OUTCOME REPORT

Private Health Insurance Premium Setting Reference Group
Wednesday 30 May 2018 (10:00 – 16:00)

Attendees

1.	Pierre Nijssen	Chair, Department of Health
2.	David Watson	APRA representative
s 47F(1)		s 47F(1), s 47G
4.	Andrew Gower	s 47F(1), s 47G
5.	Jamie Reid	finity actuaries representative
6.	Evelyn Njoo	Defence Health representative
s 47F(1)		s 47F(1), s 47G
s 47F(1)		s 47F(1), s 47G
s 22(1)(a)(i)		Department of Health

Introductions

The Chair:

- introduced the meeting;
- noted that Members had not signed confidentiality agreements, but Members were encouraged to keep the discussion confidential due to the public sensitivity of the matter;
- noted that the media had obtained the terms of reference and associated background paper;
- requested that the Department be notified if any member receives any media contact; and
- requested that individual insurers not be identified in the discussion.

The Group noted that, in general, customers did not express complaints about the "average"[1] as it does not apply to them personally. Consumers were more concerned about their own percentage premium increase experience.

It was noted that the Private Health Insurance Ombudsman Quarterly Bulletin 86 describes that there were 69 complaints about premium increases in the quarter ending March 2018. There were 4 complaints on premium increases in the preceding quarter, and 8 in the prior quarter.

The Group noted that other "general insurers" do not publish an average. In that sense, the Group felt that the private health insurance industry is already giving consumers more transparency than other insurers, where there is no premium round.

The Chair noted that due to the operation of the Rebate Adjustment Factor, it was not possible to move away from an industry average.

Discussions on current context

[1] The average refers to both individual insurer averages and the industry average

The Group agreed on some high level guidelines to support the discussion. These guidelines included that the average premium increase should be:

- Consistent:
- With previous year representation of the average;
- Between insurers, to allow for comparability between funds;
- Simple for consumers to understand;
- A number that can be trusted by consumers;
- Reflective of the consumer experiences;
- A number that is not prone to "gaming".

The Group noted that a common perception is that an increase in premiums links to increases in profits, which is not necessarily correct. It was noted that the current publication of the average does not include any additional metrics to demonstrate where premium increases are directed - such as increases in benefits.

It was noted that the Government requires an average to be:

- An indicator of insurance inflation;
- Inclusive of the impact of current reforms.

It was noted that consumers need the average to be:

- A measure that consumers can understand;
- An indicator that is simple.

Current Formulas:

The current formula for the **insurer average** is based on a change in premium income. The Group felt that discounting provisions may not be consistently reflected in the current formula.

The Group suggested that the Department should more clearly describe how discounts should be incorporated into the premium round application form to ensure that discounts are treated equally and consistently across the sector. Further, a change in the level of youth discounts should be allowed in the formula, on the basis it changes what people actually pay.

The Group also noted that a measure to capture discounts would increase the risk of gaming the "averages" as unlike premium rates, discounts are not subject to Minister approval and can be changed throughout the year.

The current formula for the **industry average** is based on an average of the average change in products. This formula applies an equal weighting to a change in all products, for example, a low cost ambulance product and a high cost combined product are weighted equally.

The Group suggested that it would be more appropriate for the industry average formula to change to a formula which measures overall change in premium income, to be consistent with the insurer average (i.e. the insurer average weighted by their share of premium income).

It was noted that neither of the current formulas would capture the consumer behaviour impacts of the private health insurance reform package.

Impact of reforms

The following reforms will directly impact premiums in 2019:

- Youth discounts;
- Excess changes;
- Natural therapies – although only a small impact is anticipated.

Other reforms will also impact premiums in 2019 e.g. there may be increases to benefits or detrimental benefits that flow through to premiums following product classification reform.

Insurers noted that individual insurers will implement reforms differently within the proposed legislative framework. For instance, some insurers may:

- Close products and open new products; or
- Do nothing but rename their current products; and/or
- Not apply the "youth discount"; and/or
- Increase the excess level on current products; and/or
- Create new products at the higher excess level.

The group noted that the current formula would not capture youth discounts or any movement of customers to new products. Further, the current formula could result in an outcome which is substantially lower or higher than the real "average" to be experienced by consumers.

Due to the potential difference in how insurers will apply the reforms, the group took the view that the proposed "average" should be neutral in the way it reflects how insurers implement the private health insurance reforms.

In terms of an example - if 20% of customers move from a product with a $500 excess costing $3,000, to a new product with a $1,000 excess costing $2,500, then those customers experience a 16% decrease in their premium. However, the product costing $3,000 might increase in price by 10% to offset the reduced income of insurers. The current formula would only capture the 10% price increase.

A number of options were discussed to ensure the impact of the reforms could be measured and incorporated into any calculation. Insurers noted that there is some degree of uncertainty about each of the reforms, but the impact of the youth discount can be predicted with a higher degree of certainty.

The way the current formula works, if insurers change current products by increasing the excess or change benefits following Gold/silver/Bronze/Basic reform, the impact on premiums following these changes would be incorporated in the average. If insurers introduce new excess options or new products to meet the new classifications, then these would not be reflected in the current formula.

The Group discussed the following options:

A. Status-quo. Calculation remains the same and does not reflect the impact of new products resulting from reforms.

B. Completion of current Template A and calculate the average as per the current process with the addition of proposed youth discounts to the information presented and in the average.

C. Inclusion of new products and assumed movement of existing people to these products. This would include new excess options and new products to meet Gold/Silver/Bronze/Basic product tiers. There was some discussion that this would require subjective forecasting and could increase the risk of gaming if controls are not in place.

It is possible that option A and B could result in a higher than average premium increase if the typical approach from insurers is to increase benefits to reach a higher Gold/Silver/Bronze/Basic classification and to not introduce a higher excess on consumers. Further, as options A and B do not capture new products, the option to introduce a new product with a higher excess would likely result in healthier people selecting this option with the consequent impact that premiums on the current products would increase at a higher rate due to less healthy people remaining on those products.

Without including new products in the industry average calculation, it may not be reflective of the actual experience of a consumer.

These options are not mutually exclusive and could be implemented as a package.

Option C would allow for the calculation of an average which captures the overall estimated change in revenue for an insurer from 1 April 2019 to 30 March 2020.

Premium outcome representation

To ensure full transparency to the public, the group discussed various ways of presenting the average to consumers.

The group noted that an average figure does not reflect whether a consumer was experiencing value for money or the benefits of the products.

For example: a 10% increase on a cheaper product might mean that the consumer is still buying a value for money product with many benefits, whereas a product which increases by 2% may be an expensive product with coverage for minimal health treatments.

A range of options for representation of the averages was considered. The Group briefly discussed whether other metrics should also be included on the Department of Health's website including:

- Charts to show the spread of increases around the industry average, grouping the tails (e.g. number of people who received a premium increase of five percentage points from the average).
- More narrative about differences in benefits between products and differences in premium increases (high percentage increase does not necessarily mean expensive product).
- Averages by category – gold/silver/bronze/basic.
- Average premium increases split by ambulance, combined, hospital and general.

Other

During the meeting it was noted that data provided through the premium round indicated that around 19 million people had private health insurance, as opposed to 13.5 million using APRA data. It is likely that this was as a result of the presentation of combined policies. This has no impact on the average, however, to ensure data integrity, this issue should be resolved. The Department will consider this in the instructions for completing the application form.