PHIIA

Private Health Insurers Intermediaries Association

Value and affordability of private health insurance and out-of-pocket medical costs

Senate Community Affairs References Committee

A submission from **Private Health Insurance Intermediaries Association** (PHIIA)

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About us

The Private Health Insurance Intermediaries Association (PHIIA) was formed to establish and implement standards for independent intermediaries, agents and brokers selling health insurance on behalf of registered health insurance organisations, and to represent the industry in the development of that standard.

PHIIA is a not-for-profit guided by a code of conduct which members are signatory to and are assessed against. Membership includes the vast majority of comparison services, health insurance retail brokers, corporate brokers and other intermediaries.

The latest ACCC Private Health Insurance Report issued in July 2017 found that 40% of consumers used commercial comparison services to switch their private cover.

Intermediation in the private health insurance (PHI) industry has driven increased market competition and improved customer outcomes by:

- Introducing an innovative comparison and purchase service for PHI consumers;
- Improving historically poor consumer understanding of PHI;
- Encouraging PHI funds to be more transparent in their communication with consumers;
- Reducing the cost of growth for small and medium sized PHI funds;
- Introducing a “third voice” in the Australian PHI market, in addition to the Federal Government and PHI funds.

Opening statement

The title of the inquiry, and many of the terms of reference, fit neatly into the mission of the members of PHIAA. As comparators, agents and brokers our

members aim to deliver both value and affordability to consumers by providing advice, guidance and referrals about suitable policies and providers.

Value and affordability are qualities much desired by consumers in this product category but given often necessary complexities it can be hard for the average person to make advantageous decisions.

This submission seeks to address the following terms of reference:

> **D.** The use and sharing of membership and related health data
>
> **E.** The take-up rates of private health insurance, including as they relate to the Medicare Levy Surcharge and Lifetime Health Cover loading
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> **H. (iii)** The role and function of the Private Health Insurance Ombudsman in regulation in relation to unlocking detailed data on policies
>
> **I, J & K.** The current government incentives for private health, the operation of relevant legislative and regulatory instruments and any other related matter.

PHIIA members on account of their expertise, training and knowledge provide what's known as 'decision support' to help consumers make better decisions in complex markets such as PHI.

Comparators such as iSelect, Compare The Market (CTM) and Choosewell represent our better-known members. There are also agents and brokers ranging from the large international brokers Aon and Jardine Lloyd Thompson to smaller boutique operations.

One thing they have in common the benefit of trained staff who talk directly to their consumers. For example, 90 per cent of customers who purchase health

insurance through iSelect (either for the first time or switching funds) do so after an in-depth phone call discussing their options with an expert consultant.

All members work within the terms of our self-regulatory binding code of conduct which ensures transparency, non-conflicted remuneration and adequate choice to build confidence and capacity with consumers.

The ACCC Private Health Insurance Report 2015-16 states that 40% of consumers who switch their health cover do so through the commercial comparators.

PHIIA's own data suggests that another 30% of new entrants and switchers do at least some research via a comparator service before buying direct from a fund.

We believe that the myth that commissions/fees paid to comparators somehow inflate the premium price deters some consumers from purchasing from the comparator and instead going direct to the fund. In fact, there is no additional cost to the consumer by using comparison services. Their advice is provided to customers free-of-charge and the policy price is the same whether they go via a comparator or buy direct from a fund.

We would like to address a similar misapprehension included by BUPA in reports of their submission to this inquiry. Bupa's submission claimed comparators' commissions somehow inflate the cost of all premiums for all consumers. In reality the comparators are just another sales channel, such as TV, Facebook, Google etc., among various marketing costs. In many instances, the cost of member acquisition via comparison sites is more cost-effective – particularly for smaller funds – than undertaking their own marketing activities and sales channels.

While not all funds choose to make their policies available to customers via commercial comparison sites, many funds do, including several of the largest and

most well-known funds. Smaller challenger brands especially make effective use of comparison sites' low barrier-to-entry marketing models.

In response to calls for further regulation of the intermediary sector, we would like to highlight the sector already has considerable oversight. For example iSelect is regulated by a number of government agencies including ACCC, APRA, ASIC and also a fully compliant member of PHIIA and are also signatory to our Code of Conduct.

We believe our self-regulated system empowers consumers and drives competition in the market in ways which enhance, rather than detract, from the value and affordability of PHI.

However, there are two barriers in particular which we believe impede the smooth flow of these positive functions. More detail is provided below against the relevant terms of reference.

The first involves the handling by the health funds of the switching process and delays above and beyond what a reasonable consumer might expect. There are also issues in terms of behaviour and statements of so-called 'save teams' that aim to retain customers who have already elected to change provider.

