

Monitoring framework

For Private Health Insurers' COVID related permanent claim savings and givebacks



Australian Government

Department of Health and Aged Care

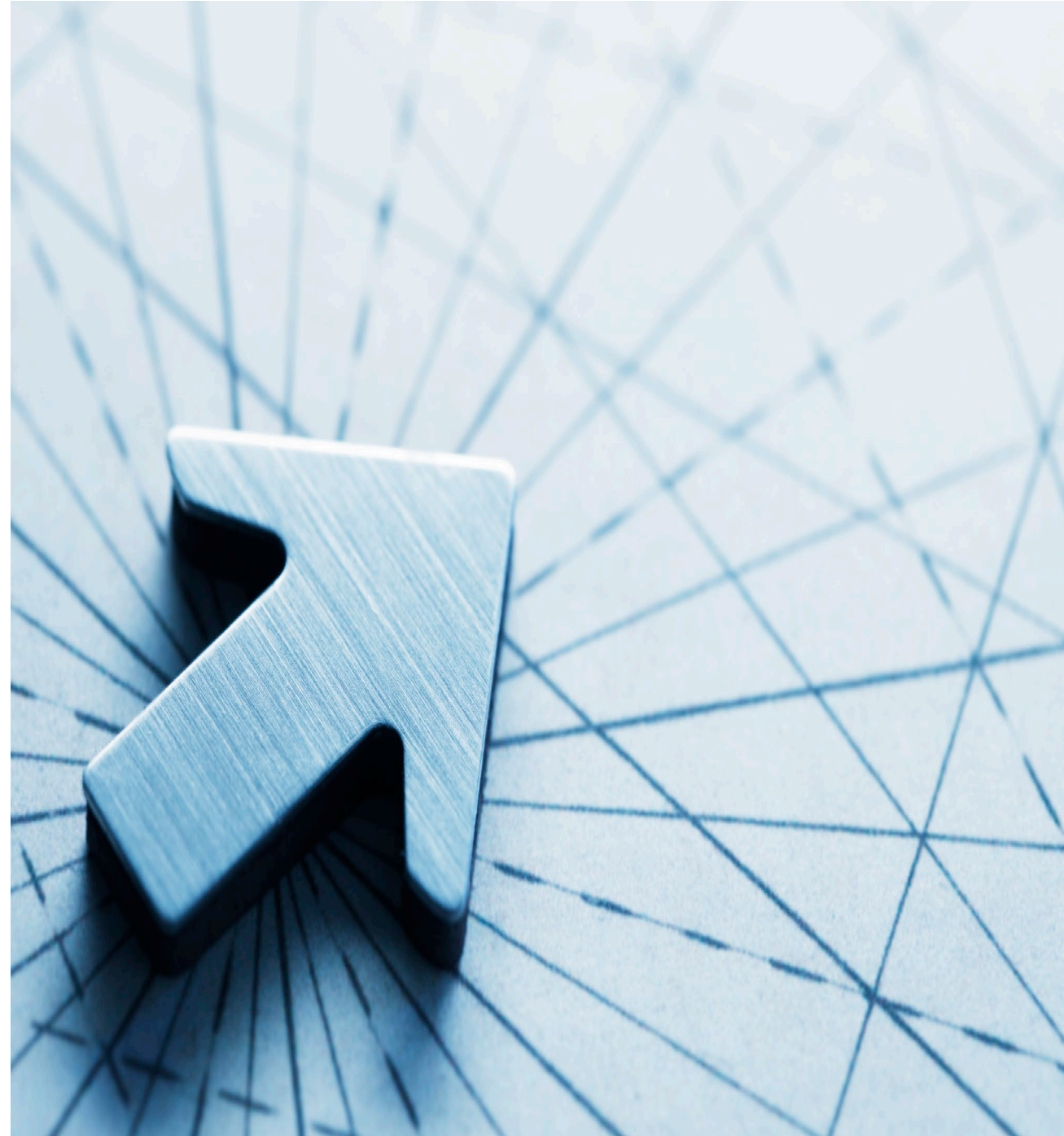
Aims

1. To monitor insurer commitments on givebacks are being met using a simple mechanism with proportionate reporting requirements.
2. Implement a monitoring framework that supports collaboration and information sharing between Government agencies as required.
3. Inform the public of the Department of Health and Aged Care's assessment about insurers' commitments.



