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20 – 21 May 2013  
Hilton Sydney



# Contemporary Issues in Private Health Insurance

**An industry discussion**



## Today's speakers

- **Andrew Matthews, Medibank** First Impressions
- **Indula Abeykoon, BUPA** Customer Migration
- **Bronwyn Hardy, Teachers Health** Actuaries & Broader Health Cover
- **Rob Paton** Draft Principles for PHI Reform
- **Nicholas Stolk** The Profession in PHI

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# First impressions

**Andrew Matthews**

# 1. Remember What's Important...



2. Make a positive contribution...

3. Healthy...A wicked problem?

4. Adventure....A complex network!



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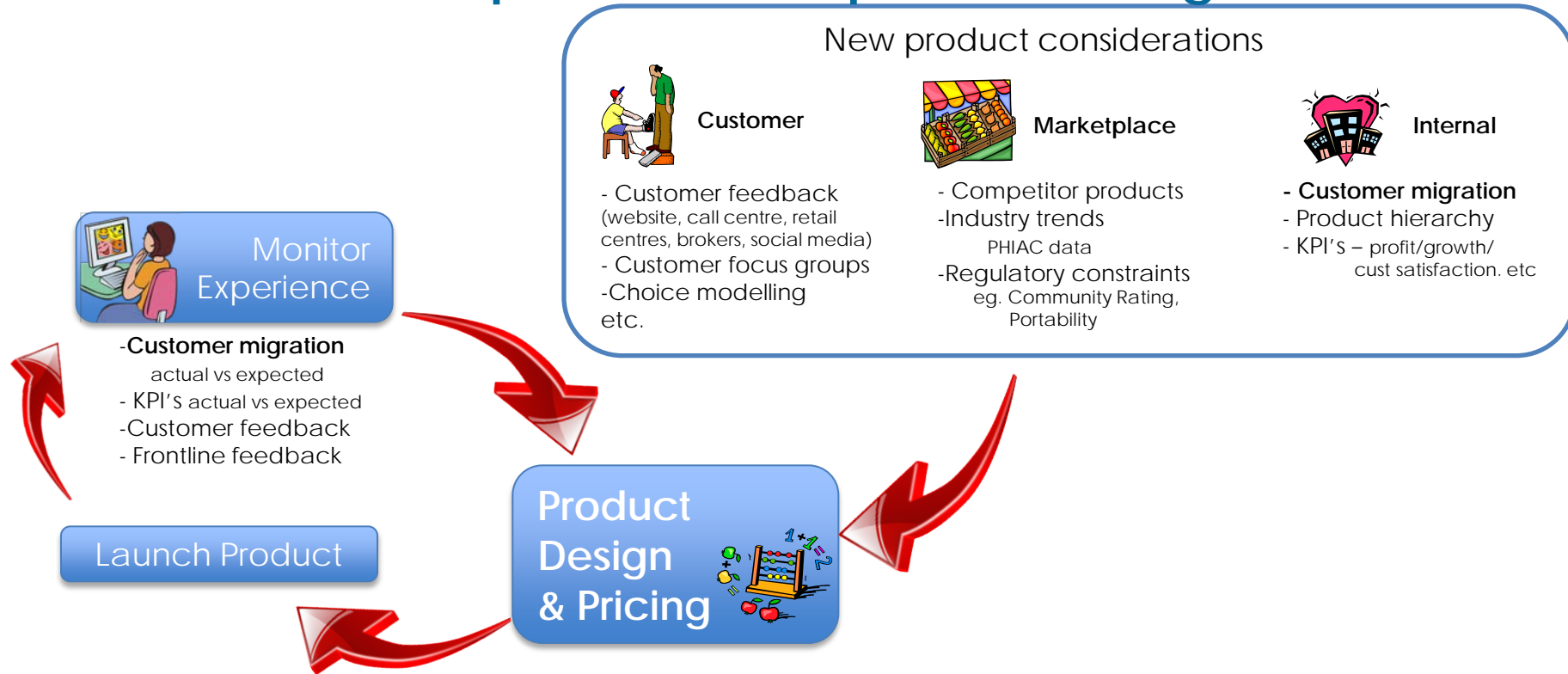
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# Customer migration