The second revolves around access to data and the inability of PHIIA members to get up-to-date, detailed information of all policies, including those no longer being marketed.

Given fast-moving technological developments, it's understandable and desirable that any regulations insist this data is available for interested third-parties in portable and readable electronic formats that facilitate genuine comparison in the benefit of customers.

E: Lifetime Health Cover

The committee might benefit from the results of a Ipsos Australia research study commissioned by iSelect to assess the attitudes of over 1,500 Australian adults towards private health insurance and Lifetime Health Cover (LHC) loading.

Undertaken in May 2017, this nationally representative consumer research study found a great deal of misunderstanding around LHC loading and how it applies. Even of those with private health insurance, only 64% reported being aware of LHC.

Among of respondents currently paying an LHC loading, Ipsos estimates that almost half (44%) didn't correctly understand the percentage of LHC they were paying. Further, when asked how many years of LHC loading they had left to pay, a significant 42% did not know.

Despite this confusion, LHC plays an important role in maintenance of private health insurance. Among those who were aware of LHC, almost half (45%) said it made them more likely to keep their cover.

In terms of the perceptions on effectiveness of LHC loading respondents, were asked whether LHC loading encourages people to take out cover earlier. The largest proportion (40%) said they felt that LHC did encourage people to take out private health insurance earlier in life. For those between 18-30 years of age, over half (57%) agreed that LHC encouraged people to take out cover earlier.

When asked whether rewarding younger customers with a "lifetime discount" on their policy would be more effective than LHC in encouraging people to take out private cover, two thirds (65%) thought it would be more or as effective.

Among those who would potentially benefit from such a policy (those age 18-30 years) eight in ten (81%) felt a "lifetime discount" would be more or as effective as LHC.

While this proportion declines with age (65% for those 31-49 years; 56% for those over 50 years) even among those in the oldest age group, a majority believed a "lifetime discount" would be more effective than the current LHC policy in encouraging younger customers.

While PHIIA has no formal policy about the desirability of changes to LHC, we can pool a large amount of consumer data from members to help drive regulatory change where it helps consumers in terms of value and affordability.
Our largest member iSelect has reported a sharp decline in recent years in the number of young people taking up PHI. Five years ago, just **under a third** (31%) of all iSelect customers were aged 30 or under. By June this year, it had halved to around **17 per cent**.

Full details of this survey and any other requested data can be made available to the committee upon request.

E: Medicare Levy Surcharge

There is a proposal raised ACOSS, the Australian Council of Social Service, and The Greens to end the relief enjoyed by some better-off PHI members from the Medicare Levy Surcharge (MLS).

It's claimed a tweak to the system would only impact the rich and bring in an extra $4 billion but it's also likely to drive more patients away from insurance cover and into the public health system.

These refugees from private health insurance, who would have a key incentive for having cover stripped away, would more likely be younger people who are most needed to keep the system balanced and viable.

The MLS is 'stick', ranging between one and one and half per cent of income, payable by those above certain income thresholds who do not have private health

insurance. Families earning more than $180,000, or singles on half that salary, must pay the surcharge in addition to the two per cent Medicare Levy most other taxpayers face.

The surcharge is designed to encourage more Australians into private health insurance to relieve pressure on the public system. The only way to avoid the surcharge is to take out private hospital cover, which in many instances costs around the same as the minimum $900 in tax payable via the MLS.

Recently the number of Australian with private hospital cover has started to decline, slowly but steadily, and the irony of using the surcharge as mechanism to repair the budget is it will even further erode the value of private health insurance.

While ACOSS argue in their budget submission withdrawing the relief from the surcharge would have little effect, those closer to the consumer within the insurance industry fear otherwise.

Industry sources believe younger singles or families earning above the threshold and facing housing affordability and other cost of living challenges would be far more likely to drop out than older Australians.

PHI relies of younger people, who are less likely to claim, keeping the system balanced and viable until they become older and are more likely to claim.

Withdrawing relief from the surcharge alongside annual policy increases will only further reduce the value consumers get from their insurance and make our enviable public hospital system even more attractive to those less incentivised to have cover.

In relation to submissions calling for the withdrawal of the PHI rebate on budget or so-called ‘junk policies’, we caution that this could curtail consumer choice

and effectively result in making cover less affordable for some customers and/or keep them out of the private system.

Budget policies are by no means appropriate for all customers but there are some customers (young, healthy, higher income earners) for which they play a useful role in encouraging them into the PHI industry initially, in the hope they will later upgrade as their health needs and personal circumstances changes.

It is however crucial that customers who are considering purchasing a budget policy do so with a thorough understanding of what is and isn't covered by the policy. Private comparison sites play an important role in educating customers about budget policies and helping to ensure customers for whom they are not appropriate do not take them out

Any issues of this kind are best dealt with by better information provision not with smaller carrots and larger sticks.