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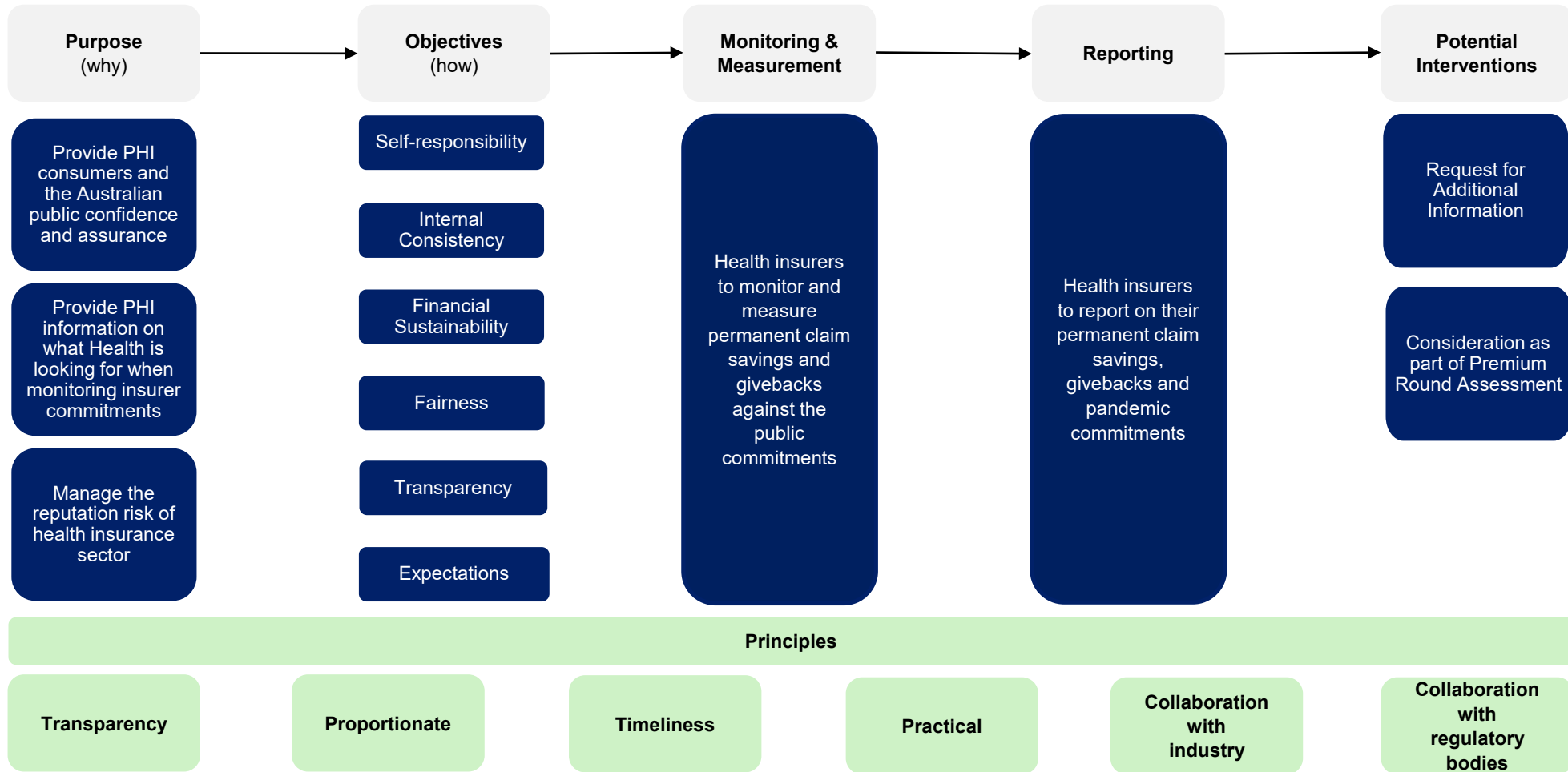


