Taking the pulse of New Zealand's health insurance industry

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Agenda

- NZ health insurance
- Key issues facing health insurers
- Selection of insurer responses
- Discussion
Disclaimer

Thank you to Southern Cross for making data available for analysis.

Any opinions, errors or omission are our own.
NZ health insurance
# NZ health system

<table>
<thead>
<tr>
<th>Essential health service sectors</th>
<th>What do they provide?</th>
<th>Who pays for these services?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Emergency care, most cancer care, specialist care and elective surgery in public hospitals; GP visits and prescriptions are subsidised to make them more affordable.</td>
<td>Tax payers</td>
</tr>
<tr>
<td>ACC</td>
<td>Treatment and rehabilitation costs arising from accidents (whether at work, at home, on the sports field or as a result of a car accident).</td>
<td>ACC levy payers (e.g. employers, employees, vehicle licensees etc)</td>
</tr>
<tr>
<td>Private</td>
<td>Elective surgery and cancer care in private facilities and private specialist care; the un-subsidised portion of GP visits and prescriptions.</td>
<td>Private individuals, out of their own pockets or via health insurance</td>
</tr>
</tbody>
</table>
NZ health insurance market

- largely a free market
- no specific health insurance regulation or restrictions
- no incentives for individuals or employers purchasing health insurance
- ability to design and price insurance products
- Exceptions to design and pricing of health insurance products
  - The Human Rights Act
  - Certain medical services can only be provided by the public health system, including acute accident and emergency treatment and maternity care.
- Health insurer liable for reimbursement of the medical treatment costs not health of the insured

Health insurance typically covers elective surgery, specialist consultations and tests, day-to-day doctors’ or pharmacy costs.
NZ health insurance market

Total Premium and Lives Insured
Years Ended 30 June 2000 to 30 June 2012

- Comprehensive Premium
- Major Medical Premium
- Comprehensive Lives
- Major Medical Lives
- Total Lives

Lives Insured (million)
Premium $ million
NZ health insurance market

Health Insurance Industry Profitability
2008 - 2011

- Claims
- Expenses
- Profit
Key issues facing health insurers
Key issues

- Claim cost escalation and resulting issues of premium affordability.
- Retaining better (priced) risks, as high levels of premium increase result in selective lapsation.
- Low interest rates.
- Volume of new sales.
- Information imbalance between insurer and insured.
- Increasing pressure on public sector health budget.
- Ageing population and increasing life expectancy.
- Technology improvements.
- Changing health infra-structure.
Claim cost escalation

Cost of a hospital & specialist policy for a 65+ as a proportion of average weekly income
Claim cost escalation
Retaining better (priced) risks
Retaining better (priced) risks
Low interest rates

10 year government bond yields

- United States
- Germany
- Italy
- Spain
- New Zealand
Volume of new sales

The impact of a reduction in sales volumes:
• More difficult to recoup fixed acquisition costs, thereby impacting profitability.
• The duration in-force of a health insurance portfolio will increase.
Information imbalance between insurer and insured

- Significant reduction in costs of genetic testing
- Expect increased prevalence
- If genetic testing is carried out, an insurer will want to minimise their risk by taking the information from the test into account.
- Potential increase the risk of non-disclosure and information imbalance
- A principle of insurance is that risks are pooled
Increasing pressure on public sector health budget

• Health insurance approximately 5% of total health expenditure

• Small change in public health spend can have a big impact of claims costs of health insurer
Ageing population and increasing life expectancy

New Zealand population projection by age band 2011-2041
Technology improvements

• Price and utilisation
• Examples TAVI, PET/CT
• Robotics
Changing health infra-structure

- Shift out of traditional hospitals
- E.g. day-case surgery
Insurer responses
Insurer responses

Premium Increases

Consumer Driven
- Partial self-insurance
- Downgrade paths

Insurer Directed
- Contracting
- Narrow network plans
- Open referrals
- “Wellness”
- No/Low Claim Reward
Consumer driven

Partial self-insurance
- Co-payments
- Excesses

Downgrade paths
- Less cover with lower premium
Quickly back to where we started

Temporary relief only
# Insurer directed responses

| Narrow network plans | • Panel of preferred providers for policyholders to choose from  
|                     | • Higher co-payments if you move outside that panel |
| Contracting         | • Approved providers for some services  
|                     | • No cover or capped reimbursement for non-contracted providers |
| Open referral       | • GP provides an open referral  
|                     | • Policyholder selects specialist from list provided by insurer |
| Wellness            | • Objective is to improve overall health status and hence lower claims costs  
|                     | • Disease Management to health & fitness programs |
| No/low claim discounts | • Incentives for healthier lives to stay and reduce average claims costs  
|                       | • 80% of claims cost are from 8% of members |
What are NZ insurers doing?

“Reasonable Charges” means charges for Healthcare Services determined by Southern Cross and based on Southern Cross’ ongoing review of Health Services Provider charges for a particular Healthcare Service, Southern Cross’ claims statistics and its knowledge of national and regional New Zealand health markets.
Is it working?

Bled dry trying to stay well
When budgeting for healthcare, more money is never enough

NZ Herald - 16 November 2012
“Healthy is merely the slowest rate at which one can die”
- Unknown

“Any intelligent fool can make things bigger and more complex... It takes a touch of genius - and a lot of courage to move in the opposite direction.”
- Albert Einstein