

SUBMISSION

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AMA submission on the annual premium round process for private health insurers

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Introduction

The Australian Medical Association (AMA) appreciates the opportunity to provide a submission to this important consultation.

This submission addresses selected issues raised by the Department of Health and Aged Care (DoHAC) under the headings in its consultation paper. There are relatively simple reforms and changes that will address current inadequacies and improve the premium round process. However, in the absence of broader reform to the private health system, these changes will do little to address issues of viability, value for consumers or drive the adoption of new models of care. The AMA will continue to engage with the Government and DoHAC on these further reforms.

Process and timeframe

In this section of our submission, the AMA comments on the broad administration of the premium round process going forward, rather than on administration of the 2024 round, which commences in only a few months.

The AMA notes that the premium round process is currently administered by DoHAC in consultation with the Australian Prudential Regulation Authority (APRA), whose contribution is limited to advising DoHAC on whether premium changes would result in adverse prudential outcomes for individual insurers. It also notes DoHAC's comment in the consultation paper that the premium round process requires a significant investment of the resources by the Department.

For several years now, the AMA has [argued](#) that the current regulatory landscape for private health, and private health insurance (PHI) in particular, is too complex and fragmented across DoHAC, APRA, the Australian Competition and Consumer Commission (ACCC), the Commonwealth Ombudsman, the Australian Commission on Safety and Quality in Health Care (ACSQHC) and state and territory regulatory arrangements.

The Department, which carries the main regulatory load, is not adequately funded to meet its responsibilities in this role and has a conflict of interest between its regulatory and policy-making functions.

Although it is currently the Minister for Health and Aged Care who is required to approve PHI premium increases, the AMA believes that beyond the 2024 PHI premium round, DoHAC and the Minister should not have carriage of the PHI premium process.

The AMA believes there is a need for an independent and well-resourced regulatory mechanism — a Private Health Systems Authority (PHSA) — to oversee the private healthcare system and ensure its long-term sustainability.

The Authority would ensure a cohesive and holistic regulatory model by relieving the Department of its conflicted role as a regulator and policy maker and incorporating new functions to fill the gaps in the current regulatory environment, as well as supporting the regulatory and advisory functions currently performed by the ACCC, the Commonwealth Ombudsman, and ACSQHC. Its functions would include administration of the PHI premium round.

Recognising APRA is best placed to perform its current prudential role given it performs these functions effectively at a relatively low cost, it is proposed that the Authority would procure APRA to uphold the prudential standards they administer.

The settings for capital requirements however will be determined by the Authority, recognising the different risk profile of private health insurance compared with general insurance, due to built-in features of the system such as community rating risk sharing through the high costs claims pool.

It is also proposed that the Authority would assume responsibility for the collection of data and information from insurers, as there will need to be close examination of the data that insurers collect, how it is used, and the implications for healthcare in Australia into the future.

As we continue to move towards greater data interoperability in our health system, this will ensure that there is appropriate oversight of the collection and use of patient data, and a mechanism to support the use of data to improve patient outcomes. As this function is not currently performed by APRA, the Authority will need to build the skills to undertake this critical function.

Under the Private Health Insurance Act 2007, all changes to private health insurance premiums must be reviewed and approved by the Minister for Health and Aged Care. However, the AMA proposes that a PHSA should assume the function of reviewing and approving these changes as its whole-of-system oversight, independence and expertise would make it better placed to do so.

As an 'independent umpire', the Authority will have the capacity, objectivity, and expertise to create a solid platform for all players in the sector to work together on the necessary once-in-a-generation reforms. This will ensure a whole-of-system approach is evidence-based and incorporates implementation planning, providing protection to patients while also balancing the interests of hospitals, insurers, medical device manufacturers, and doctors.

Recommendation: The AMA recommends that

- **an independent and well-resourced Private Health System Authority (PHSA) is established**
- **one of the key functions of the PHSA is the administration of the PHI premium round and approval of premium changes.**

Information

Question 3: Whether it is necessary for all insurers to be required to offer and price every product in each risk equalisation jurisdiction.

In the interests of transparency and fairness to both consumers and other insurers, It seems only right that if an insurer chooses to offer at least one product in a risk equalisation jurisdiction, it should be required to provide all products in that jurisdiction.

Recommendation: The AMA recommends that insurers that choose to offer at least one product in a particular risk equalisation jurisdiction should be required to offer all of their products in that risk equalisation jurisdiction.