Guiding factors in framework

- Health acknowledges the responsibility of insurer boards in determining the appropriateness of actions, including types and method of meeting their commitments.
- Impact of pandemic created a lot of uncertainty, and it has taken time for the impact to be known and to flow through the health system. However, health insurers are in a better position now to consider givebacks and to develop plans on how they intend to meet and close off their commitments.
- Monitoring is not prescriptive, but principles based. Insurers will continue to set their own goals within broadly accepted guidelines.
- That said, the framework needs to strike a balance between being nonprescriptive and having some consistency in what is acceptable and reported across the sector.
- Scope of reporting is limited to each insurers' private health insurance business (resident and overseas).
- It is acknowledged that the commitments to not profit from the pandemic were voluntary.



Overview



1	Transparency
2	Proportionate
3	Timeliness
4	Practical
5	Collaboration with Industry
6	Collaboration with regulatory bodies

Principles

1. Insurers are transparent in their actions for the benefit of the public. Health is transparent in its monitoring.
2. The framework and monitoring is simple and assists health insurers to report on their givebacks, meeting their public commitments.
3. The framework encourages insurers to act on their pandemic commitments in a timely manner and to report back when commitments finalised.
4. The framework is practical and provides insurers with visibility of Health's expectations of health insurers.
5. The framework aligns expectations across insurers on the reasonableness of givebacks, and delivering on public commitments to not profit from COVID.
6. Information and process is shared to the extent possible with regulatory bodies (specifically, APRA and ACCC) to minimise burden on insurers by limiting any duplication of information.

Objectives

The Framework for finalising monitoring health insurers' Pandemic Commitments has the following objectives:

No.	Objective
1	Self-responsibility: Health insurers are responsible for defining and managing permanent claim savings and givebacks consistent with their public commitments and regulatory responsibilities.
2	Internal Consistency: There is a clear and transparent connection between the identification of any deferred claims liability, permanent claims savings and actual/planned givebacks to policyholders.
3	Financial Sustainability: Health insurers' givebacks do not pose a threat to the financial sustainability of insurers nor do they encourage an environment where health insurers are encouraged to take on more risk than desired.
4	Fairness: That the nature of givebacks would not be considered to be unfair by a reasonable policyholder or other stakeholder.
5	Transparency: Health insurers are able to articulate how they are meeting their public commitments in a clear and transparent manner. Health is transparent on what is being monitored and what the information is being used for.
6	Expectations: To ensure that insurers are aware that Health intends to share information with other regulators – specifically APRA and the ACCC - and are aware of the potential escalations should they be operating in a manner not consistent with their public pledges and/or reasonable action to discharge permanent claim savings. Regulators may seek to use information collected as part of monitoring in public-facing reports, only in an aggregated and deidentified way. Regulators must consult with the insurer if the insurer is to be identified in any public facing report.



Considerations for monitoring and measurement

It is the Department's view that the responsibility for the determining appropriateness of pandemic commitments and their distribution lies with each Insurer's Board. The considerations listed below reflect the Department's view, but ultimately each insurer will need to reach their own view based on their individual circumstances on how they meet their commitments.

