



Australian Government
Private Health Insurance
Administration Council

Circular

Circular No 08/15

Replaces Circular: N/A

25 June 2008

Revised PHIAC 2 template

To enable PHIAC to further identify and monitor the risks of a private health insurer (insurer) and the industry, PHIAC has introduced a new schedule in the PHIAC 2 Return (Return). The new schedule, entitled 'Financial Instruments', has been implemented to provide additional information on the nature of an insurer's investment portfolio and more detail on the exposure of an insurer's assets.

The new schedule does not affect the solvency or capital adequacy reserve and other schedules remain unchanged. PHIAC believes that the additional disclosure will not create a substantial compliance burden on insurers. Details of the nature of the schedule are included below and the revised PHIAC 2 template can be found at <http://www.phiac.gov.au/forms/>.

This additional information forms a component of PHIAC's ability to assess actual and potential impact on an insurer, and the broader industry, from changes in the investment market. It also reinforces the key principles and PHIAC's expectations in relation to insurers' asset management practices, as outlined in Circular No 07/27. These principles promote PHIAC's focus on the quality of the processes underpinning the application of an insurer's investment policy, its interconnectedness with risk management, and its ability to comply with legislative requirements.

Completion of this new template is required in respect to the June 2008 quarter and subsequent reports, including Annual Returns.

New Schedule – Financial Instruments

Instructions on the completion of this schedule are as follows:

<i>Name of Investment</i>	This is the full name of the financial instrument. If the entry in the Insurer's Balance Sheet (Schedule 4) is a combination of various investments, the name of each investment should be separately identified.
<i>PHIAC 2 Balance Sheet Category</i>	This is the same category as detailed on Schedule 4. Completion of this column is via a drop down list.
<i>Value</i>	This is the same value as stated in Schedule 4. If the value in Schedule 4 is the aggregated value of various investments, then the value of each investment should be individually identified.
<i>Valuation Methodology</i>	This is how the investment was valued at the reporting date. Some examples

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include mark to market, fair value, cost and face value.

Manager

This is the investment manager that the insurer uses to manage the investment.

Nature of Investment

This is the underlying nature of the investment. The nature of investment may include, but not limited to:

- Deposit account
- Cash management trust
- Direct share investment
- Unsecured notes
- Put/call options
- Swaps
- Hedged funds
- Collateralised debt obligations
- Term deposits
- Debentures
- Managed funds/trusts
- Forward contracts
- Warrants
- Futures contracts
- Corporate issuer bonds

Counterparty

Counterparty is both a legal and financial term that refers to the other institution or entity to the investment contract.

Counterparty Grade

The Counterparty Grade is derived from the credit rating and requires a grading of 1-6 as per the summary table below. Investments without a grade must be classified as Grade 6.

Counterparty Grades

Grade	Standard & Poor's	Moody's	AM Best	Fitch
1	AAA	Aaa	A++	AAA
2	AA+	Aa1	A+	AA+
	AA	Aa2		AA
	AA-	Aa3		AA-
3	A+	A1		A+
	A	A2	A	A
	A-	A3	A-	A-
4	BBB+	Baa1	B++	BBB+
	BBB	Baa2	B+	BBB
	BBB-	Baa3		BBB-
5	BB+ or below	Ba1 or below	B or below	BB+ or below
6	Unrated assets or exposures			

If an investment has a number of grades, the insurer needs to record the rating attached to the largest value attributable to the grade. For example:

“Investment XYZ has a total value of \$100 000 which consists of the following credit rating by S&P:

\$20 000 rated A+

\$50 000 rated BBB+

\$30 000 rated AAA

The grade to be recorded for investment XYZ would be 4 (being BBB+), as this is largest component in the investment”.

Product Type

Off the Shelf: financial instruments that are available to the general public rather than specifically designed for the insurer. Possible indications of Off the Shelf products include the existence of a Product Disclosure Statement and regular performance update that is available to the public.

Tailored: these are products that are specifically tailored to meet the insurer's individual needs. Product information and performance update are generally only available to the insurer.

Maturity

The term to maturity, in months, at the end of the reporting period. For financial instruments with no defined maturity date and/or are perpetual in nature (for example; direct share investment, trading account), this cell can be left blank.