



Members Health Fund Alliance

Remuneration disclosure and reporting requirements, October 2022.



Members Health
FUND ALLIANCE

Putting members'
health before profit

7 October 2022

[REDACTED]
General Manager, Policy
Policy and Advice Division
Australia Prudential Regulation Authority

By email: policydevelopment@apra.gov.au

Dear [REDACTED],

Consultation on Remuneration disclosure and reporting requirements

Members Health welcomes the opportunity to provide its comment on issues raised in the Australia Prudential Regulation Authority's Discussion Paper *Remuneration disclosure and reporting requirements*.

Our Alliance of 26 not for profit and member-owned funds represents more than 35 per cent of the private health insurance market. Members Health supports a robust and fit-for-purpose prudential framework that promotes efficiency and quality outcomes for consumers.

Over 14 million Australians benefit from private health insurance cover – it provides peace of mind and first access to the best available health care, with a doctor of choice. Private health insurance is an important pillar of our mixed public and private health system, it reduces the financial burden on government finances and gives more patients greater control over their healthcare.

We note that private health insurance is a highly regulated industry that is stable, well managed with significant oversight and input from the Department of Health and Aged Care, APRA/Treasury Commonwealth Ombudsman, ACCC, SI and the ATO.

While recognising the need for the prudent management of remuneration and the consequence for poor risk outcomes, Members Health notes that APRA's current proposal represents an additional compliance burden on health funds with the potential to divert focus and resources from the broader pressures facing the industry: such as health cost inflation and affordability.

In reviewing the matter raised in the Discussion Paper and from feedback provided by our membership, Members Health recommends that in making these changes, APRA minimise additional compliance burden by ensuring the disclosure and reporting requirements are streamlined to the greatest extent possible, and that the regulator take steps to reduce regulatory burden.

Recommendation 1: APRA ensures that disclosure and reporting requirements are streamlined to the greatest extent possible, and that the regulator take steps to reduce regulatory burden.

Disclosure requirements

Members Health notes that APRA proposes to apply a proportionate approach to remuneration requirements and that ‘Significant Financial Institutions’ (SFI) as defined in CPS 511 would be subject to enhanced requirements, with non-SFIs being required to provide some level of public disclosure on remuneration frameworks.

We note that for SFIs, APRA proposes to include remuneration outcomes at the CEO individual level; senior managers, highly paid material risk takers and other material risk takers at a cohort level; and risk and financial control personnel that report directly to senior management at a cohort level.

Whilst not opposed to the principle of disclosure to APRA, *public* disclosure of remuneration is of concern due to privacy and the potential for unintended consequences. Several private health funds will meet the definition of an SFI and Members Health recommends that APRA clarify how the disclosures on remuneration will support the aims of the standard.

For example, disclosure to APRA of payments like guaranteed bonuses, sign on and severance payments may strengthen transparency in relation to how these arrangements are used and therefore may help determine whether an entity is maintaining a remuneration framework that promotes the objective of effective management of financial and non-financial risks¹. However, it is not necessarily clear as to what assumptions APRA relies on in requiring SFIs to disclose CEO *fixed* income amounts to support the same objective.

For this example, a more appropriate approach might be that the fixed income component is disclosed to APRA but not published on an individual level and instead published in the aggregate with the other material risk takers.

Recommendation 2: APRA to clarify the intent of its public disclosure of remuneration and explore alternatives to the current proposal.

In preparation for CPS511 requirements to be implemented from 1 July 2023, some funds have increased their resourcing in governance and remuneration due to the significant modelling and impact analysis required, while anticipating additional regulatory costs over the longer term to implement the changes and ongoing requirements. For example, software upgrades to meet CPS511 requirements have already put a significant impost on resourcing capacity.

¹Prudential Standard CPS 511(p.1) https://www.apra.gov.au/sites/default/files/2021-08/Final%20Prudential%20Standard%20CPS%20511%20Remuneration%20-%20clean_o.pdf

Cohort data

Related to the issues we highlight above, APRA states that disclosures by cohort will enhance “market discipline”², however in the absence of standard definitions for cohorts and noting their differing sizes, the regulator should clarify how the reporting and publication of cohort remuneration data supports the objectives of CPS 511. Additionally, concerns have been raised with Members Health that there is a potential for employee remuneration to be identifiable, despite being published within a particular cohort.

We also note that APRA has proposed to relevant organisations the option to either self-publish cohort data or leave it to the regulator to determine how this information will be published. Members Health’s preference is for organisations self-publish cohort data.

Recommendation 3: APRA to clarify how the reporting and publication of cohort remuneration data supports the objectives of CPS511.

Recommendation 4: Members Health does not support the regulator determining how cohort data is to be published and supports organisations self-publishing this data.

Reporting requirements

Privacy concerns and unintended consequences

Similar to concerns about public disclosure, the proposed reporting requirements may present a privacy risk for individuals. The reporting of individual remuneration and other information to APRA contains privacy risks which may go beyond the objectives of the standard. Additionally, the reporting of specific remuneration amounts may also lead to unintended consequences such as driving up costs of retention.

We note also privacy concerns on public disclosures where information or data can unintentionally be manipulated and become identifiable. Unlike a publicly listed company which can provide a narrative in an annual report to support its remuneration framework, requiring not-for-profit and private companies to publish CEO remuneration and cohort data without the benefit of context increases the likelihood of an unintended consequence of disenfranchising some members and potentially creating a misleading perception that remuneration is driving higher costs of premiums.

Timing

Members Health notes that there would be a four-month timeframe to complete the disclosure and reporting requirements. We stress that funds need a reasonable amount of time to prepare and validate the disclosures.

In comparison to banks, financial services and for-profit private health insurers, the smaller member-based private health insurers have fewer resources working on their

² Remuneration disclosure and reporting requirements (p.17) <https://www.apra.gov.au/sites/default/files/2022-07/Discussion%20paper%20-%20Remuneration%20disclosure%20and%20reporting%20requirements.pdf>

performance and remuneration processes, CPS511 implementation and ongoing disclosure and reporting requirements. It is likely that member-based private health insurance organisations will need to increase their resourcing to meet the additional ongoing monitoring of CPS511, disclosure and reporting requirements within the timeframes currently proposed.

Whilst Members Health also recognises that APRA will want to ensure the data is current, the additional governance reporting and disclosure requirements arising from CPS 511, requires more time for organisations to meet what is proposed. Members Health views six months as a more appropriate timeframe, with the ability to extend by exception in the first year of the requirements being implemented.

Recommendation 5: That APRA consider extending the timeframe for disclosure and reporting requirements to six months.

Conclusion

In recent times, APRA has introduced several significant changes that have impacted compliance costs for insurers, and ultimately consumers. We reiterate that that APRA take all possible steps to minimise regulatory impost, ensure that the relevant requirements are streamlined and avoid any unintended consequences.

Once again, Members Health thanks APRA for the opportunity to participate in this consultation, we are available to discuss the issues that are outlined in this response.

Yours sincerely,



CEO, Members Health Fund Alliance