Consideration	What would be acceptable by DOH	What is unlikely to be considered acceptable by DOH
Permanent Claims Savings	<ul style="list-style-type: none"> Differences between actual and expected claims where "expected" is the forecast before adjusting for COVID-19 impacts e.g. using the forecast gross margin to estimate "expected" claims; and "actual" takes into account claims that are expected to materialise based on rationale that is based on the nature of those treatments. Re-measurement as more experience emerges e.g. if permanent claims savings appear lower/higher than originally thought Measurement is on a cumulative basis with historical amounts retrospectively adjusted. Increased management expenses attributable to COVID and administration of givebacks may be offset where appropriately defined. Measurement of Permanent Claims Savings could allow for cross subsidisation between different cohorts where profit was directly affected by COVID-19. However, cross-subsidisation must be consistent with the public commitments made by the insurer and how an insured person may have interpreted the commitment. 	<ul style="list-style-type: none"> Including other sources of profit or loss e.g. investment returns, expenses. Measuring actual vs expected claims where "expected" has already been adjusted down to reflect COVID-19 impacts Double counting e.g. carrying over deferral/cancellations of premium increases into later periods as givebacks; using COVID-19 adjusted forecasts to estimate the baseline.
Givebacks	<p>Actions which are intended to return the permanent claim savings through directly benefiting members, e.g. (not exhaustive):</p> <ul style="list-style-type: none"> Cashbacks Lower premium increases Delayed premium increases 	<p>Uses of monies that do not directly return the permanent claim savings to members, or which have already been taken credit for such as:</p> <ul style="list-style-type: none"> Using permanent claim savings to subsidise (for example) operational losses that were the result of non-COVID related impacts, other product lines, other business ventures, or project costs. Carrying over past premium year deferrals of premium increases into later periods as givebacks.
Relief	<p>Actions which are intended to return the permanent claim savings through lowering profit, e.g. (not exhaustive):</p> <ul style="list-style-type: none"> Targeted premium support COVID benefits 	<p>Uses of monies that do not directly return the permanent claim savings to members, or which have already been taken credit for.</p>



Considerations for monitoring and measurement (continued)

	What could be acceptable	What is unlikely to be acceptable
Timing	<ul style="list-style-type: none"> Having a plan in place for givebacks to return permanent claim savings in line with public pledges and the risk appetite. 	<ul style="list-style-type: none"> Taking on too much risk i.e. distributing permanent claims savings too early; impeding on capital requirements or target capital levels. No evidence of significant progress towards fulfilling pandemic commitments.
Fairness	<ul style="list-style-type: none"> Targeting givebacks to achieve broad fairness as far as is practicable. Defining “fairness” that is defensible and is not inconsistent with the experience of members during COVID. Monitoring cross-subsidisation between member cohorts and accepting it within reasonable levels. 	<ul style="list-style-type: none"> Having no regard to fairness Givebacks that would breach the Private Health Insurance Act e.g. improper discrimination
Practicality	<ul style="list-style-type: none"> Adopting approaches which are simple to implement and communicate so that the insurer is able to be transparent and demonstrate it has met its commitments. 	<ul style="list-style-type: none"> Overly complex approaches to givebacks that are difficult to explain to members and make it difficult to demonstrate that the insurer is meeting its public pledges

Implications for reporting

Health insurers will be required to submit sufficient information to Health to explain their approach to defining and measuring permanent claim savings and givebacks, and how this meets their public commitments.



