



Consumers Health
Forum OF Australia

SUBMISSION

**Senate Inquiry: Private Health
Insurance Legislation and 2018
and related bills**

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Consumers Health Forum of Australia (2018)
*Senate Inquiry: Private Health Insurance
Legislation Amendment Bill 2018 and related
bills.* Canberra, Australia

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Overview and recommendation

The Consumers Health Forum of Australia (CHF) is the national peak body representing the interests of Australian healthcare consumers and those with an interest in health consumer affairs. CHF works to achieve safe, quality, timely and affordable healthcare for all Australians, supported by accessible health information and systems. We support the principles of consumer centred care and chief among these is the principle of universal health care¹. Private Health Insurance (PHI) and concerns about medical costs are two of the areas most frequently raised with CHF by the community. Because of this, PHI is one of our key areas of interest. We have been active participants in all waves of reform about PHI, including through representing the needs of consumers on the current Private Health Ministerial Advisory Committee. We welcome the Inquiry and are pleased to provide a submission to it.

First and foremost, we believe that the objectives of the current wave of reform should centre around two key questions – how can PHI provide better value for the taxpayer, and how can it provide better value to consumers?

The PHI sector is in need of reform. Because of this, we would not support maintaining the status quo by not passing the legislation. However, many of the details of the current suite of reforms are contained in Rules, not legislation. At the time of writing, these Rules have not been finalised. We would advise the committee, and all Senators, to carefully scrutinise the detail of the Rules when they are released. We would be happy to provide advice to any parties who would be interested in hearing our views on the Rules. One particularly important aspect is that the legislation does not include the details of how PHI products will be redesigned, which is a key aspect which may have significant positive or negative impacts on consumers.

This submission provides brief comments on each of the Schedules outlined in the explanatory memorandum (EM) to the legislation.

Overall recommendation:

We recommend that the legislation be amended to remove the Schedule two provisions which discount premiums for people under 30 years as these undermine the community rating principle.

If that Schedule remains then we recommend passing the legislation as we believe the other reforms are an improvement on the status quo.

¹ Consumers Health Forum of Australia. 2015-2018 Strategic Plan: <https://chf.org.au/2015-2018-strategic-plan>, accessed 28 July 2017.

Comment on Schedules

Schedule 1 – Increase to maximum excess levels

CHF supports the increase to maximum excess levels described in Schedule 1. We believe this is suitable because maximum excess levels have not been increased or indexed since 2000.

Consumers are familiar with the concept of excesses with other insurance products, particularly car and building/home insurance products. They are used to choosing to have higher excesses to reduce premiums. Whilst it is not included in the legislation we believe that these increases should be the maximum that is considered for some time. This is because high excesses or co-payments may contribute to people not using their private health insurance, and will increase the burden placed on them by the already high out of pocket costs across the health system. High out of pocket costs, such as through excesses, contribute to consumers using the public health system – thereby defeating the purpose of government investment in PHI.

Schedule 2 – Age-based discounts for hospital cover

We do not support the introduction of aged-based discounts for hospital cover (Schedule 2).

Whilst we understand the need to bring young and potentially healthier people into the insurance pool this measure undermines the principle of community rating. Community rating is fundamental to PHI, as it means that insurers charge everybody the same premium for the same product regardless of age or health status. Given the cost burdens and modest wages many young people have, it would seem likely that this measure is only likely to be taken up by a minority of young adults who have the means, with the result that the two-tiered health system emerging in Australia is entrenched at an even earlier time of life.

It is also likely that many will take the minimum possible levels of cover with the increased excesses as a way of making it affordable. If they take out such policies then they are unlikely to use them as they will either not be covered or have significant out of pocket costs. This means they will probably continue to use the public system for their health needs. This would not appear to meet the aim of the legislation to provide better values for consumers or the overarching objective of Government support for private health insurance which is to reduce pressure on the public hospital system.

Schedule 3 – Strengthening the powers of the private health insurance ombudsman

CHF supports Schedule 3– strengthening the powers of the private health insurance ombudsman (PHIO). The changes to the powers described in legislation include the ability for the PHIO to conduct in person inspections of Insurers and related entities. We support additional scrutiny of insurers by appropriately qualified organisations, and as such support this.

