

21 January 2013

Mr Shaun Gath  
Chief Executive Officer  
Private Health Insurance Administration Council  
PO Box 4549  
Kingston ACT 2604

Via email: [competition@phiac.gov.au](mailto:competition@phiac.gov.au)

Dear Mr Gath

### **Discussion Paper: Competition in the Australian Private Health Insurance Market**

The Actuaries Institute is the sole professional body for actuaries in Australia, providing independent, expert and ethical comment on public policy issues where there is uncertainty of future financial outcomes. It represents the interests of almost 4,000 members, including more than 2,000 qualified actuaries.

#### **Actuaries have many views to offer**

The Premiums and Competition Unit (PACU) aims for a "better and more informed conversation" about private health insurance (PHI). Actuaries look forward to joining the debate, and sharing their insights on the industry.

There is no single actuarial perspective on competition in PHI. Therefore this submission provides some high-level comments on competition, rather than giving a response to each question in the discussion paper. A number of actuaries are planning detailed responses to the discussion paper.

#### **The discussion paper asks the right questions**

PHIAC has identified the issues relevant to competition in PHI, with pages 6 and 7 of the discussion paper providing a good concise summary. In particular, the Actuaries Institute notes that:

- The industry has many of the features associated with competitive industries, such as fierce competition for new members between a wide range of funds
- The market is heavily concentrated, with the largest two insurers accounting for more than half the policies held
- Regulations are sometimes helpful to competition, for example, portability rules allowing customers to move between funds without penalty
- However, the level of regulation may not be optimal. The paper notes that almost every element of health insurance is regulated, and the rewards for innovation are "shaped by regulation of premiums and risk sharing among insurers."

The extent of regulation makes PHI different from many other industries. The discussion paper is correct to note that regulation limits the scope for competitive behaviour in PHI. The question is therefore not whether PHI can be an exemplar of competition, but rather whether competition is adequate given the extent of regulation.

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### More research will be needed to find answers

The paper summarises information from other PHIAC publications, and poses a number of interesting questions for discussion. Very little new research is presented, and we understand that further PACU papers will follow.

The questions touch on issues which are both highly contentious and, to date, poorly researched. Industry stakeholders will no doubt provide PHIAC with their opinions on these issues, but more research will be needed if PHIAC wants to have an informed debate. Examples of these issues include:

- High retention rates – are these due to difficulties in moving insurer (due to complexity, lack of innovative new products, inertia, branch loyalty or lack of customer awareness) or do they reflect high levels of customer satisfaction?
- Provider relations – is there an appropriate balance of power between providers and insurers?
- Restricted products – are these really not valued by customers, as the discussion paper suggests?
- Market entrants – why don't more insurers enter the market, especially if profits are as high as PHIAC suggests?

We note that these are all issues which could be researched, and the actuarial community stands ready to assist.

### Public policy issues are key

PHI is different from many industries in that it has significant public policy remit. At the core of the public policy considerations in community rating, which remains widely supported.

The Institute has a public policy position on health financing, including fifteen policy principles<sup>1</sup>. One of our policy principles is that PHI premiums should remain affordable for working Australians on average incomes. As such regulation of private health insurance should follow a 'community rated' approach. We support community rating, and therefore recognise the need for regulation in PHI.

A slew of regulations and incentives support community rating. The key features of a community rated approach are guaranteed access to insurance cover after appropriate waiting periods, portability between insurers, no "improper discrimination" (and risk equalisation between insurers. However, while we support community rating, this does not mean we cannot foresee improvements being made to the current system.

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<sup>1</sup> Available at

<http://www.actuaries.asn.au/Libraries/PublicPolicy/PolicyPositionHealthFinancingMarch2012.sflb.ashx>

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Regulations of the sort which support community rating are not typical in competitive industries. The question for PACU is potentially, not whether PHI is competitive, but whether the level of competition is reasonable given the public policy framework.

We would be pleased to discuss the issues raised in this submission or to respond to specific questions to assist PHIAC in the course of its work.

Please contact Melinda Howes, Chief Executive Officer of the Actuaries Institute (phone 02 9239 6106 or email [melinda.howes@actuaries.asn.au](mailto:melinda.howes@actuaries.asn.au)) to arrange this, or for any further information.

Yours sincerely

John Newman  
President

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