H (iii): Role of PHIO

The table below from a recent Private Health Insurance Ombudsman's quarterly report shows the level of complaints around brokers and comparison services remains low, especially considering the number of consumers they assist. Combined, our members are believed to have helped in excess of 200,000 customers 2016 to find a policy better suited to their needs.

While all complaints are taken seriously, we believe the quality of advice provided by the members of PHIIA and supported by our code of conduct is of a high standard and well regarded by consumers.

Complaints by Provider or Organisation Type

Provider or Organisation Type	Sept 2016 QTR	Dec 2016 QTR
Health Insurers	1504	1067
Overseas Visitor & Overseas Student Health Insurers	143	95
Brokers and Comparison Services	16	15
Doctors, dentists, other medical providers	3	5
Hospitals and area health services	12	4
Other (e.g. legislation, ambulance services, industry peak bodies, etc)	11	17

Source: www.ombudsman.gov.au/data/assets/pdf_file/0022/42916/PHIO_QB_81.pdf

D: The sharing of member data

Comparison services, such as those represented by PHIIA, use highly trained staff and data analysis to match consumers with the health cover that best suits their needs.

However access to timely, accurate, machine-readable and highly detailed data about the complete range of policies in the market remains an impediment.

The government's site privatehealth.gov.au, a service we endorse and applaud, provides much-needed transparency but not in a form or format which permits PHIIA members to add as much value to the customer's experience as should be possible.

In fact regulation currently prevents the site from 'sharing' data from even basic standard information statements (SIS) more broadly. On legal advice, the private health insurance Ombudsman was unable to fulfil a FOI request to release just some of this data.

Comparators have to seek written permission from the funds to access information that, in an open market, should be free.

Comprehensive product information is crucial to the consumer making more informed choices and using whatever tools or services they see fit to help them in this decision.

Privatehealth.gov.au is a repository for all policy information for the purpose of helping consumers compare their private health insurance cover but the consumer benefit of this information won't be fully realised until it electronically available to comparators, without the present need for written consent, from each relevant health fund.
In the words of one of our members, there's a conflict of interest for funds controlling access by requiring consent as 'opening up the vault' to encourage switching might take away more customers than it brings.

"PHI funds are conflicted in giving this consent as it is used to inform the consumer in a decision to switch away. Given the high and increasing volume of consumers looking for advice through our services, it is important that electronic access to this information (and the ability to reproduce it on our websites and consumer documentation) is provided."

I, J & K: The delay and play around issuing clearance certificates

Members of PHIIA are a key channel providing the funds with new members. However when it comes to the relinquishing of members there are instances where the procedure of issuing clearance certificates – which should be clean, clear and prompt – becomes unnecessarily bogged down and delayed.

The basis of the private health insurance system is that consumers are free to exercise choice and find the best plans and providers to suit their needs. The

portability provisions were designed to oil the wheels of competition by ensuring there were no new waiting periods or exclusions for those switching.

The 14-day standard set by the industry to produce a clearance certificate and stop debiting the account of a departing customer, is out-of-line with the reasonable expectations of consumers and is not reflective of the minimal amount of work required by the departing fund.

Interestingly, funds have improved their ability to establish direct debit payments for new customers from 7-10 working days to within 24 hours. They have done this because it is in their interests, and it is a reasonable customer expectation that funds will take immediate action to close their memberships once instructed.

The fact that facilitating the wishes of a departing consumer might not be so closely aligned with a fund's interests is no excuse to drag the chain.

Anecdotal evidence from businesses is that consumers often blame the new fund for the delay, which is not a great first experience/impression and can lead to cancellations or cooling offs

We respect the right of funds to attempt to retain customers, however they need to prioritise actioning the explicit instructions of clients. Therefore an instruction from a customer to 'stop debits' and 'pass my history to another fund' should be complied with immediately and in the first instance.

If a 'save team' is able to convince a customer to change his/her mind then that is part of the competitive process so long as the inducements to stay are transparent and deliverable.

As one PHIIA members reports:

"Some of the feedback we get from consumers who are either outraged or confused by the tactics used/claims made/misinformation provided by these save

teams is extremely poor and doesn't help the overall perception of private health insurance."

An accountable compliance regime, as per the fund's code of practice, should be applied to both the 'save teams' as well as those who sell health insurance to new customers. For example, 'save team' staff should not talk down other funds or products unless they are qualified to talk about the fund or products and can provide an accurate comparison

In addition, if a customer verbally agrees to return to their fund, the new product should be explained in full and a proper cancel/join process should occur, particularly when changing product types.

Further discussion

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