

16 December 2019

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

Email: prebudgetsubs@treasury.gov.au

Dear Sir/Madam

Pre-Budget submission (2019-2020)

The Actuaries Institute (“the Institute”) is the organisation that represents the actuarial profession that primarily serves the Australian financial services sector. It educates members and supports ongoing professional development. The Institute is also active in contributing to public policy debates where its members have relevant expertise.

In this submission, the Institute’s aim is to help improve the community’s resilience to natural disasters and climate change, address concerns about insurance affordability and improve healthcare outcomes. Accordingly, we suggest that consideration be given to including the following policy recommendations in the Government’s pre-budget deliberations.

Climate Change, Natural Disaster Funding and Insurance Affordability

The Institute continues to have a strong interest in the potential for climate change to impact the financial services sector. General and life insurance, as well as investments and superannuation, are vulnerable to both transition risk (including “stranded assets”) and physical risk. Last year the Institute launched a climate index, an objective measure of extreme weather conditions and changes to sea levels, to help policymakers and the public assess how the frequency of weather extremes is changing over time. Each of the four quarterly updates since its launch indicate an increasing frequency of extreme conditions for the Australian Actuaries Climate Index compared with the reference period (of 1980-2010).

Based on expert scientific findings, the Actuaries Institute recognises that climate change is expected to have major environmental, economic and social impacts, and poses a serious risk to the industries that actuaries advise. In 2016 we estimated an annual natural peril cost to Australia of \$11-12 billion, of which only 40% was insured.¹ This figure includes public assets and the cost of intangible losses such as mental health and community well-being as a result of natural disasters.

Accordingly, the profession urges the Government to support policies to improve the nation’s resilience against natural disasters and to fund mitigation and adaptation measures supported by comprehensive cost benefit analyses. We note each of the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia have called out climate-related risks as important and requiring

¹ [The cost and funding of natural disasters in Australia – current position paper](#), Natural Disasters Working Group Actuaries Institute, 2016.



management.² Therefore, the Institute strongly supports the continued progression of, and funding for, the work by the National Resilience Taskforce now within the Disaster Resilience branch of the Department of Home Affairs.

The Institute's view is that a timely investment to mitigate the potential impacts of climate change will protect future budgets from significant adverse effects as well as help ensure insurance is affordable. We commend the additional \$50 million in funding announced in October 2019 and strongly support ongoing higher funding for mitigation initiatives. We also continue to encourage the Government to include estimates of future costs of natural disasters in the Statement of Risks section of the budget, both at an expected level and at different annual return intervals. This would provide transparency and encourage planning for the expected cost of natural disasters.

The Institute notes general insurance access and affordability is becomingly an increasingly important issue. As noted in the Institute's submission to the Second Update Report from the ACCC Northern Australia Insurance Inquiry, a key underlying driver of affordability concerns is a change in understanding of risk leading to more refined rating at the individual property level. Generally, this has a positive effect of sending economic signals about risk and providing incentives for risk mitigation, although a limited cohort of policyholders may experience significant price increases.

We encourage the Government to consider affordability concerns, including considerations around a reinsurance pool or any other mechanism, informed by the work of the ACCC Inquiry and the Actuaries Institute submission to that Inquiry.

Healthcare

Healthcare is an important public policy issue and one where the Actuaries Institute can provide independent advice, particularly in the area of insurance. As outlined in the June 2019 Institute Green Paper "How to Make Private Health Insurance Healthier", the current issues with private health insurance (PHI) include affordability, perceived poor value for money and other perception issues around its benefits. Of particular concern is the reducing participation rate of PHI amongst younger people.

The Institute notes proposals for premium rate caps with the intention of addressing PHI affordability are not sustainable in the long term. Premium rate rises are driven by growth in the cost of claims which insurers have limited control over e.g. specialists' fees. Insurers should be enabled and encouraged to help rein in these and other such costs of claims. Ultimately, without reforms to address the growth in the cost of claims, premium rate rises will continue to increase correspondingly.

The Green Paper identified many potential areas for further reform that could make a meaningful and lasting improvement to how private health insurance benefits the public including:

- enabling better choices between treatment options and fees by improved access to information that promotes transparency of fees and outcomes (including through websites), providing patients with an independent advisor on their options and enhancing informed financial consent rules;
- incentivising insurers to reduce unnecessary claim costs including potential changes to risk equalisation to better align with incentives;

² See, for example, [Box C of Financial Stability Review](#), October 2019, Reserve Bank of Australia for an elaboration.



- targeting inefficiencies in the supply side of private healthcare services including, for example, linking funding to outcomes; and
- focusing on the health of people with PHI including, for example, encouraging take up of wellness programmes, chronic disease management programmes, and health management platforms.

Most of these changes would require government intervention. The role that private health insurers can play in reshaping their future is somewhat constrained by regulations that restrict their influence in large areas of the healthcare system. As noted in the Green Paper³, over the last 20 years or so, the rise of chronic conditions and increase in healthcare procedures performed out of hospital requires a rethink of the funding role of private health insurance. Indeed advancements in medical treatments mean diseases that were once considered acute, such as breast and prostate cancer, now have a very long chronic phase that is managed in the community by GPs and allied health professionals. Additionally, the emergence of new technologies mean some healthcare procedures that were previously performed in private hospitals are now being performed outside of hospitals through community centres or managed in the home or by alternative treatments.

In this regard the Institute applauds the recently announced changes which begin the process of enabling private health insurers to support out-of-hospital care where that is best practice care, and we would encourage further consideration of reforms in this area.

Should you wish to discuss any aspect of this submission or make arrangements for a meeting with Institute representatives please contact Elayne Grace, Chief Executive Officer of the Actuaries Institute, elayne.grace@actuaries.asn.au.

Yours sincerely

Nicolette Rubinsztein
President

³ A discussion of these specific issues is provided on page 22 of the [Green Paper](#).