**Indula Abeykoon**

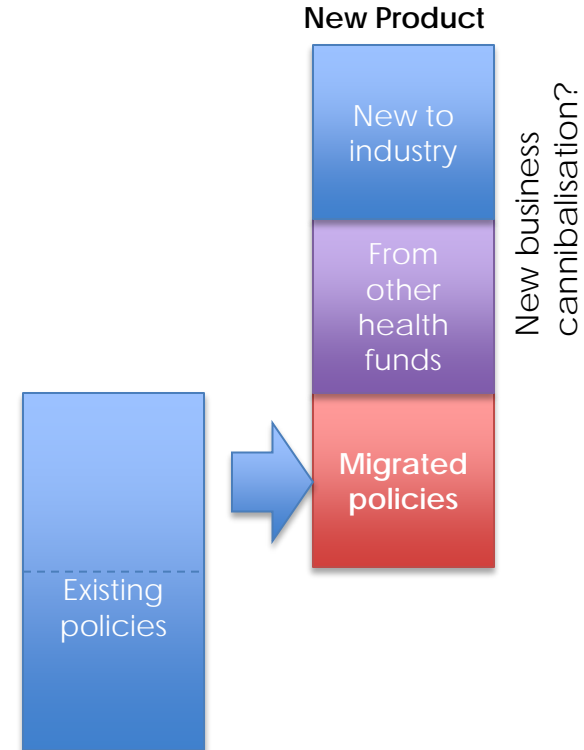
# Context : some aspects of new product design





# Customer migration

- Opportunities
  - Simplification of product offering
  - Reducing number of closed products
  - Moving members to more relevant products
- Risks
  - New products vs tweaking existing
  - Where there is no forced migration, customer self-selection becomes a risk
  - New products with higher benefits and/or lower premiums will lead to margin erosion
  - Expected risk profile vs. actual risk profile
- Monitoring
  - Regular monitoring e.g. monthly
  - Understand where margin is coming from e.g. different customer segments



## Discussion points

- Lessons learned from the past experience.
- Possible guidelines on what ought to be measured.
- Capital strain considerations - e.g. margin erosion
- FCR inclusion. Is customer migration risk material?



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# Actuaries and Broader Health Cover

**Bronwyn Hardy**

## Actuaries and Broader Health Cover

- Broader Health Cover initiatives cover a wide variety of programs designed to:
  - Improve health and wellbeing
  - Reduce the impact of known diseases or conditions
  - Offer alternatives to hospitalisation where appropriate
- The success of such programs has many facets
  - Clinical efficacy
  - Financial benefits
  - Member wellbeing
- Actuarial involvement
  - Targeting individuals for involvement
  - Forecasting utilisation
  - Program evaluation

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# Draft Principles for PHI Changes

**Rob Paton**

## Changes for the PHI System : Draft Principles

- Build from Actuaries Institute Health Financing Policy position.
- Assume no services/costs shift either to or from Medicare as part of changes to PHI.
- Maintain community rating structure i.e. guaranteed access and portability, no “improper” discrimination, risk equalisation consistent with tabular premium structure.
- Permit tabular premiums to vary by appropriate demographic characteristics (e.g. age, gender, state, scale, etc). Loading of tabular premium by insurer not permitted.
- Permit tabular premium discounting determined by insurer at individual policyholder level, based on objective evidence (including health status), subject to a substantial maximum discount. Model central estimate premiums based on discounting assumptions
- Permit each policyholder to establish a health savings account associated with an insurance policy to pay copayments, deductibles and premiums at policyholder option
- Require an appropriate minimum co-payment by the policyholder in respect of each material insured service delivered by a provider. Insurer would pay each provider only after policyholder certifies as to accuracy of each such material service



## Changes for the PHI System : Draft Principles (continued)

- Permit (but not require) limited prefunding of insured benefits.
- Encourage insurer connection to policyholder's GP (e.g. premium discount).
- Encourage each provider and each policyholder to use the policyholder's e-health record to maximum extent available.
- PHIAC to publish system level fee data for each provider and to establish link to each provider licensing authority.
- Index (regularly) each numeric.
- Specify **minimum** policy benefits at low levels which include minimum preventative services. Consider increasing current maximum waiting periods.
- Benchmark PHI premiums covering minimum benefit policy for single persons below age 60 against an appropriate full-time earnings measure.
- Determine risks in specific proposals and appropriate mitigants.
- Progressively reduce premium rebates over time.
- Determine a gradual pathway for implementation.

