review GN 660.

In April 2012, an Exposure Draft of PG 699.01 was released for comment. A total of 5 submissions were received on the Exposure Draft and the Institute thanks members for their comments.

A large number of the comments made in submissions were incorporated. In general, comments related to: tightening up language and definitions; removing reference to the industry being largely not-for-profit; discussion of various specific factors to be considered when undertaking pricing and financial projections; and sensitivity and scenario testing.

D. Key changes from GN 660

The following are the key changes which have been made to GN 660:

- ▶ ensuring that the replacement PG 699.01 reflects the Act, its accompanying Rules and standards and the relevant accounting standards; and
- ▶ the inclusion of guidance on pricing and product development (refer to section 7 of PG 699.01).

Other changes made to GN 660 are:

- ▶ terms have been updated to be consistent with the Act, its supporting Rules and the relevant accounting standards;
- ▶ there has been a significant number of re-ordering of sections;
- ▶ a new sub-section dealing with “sensitivities, scenarios and reasonableness” has been introduced (refer clause 8.20 of PG 699.01). While not a requirement, sensitivities and scenario testing provides significant insight and value to private health insurers; and
- ▶ reporting and record keeping requirements have been significantly expanded. As part of those changes, additional guidance has been included on the premium rate change application.

E. Commencement

PG 699.01 commences on 30 September 2012.

END OF EXPLANATORY MEMORANDUM