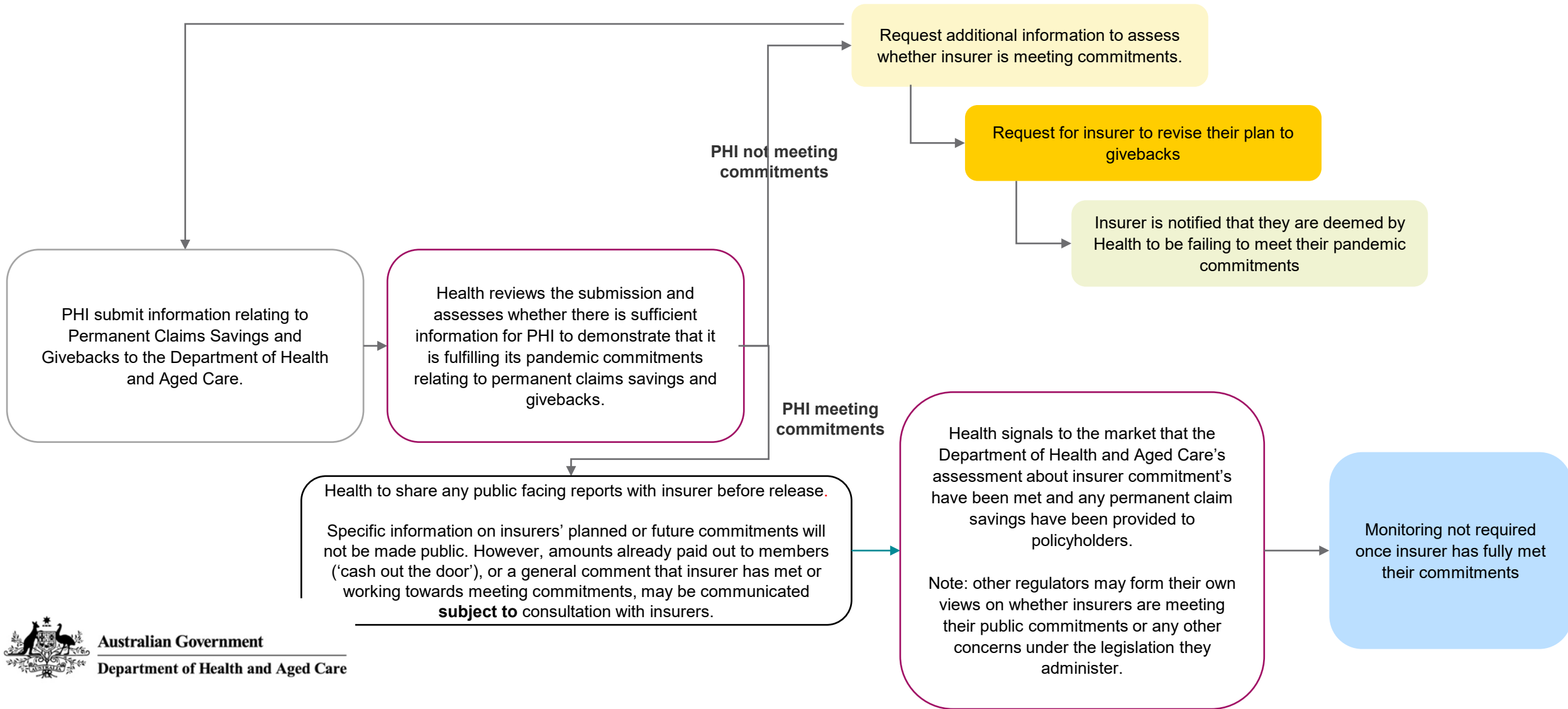
Reporting

- Health will develop a reporting template for insurers to report back to the Department to assess whether they are meeting their pandemic commitments (similar to information collected as part of 2022 premium round). This information will be requested on progress up to **30 June annually while an insurer retains permanent claim savings, and as it finally closes out commitments. The first request will be on progress up to 30 June 2022 and given to the Department by the end of September 2022.**
- Part 1 requests insurers to report the following:
 - Details of their public commitments where possible (the Department would encourage insurers to reference policyholder communications outlining their commitments).
 - Declaration whether the insurer has met their commitments.
 - How the insurer measures their estimated profits arising from the pandemic, the deferred claims liability, permanent claim savings, and givebacks and/or relief.
 - The methodology on how the above items are calculated.
 - The insurer's intended mechanisms in which relief and have been distributed, or plan to be distributed.
 - The insurer's approach to considering fairness.
 - Confirmation that the nature of givebacks does not pose a threat to the financial sustainability of the PHI.
 - Detail of the governance process supporting the plan.
 - Contact details of the insurer if the Department has further questions.
- Part 2 requests insurers to report the following:
 - Current, previous and future period value of Deferred Claims Liability, Permanent Claims Savings, and givebacks and/or relief (noting that historical amounts can be retrospectively adjusted).
 - Total current, previous and future estimated pandemic profits.
 - Gross margin and net margin.
 - Split of the givebacks and/or relief by mechanism or distribution methods.

Part 1 - Qualitative		
Declaration on commitments being met		
Public commitments	Policyholder communication	Distribution Mechanisms for Relief and Givebacks
How the value of the Deferred Claims Liability is defined and calculated	How the value of Permanent Claims Savings is defined and calculated	How the value of Relief and Givebacks is defined and calculated.
Consideration of Fairness	Confirmation of Financial Sustainability	Governance and Sign-Off
Part 2 - Quantitative		
Deferred Claims Liability	Permanent Claims Saving	Relief and/or Givebacks
Past, present and future Deferred Claims Liability	Past, present and future Permanent Claims Savings	Past, present and future Relief and Givebacks
Gross margin		Givebacks or relief split by distribution method



Actions / pathways



Next steps

Annual Reporting, with first report due end of September 2022.



Contacts

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