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# The Profession in PHI

**Nick Stolk**



## Where do actuaries work in PHI?

- At the time of writing, there were 13 unique Appointed Actuaries – three internal, ten external consultants.
- Institute members were employed on the staff of 13 health insurers (as per below), as well as, a number of consultancies and PHIAC.

**medibank**  
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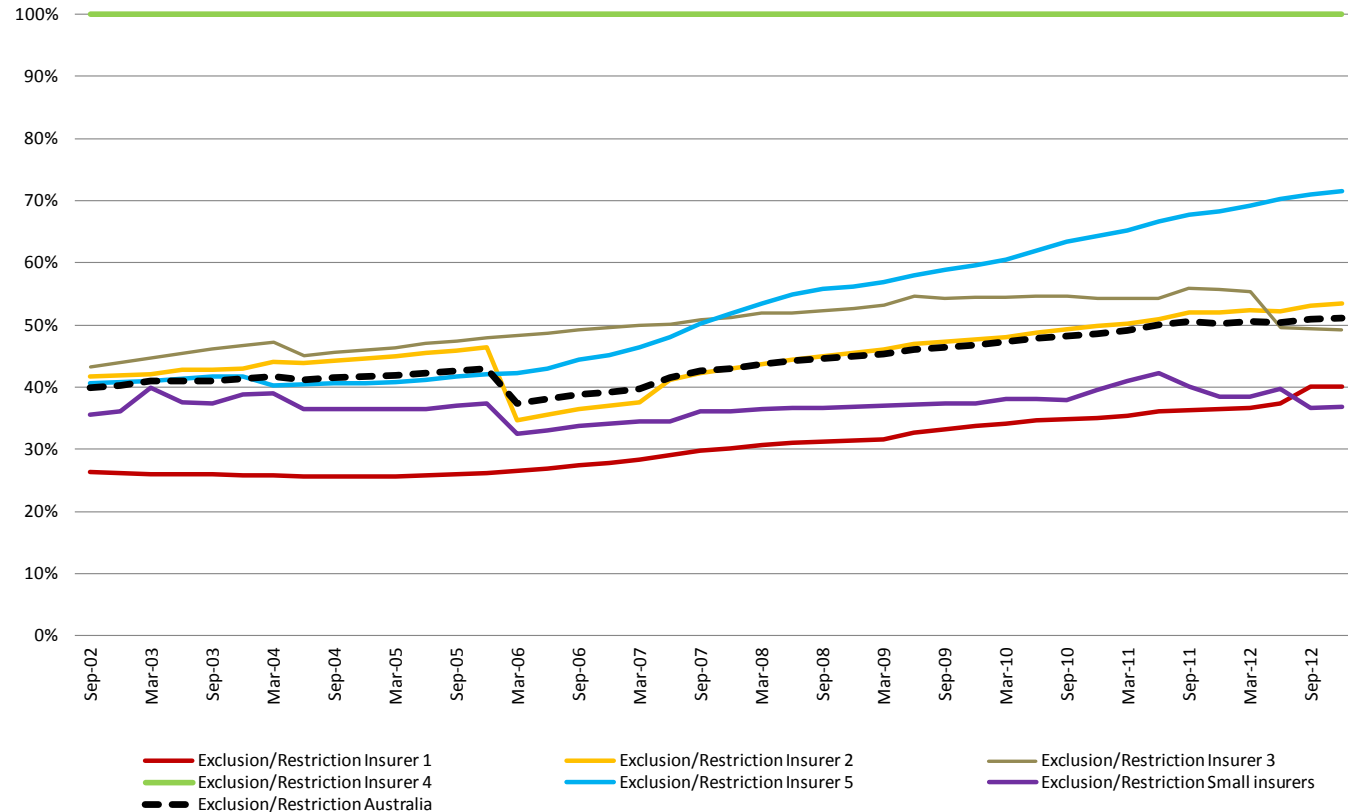


# The rise of products with exclusions and/or restrictions

Increasing attention is also given to product 'value'.