Question 4 (a): what information would be useful to collect from all insurers that is not currently collected, for example: actual benefits paid, premium revenue and management expenses for the previous premium year; out of pocket costs associated with products / product tiers; products that had been closed in the previous premium year

The AMA agrees that it would be useful to collect all the additional information suggested by DoHAC, in the consultation paper as listed in the sub-heading above.

Components of management expenses

However, the additional information mentioned by the Department in its consultation paper is not all the additional information that should be included. For example, given that all taxpayers subsidise private health insurance through PHI premium rebates irrespective of whether they choose to take out PHI, the AMA believes that on premium round application forms, PHIs should be required to report not only management expenses, but the components of those expenses in detail.

Prices of products that have closed or opened during the previous premium year (or are about to be opened)

Furthermore, the AMA believes that it is critical that insurers provide detailed information on the coverage and price of products that have closed or opened during the premium year or are intended to close or open during the new premium year.

This is because the uniformity that was created through the Gold, Silver, Bronze and Basic product reforms that became mandatory in 2020 is eroding, with increasing complexity and difference in insurance products making choice more difficult for consumers.

This complexity is exacerbated by some insurers, including the top five, closing older products (particularly gold products) and opening newer ones which provide very similar same cover, but at a much higher cost, which confuses consumers and largely prices these products out of the market. For example, in 2024, gold policies had the highest increases, well above the advertised 3.03%, with average increases for gold policies across HBF, HCF, Australian Unity and HIF of above 10%. Over the past three years, on average, the premium price of gold policies has increased on average by 30%.¹

¹ CHOICE (2024). *Health insurers are increasing their top-level policy prices by over 30%*. Retrieved 09/05/2024 from: <https://www.choice.com.au/about-us/media/media-releases/2024/feb/gold-cover-sneaky-tactics>; CHOICE (2024).

This is particularly difficult for consumers who may need the kind of care that is only funded without any delays by PHIs under gold policies – particularly in-hospital mental health care and maternity services.

Recommendation: The AMA recommends the following information be requested and considered as part of assessment:

- **actual benefits**
- **premium revenue**
- **management expenses, and granular information on the components of those expenses**
- **overall insurer profits**
- **out-of-pocket costs associated with products/product tiers**
- **products closed in the previous premium year (including the premium price of those products just before they were closed)**
- **new products released during the previous premium year, including the premium price of those products.**

Assessment

Question 7: The value of comparing insurer’s forecasts from previous premium rounds (including premium revenue, benefits paid, management expenses and net margins) with insurer actual results.

The AMA agrees that it is critical to compare insurer forecasts from previous premium rounds with insurer actual results, to monitor whether they differ, and how seriously to take their forecasts for the current premium round.

Recommendation: The AMA recommends that the Department of Health and Aged Care compares insurer forecasts for previous premium year with actual insurer results.

Transparency

Question 8: Additional information the department could publish as part of the communication of the outcomes to the public (in addition to the currently published average insurer and premium changes). For example:

- average change by insurer, including by product type (hospital/general/combined/ambulance only), product tier (Gold/Silver/Bronze/Basic) and open/closed status,**
- the range of percentage changes to individual policies for each insurer, and**

Sky-high increases to the cost of health insurance hitting Australians hard. Retrieved 9/05/2024 from: <https://www.choice.com.au/money/insurance/health/articles/health-insurance-price-increases?>

c. a short justification for the premium increases prepared by the insurer (with a draft to be provided in the application form).

The AMA believes it is essential that the Department of Health and Aged Care increase the transparency of communication of premium round outcomes to the public as far as is practically possible, and thus supports the Department's suggestions for Question 8.a and b.

Given the increasing complexity of the PHI product landscape, consumers deserve to know both the average change by insure by product type, and the range of percentage increases to individual policies by each insurer.

The AMA does not believe that justifications for the increases prepared by each insurer would be particularly helpful, given that most consumers are not in position to evaluate the veracity of such claims.

Recommendation: The AMA recommends that to increase the transparency of communication of premium round outcomes to the public, the Department also publish:

- **average change by insurer, including by product type (hospital/general/combined/ambulance only), product tier (Gold/Silver/Bronze/Basic) and open/closed status**
- **the range of percentage changes to individual policies for each insurer.**

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