Schedule 4 – Transitional provisions relating to the treatment of certain health insurance policies

CHF supports Schedule 4, both the intent and the practical application of it. Benefit limitation periods have been an unnecessary source of confusion and another suggestion that PHI is of low value to people who hold it.

We are pleased to see that the changes to the legislation will not impact adversely on consumers.

Schedule 5.1 – Benefits for travel and accommodation for hospital treatment cover

As noted in the explanatory memorandum, allowing insurers to offer travel and accommodation benefits as part of hospital treatment cover is likely to incentivise insurers to offer these benefits, and as such this will be of benefit to consumers. On this basis, CHF supports Schedule 5.1.

Schedule 5.2 – Information requirements

Consumers find PHI challenging and hard to navigate, a fact noted by the Australian Competition and Consumer Commission (ACCC) in their 2015-16 report to the Australian Senate². It was also illustrated in a recent survey by CHOICE of consumers with PHI found that 44% of consumers find it difficult to compare policies, compared to only 28% of policy holders who find it easy³. The main reasons cited for this include: difficulty comparing policies side by side (69%), the information from insurers not being set out consistently (53%) and not all policies being available for comparison (45%). All of these reasons would be addressed, to differing extents, by improved information provision.

² ACCC, Report to the Australian Senate: On anti-competitive and other practices by health insurers and providers in relation to private health insurance—For the period 1 July 2015 to 30 June 2016, pp. 21–22

³ CHOICE. Making Private Health Insurance Simpler: Results from CHOICE’s national survey. Sydney, 2017

The current mandatory form of information provision, the Standard Information Sheet, has been found by the ACCC to not provide sufficient information for consumers to understand the key benefits and limitations of their policies⁴. We support the suggested considerations outlined by the ACCC, that the Private Health Insurance Statement (PHIS) should⁵:

- provide consumers with more reliable and transparent information in relation to the extent of each policy's coverage
- provide consumers with sufficient information to make informed choices when comparing and selecting policies and enable consumers to understand the extent of their financial exposure to additional health costs
- include clear and prominent disclosures with respect to applicable out-of-pocket costs in hospital for all items listed

As noted in the EM, the requirements for the PHIS will be set out in the Rules. While CHF has represented the views and needs of consumers through the Committees which have been developing the PHIS, we suggest that Senators carefully scrutinise the final wording of the Rules. Improved information provision, while not a silver bullet, is an important area of reform.

In particular, attention should be paid to when insurers are required to give information to consumers, and in what format. The move to making the provision of the PHIS optional may be more convenient for consumers, but also may lead to more people 'setting and forgetting' their PHI, or not being completely aware that a detrimental change has occurred.

Schedule 5.3- Second tier administrative reforms

Schedule 5.3 represents an administrative manner, and as such we do not have substantive comment about it. However, in principle, we do not support industry self-regulation in this area. As such, we are supportive of the change away from industry self-regulation in the form of the Second Tier Advisory Committee to the Minister for Health assessing and determining whether or not to include a private hospital in a class of hospitals eligible for second-tier benefits.

Schedule 5.4 – Closed and terminated products

We support the intent of this schedule, but have concerns about the administration of it. As it is written, it appears that insurers would not be required to offer a person a choice of new product, only to transfer them to a new product of the insurers choosing. There are no protections for consumers in how this will be administered. For example, a consumer may be transferred by an insurer to a product which has a different level of benefit to the one that they had chosen to purchase. The EM notes that 'the insurer will be required to inform the person being transferred of a range of matters which are intended to be included in the Private Health

⁴ ACCC, Report to the Australian Senate: On anti-competitive and other practices by health insurers and providers in relation to private health insurance—For the period 1 July 2015 to 30 June 2016, pp. 21–22

⁵ ACCC, Report to the Australian Senate: On anti-competitive and other practices by health insurers and providers in relation to private health insurance—For the period 1 July 2015 to 30 June 2016, pp. 17

Insurance (Complying Product) Rules. These provisions do not reduce an insured person's other portability entitlements such as not having to re-serve waiting periods when moving to a new policy'. While this suggests that there may be protections for consumers in the rules, without seeing the rules we are unable to ascertain if this is in fact the case.