There are a range of consumer views on policy exclusions. Some people don't want to pay for things they don't need, others believe exclusions undermine their cover.

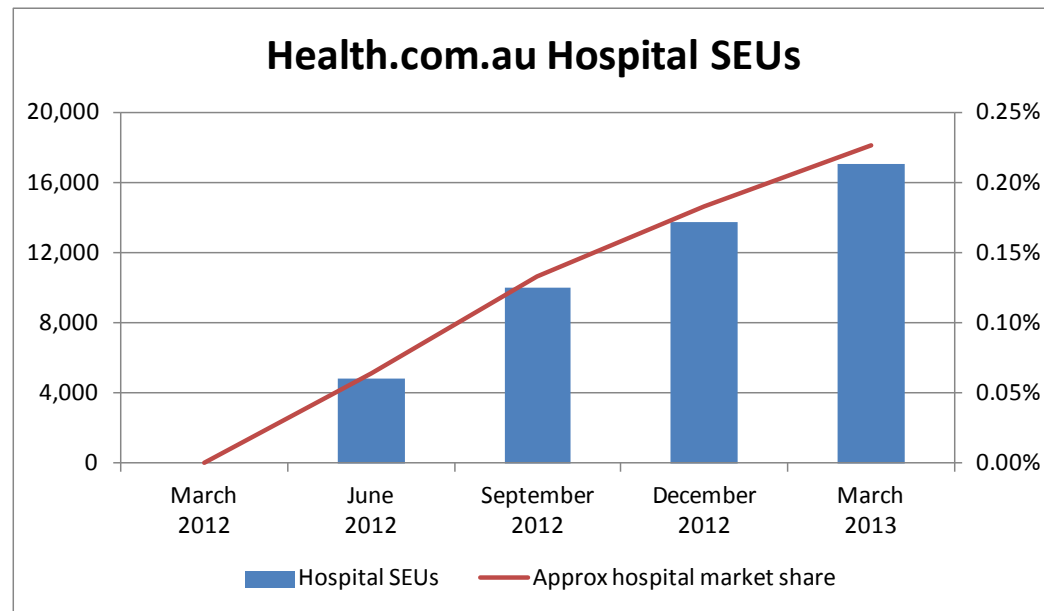
Percentage of policies with exclusions and/or restrictions





## A new entrant

- Health.com.au Pty Ltd commenced trading on 16 April 2012.
- They are the first new entrant to the PHI industry since 2006/07.
- Their CEO has stated that they “would focus on providing a highly transparent product that solved people’s health insurance needs.”
- Health.com.au Pty Ltd utilizes iSelect as its primary distribution channel.
- PHIAC made their registration as a health insurer subject to a number of conditions for their first three years of operation including:
  - Monthly PHIAC 2 reporting;
  - Actuarial sign-off on quarterly PHIAC 2 returns; and
  - Not applying for a transfer of assets.





# Aggregators

Brokers 'driving up costs'  
SMH, 15 April 2013

This article represents a lot of the recent industry debate...

Medibank claims:

- Growth of comparison sites have led to higher premiums
- Industry-wide surge in advertising costs
- "Haven't changed the dynamics of affordability"

iSelect claims:

- Increases the size of the PHI market
- Helped match people to appropriate insurance
- Is explicit about commissions
- "Funds wouldn't use us if we weren't an efficient form of distribution for their products."

A quick web survey reveals at least 11 comparison sites now featuring health insurance...



comparehealth



iSelect, the largest of the aggregators in PHI, has been mooted for ASX listing for some time – expected listing in 2013.



## To discuss

1. Is health insurance an attractive area to young actuaries? Do we need to do more to attract actuaries to health insurance practice?
2. What and where are the main opportunities for actuaries working in PHI? What are the most significant threats?
3. Are there any areas where actuarial practice in PHI needs to evolve?
4. What do you think the Institute's Health Practice Committee should be focusing on now to ensure PHI actuaries remain 'sought after' in the future?