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HEALTH INSURANCE

Feedback: 2021 Review of the Financial Markets Authority Funding and Levy

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Company	Health Service Welfare Society trading as Accuro Health Insurance
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Accuro Health Insurance welcomes the opportunity to provide feedback on the discussion document – 2021 Review of the Financial Markets Authority Funding and Levy.

The role of the Financial Markets Authority is crucial in promoting a fair, efficient, and transparent financial market and we recognise that a well-funded regulator is important to providing trust and confidence in the sector.

We provide comment on five areas of the discussion document for consideration.

Funding options – Conduct of Financial Institutions and Insurance Contract Law
We agree that Option 1 for both areas (CoFI and ICL) would enable the FMA to take a proactive and collaborative regulatory approach by setting standards and issuing guidance, rather than focussing on enforcement after the fact. This would provide greater clarity and certainty in respect of regulator expectations compared to Option 2 , encourages better engagement between the sector and FMA, and may lead to better outcomes for customers (since under Option 2 interventions may only occur after potential customer harm has occurred).

The impacts of the CoFI and ICL regimes are still largely unknown. As the impact of increased levy's on a small entity like Accuro may be significant, we seek confirmation around the certainty of the additional funding/levy requirements and would suggest that review dates are considered and set at defined intervals to validate and affirm or reconsider funding requirements. This could potentially occur between the design and build, and build and implementation stages mentioned in paragraph 81.

Skilled industry resource constraint
The increasing remit of both the Financial Markets Authority and the Reserve Bank, and the overall industry move towards having improved conduct and culture practices in place, is driving the need to

increase resource both within the regulatory bodies but also within their regulated entities. As identified in paragraph 90, recruitment and retention of staff may be challenging for the FMA. We would suggest this is equally or greater so for regulated entities, especially not for profits who have limited ability to compete on employment packages in a very competitive market. We will all inevitably be competing to recruit the same pool of people to fill positions which could impact on the speed to implement or respond to the new regime and further drive-up operational costs (which ultimately may lead to higher premiums).

Timing

The insurance and financial services regulatory environment are going through a period of continuous high impact change. In this environment we consider the proposed timing for the implementation of CoFI too short and suggest a 24-month period between applications for conduct licensing opening and all of the obligations of CoFI coming into force would be more reasonable. This will allow sufficient time for the FMA to properly assess conduct licence applications and for our preparations for implementation.

We also agreed that the CoFI licencing window should only begin after the FAP transitional licencing window has closed.

FMA funding recovery options

As a small not for profit health insurer, operating margins and operating surpluses are small and balanced carefully to ensure the long-term sustainability of the Society for the benefit of our members. Any increase in levy's and/or additional compliance resourcing will therefore inevitably be passed on to our customers through increased premiums. Couple this with the increasing cost of medical care and treatments in New Zealand, the cost of quality hospital/surgical health insurance is leading to affordability issues for many New Zealanders. Private health insurance is a critical part of the New Zealand health system, helping to alleviate pressure on public hospital wait lists and funding pressures and helping kiwis back to quality of life and work.

While we totally support the need for a well-funded regulator, in considering funding options, we believe that the total cost of increased compliance through levy's, licensing and resourcing, especially for small market participants should be considered in its entirety to avoid the unintended consequence of reducing market participation.

As such, we would strongly support an increase in the proportion of Crown contribution to FMA funding, reverting back to the 25% previously contributed. We believe this will provide a better balance between Crown and Industry funding, given the additional resources and compliance costs that will be incurred by the industry during this period.

Current FMA levy model

As a general rule we agree that levies should be proportionate to the size of an entity. We note however that the increase in levies is exponential when moving between certain tiers – for example a 150% increase between annual gross premium exceeds $10 million but not $50 million and annual gross premium exceeds $50 million but not $100 million. For an insurer that it is growing and passing through this barrier, it leads to a significant increase adding to the compliance cost which needs to be covered by a low operating margin. We would suggest that there should be more tiers to mitigate this, and also recognition of different operating models (e.g. for profit vs not for profit entities).

While we can see some effort has been made to resolve current inequity, we believe that the tier model is still too weighted to the benefit of the organisations with the greatest scale and continues to add greater overhead as a percentage of premium to smaller market participants such as Accuro. This occurs in two ways:

- The higher up the tiers the lower the levy as a percentage of annual gross premium eg as a calculation of lowest revenue in the levy class 3A, tier to levy as an average across all levy options (incl. status quo) and periods included in annex 1 the average levy for those with $10m annual premium is .27%, $50m – 0.17%, $100M – 0.16% and $250M – 0.09%.
- Within the tiers the more annual gross premium earned the less the levy is as a percentage ie if annual gross premium is $94,000m the status quo levy would be $50,000 equating to .05% but if your premium is $51,000m the same levy equates to .10%.

The continued weighting towards benefiting larger entities seems in contrast to the option 1 area of enablement including proactive on-site monitoring of the largest registered banks and insurers (paragraph 84 point 4) and the balancing objectives underlying the levy at paragraph 215.

About Accuro Health Insurance

Accuro Health Insurance was set up in 1971 as the Hospital Services Welfare Society which was owned, operated and funded as an entity of the Hospital Boards Association but with its own board appointed by the Department of Health, the Hospital Boards Association and the Combined Hospital Unions. In 1991 the board established HSWS as an independent society under the ownership of its members. Today it operates as a private health insurer trading under the name Accuro Health Insurance. As a health insurer grounded in the public health sector Accuro is strongly committed to supporting the effectiveness of publicly funded health services and better health outcomes for all New Zealanders.

Our purpose is to help our Members get well and stay well. We are a member based, co-operative model whose history is rooted in a philosophy of care. Our North Star will always be our commitment to deliver great outcomes for our Members. That’s why we’re here.

Accuro is a member of the Financial Services Council (FSC), the industry body representing New Zealand’s health insurance sector.