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Actuaries Institute of Australia
Future of Health Seminar: A Sustainable Future for Australia

The Actuaries Institute ran their seminar in Melbourne on 9 June 2016 in Melbourne. The keynote speaker at the conference was former ACCC Chairman Graeme Samuel, whose speech had been reported in detail on that day in The Australian and The Australian Financial Review. Graeme Samuel was the technical adviser to the Department during last year's PHI review consultation.

Summary of Graeme Samuel's speech

A summary of Graeme Samuel's speech given at the Actuaries Institute conference is contained below:

At the outset Mr Samuel made it very clear that the views he was expressing were his own personal views and not that of the Health Minister or the Government and that his engagement as an Adviser to the Health Minister had ended some time ago.

Mr Samuel quoted the most recent published ACCC report on PHI referring to market failure:

> *It appears there are a number of market failures in the private health insurance industry. In particular, imperfect and asymmetric information impede consumers' ability to make choices that are likely in their best interests. These problems mean that consumers experience difficulty in determining the effectiveness of various policies given their uncertain future health needs, which makes it difficult for consumers to choose the appropriate level of cover. This in turn affects competition in the industry.*

Mr Samuel sees government reform as a fait-accompli. He pointed out that private health insurance is encased in government regulation and that there are a number of structural reform opportunities that would enhance private health insurance.

1) Premium increases

Premium increases have outstripped the rate of inflation growth impacting affordability. Affordability pressures have contributed to an increase in policy downgrades and declining participation.

Without any apparent willingness to understand the different business models of the for-profit and not-for-profit mutual sectors and consistent with his media commentary, Graeme Samuel pointed to return on equity of the sector at 17-18%. He argued that the return for general insurance is around 10% and that capital retained by the PHI sector is well in excess of prudential capital required by APRA.

Graeme Samuel praised the Credit Suisse report by analyst Andrew Adams on return of equity of the industry. He would like to see return on equity be used as a guide for future premium increase approval, saying that if he were the Health Minister, he would only accept premium increases reflective of efficient costs of prospective claims being fair (as assessed by APRA). He would then tell funds to go back and reduce capital to that required by APRA and allow premium increase that generate return on capital of 12-13%. He anticipates this will result in a 2.0-2.5% premium increase per annum.

2) Prostheses list

Graeme Samuel spoke very strongly in favour of reform of prostheses pricing. His preferred model was for full deregulation.

He argued that if bought into line with international pricing and the public hospital system, $800m could be saved on prostheses.

He pointed out that the public system is purchasing some prostheses at 400% less than PHI sector.

Prostheses manufacturers are claiming that they are loss leading in the public system, higher prices are required to cover the "excessive" cost of innovation. Private healthcare providers also say they need to recover the administration cost of prosthesis in hospitals. However Mr Samuel expressed skepticism on the inflated price charged for prostheses. He mentioned an example of having a nurse to provide assistance on prostheses implantation for 2 hours cost in some cases $30,000. This could not be justified.

Mr Samuel argued for the complete abolition of the list. His view was that margins are far too high and that somewhere in the supply chain the consumer is being exploited. He would like to see all insurers form a negotiating group with an exemption from ACCC. He also floated the suggestion of a *pass though basis arrangement* with state procurement agencies on prostheses.

3) Consumer experience

Graeme Samuel expressed a view that consumers are disengaged due to complexity of PHI which is damaging competition. He pointed to the industry having over 20,000 policy variations

Graeme Samuel's pointed to the need for a government run independent comparator website. He also pressed for increased standardization and consistency across product categories such as a platinum, gold and silver, bronze and junk standard, to drive improved competition and transparency.

He stressed that comparator websites such as iSelect don't include all insurers, that they charge commissions, and that they provide a sales portal as opposed to an information service.

4) Quantitative metrics/data

Mr Samuel spoke at length about the potential benefits derived from making health related data available, particularly to consumers and GPs.

He pointed to specialist fees, with some surgeons charging 10 times the AMA schedule fee.

He praised the work being undertaken by BUPA in publicizing specialist fee, which will drive transparency and exposure to the benefit of GPs and consumers.

Mr Samuel also praised the work of RACS and Medibank on variation in specialist Fees and pointed to the lack of data around procedures for use by surgeons. He questioned, shouldn't performance information around specialists be available to consumers? Shouldn't it also be available to specialists for benchmarking?

Mr Samuel encouraged health insurers to gather and share data, and to work collaboratively with others in the health service chain. He pointed to some health funds started using qualitative metrics to provide a more comprehensive view of procedures.

Mr Samuel expressed concern that there is a lack of accountability and informed consumer choice when choosing a specialist and a hospital. At present consumers simply accept advice of GPs and specialists, they don't do their own research in the same way they would for other products and services e.g. purchase of consumer electronics. Why?

Mr Samuel pointed to some health insurers working through this question, using data analytics to understand the answer. He referred to work being done by the NHS in the UK to publish qualitative metrics around many aspects of the system, and in the US, some 60 sites that are the equivalent of trip adviser for health.

Mr Samuel acknowledged that reform in health was difficult as there were many powerful vested interests that are benefiting from the status quo. A strong conviction and an outcome focused approach are required to achieve the desired state.

5) Managed care, primary care and community rating

Mr Samuel pointed out that healthcare is expensive, the population is ageing and the demand for care is growing. He said that he is concerned that the use of the public system is growing whereas private is decreasing.

He sees a place for managed care in private health because Medicare exists as a safety net. He suggested the notion of the role of health service advisers within PHI, who provide independent and professional trusted advice to members on all things health.

He suggested there should be questioning of reform to community rating, such as whether smokers should pay more on their PHI premiums.

He proposed PHI should have a greater involvement in primary care and also questioned if the Australian Government Rebate could be replaced with something that worked more efficiently but did not go into detail. The term "Health Savings Accounts" was not mentioned in his speech.

6) Conclusion

Mr Samuel concluded by saying that that there is a need to inject competition to get better outcomes in health and that the essence of completion is to empower consumers to make informed decisions. The industry is getting close to a tipping point, and if the industry does not do anything, something will be done by the government to achieve the desired outcomes.

Questions/comments from the floor

- Risk of government intervention into determining how much capital a fund holds was discussed. It was pointed out that if insurers were to operate at the minimum level then APRA would be very concerned, that APRA are looking to change terminology around excess capital because it was being misunderstood and that those best placed to set capital are for the boards and management.

- Affordability the key issue and that there is a need to engage with this. Setting what the right level of capital complex. Profit only represents about 5% of contribution, so the focus really needs to be on the remaining 95%, particularly services like prostheses, medical practitioners and hospitals.

- Data and transparency has enormous potential but there are significant challenges in achieving transition to transparency, particularly with the medical profession.

  Government should be establishing a web portal that delivers transparency around pricing and performance of the entire health system including medical specialists and hospitals if the consumer is to be genuinely empowered through competition and choice.