

Biennial Convention 2007

# Adventures in Risk

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# Adventures in Health Risk

A History of Australian Health Insurance

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## Outline

- Origins of health insurance
- A changing landscape
- Today's health risk takers
- Births, Marriages, Divorces and Deaths
- Lessons from the past
- What's next



## Origins of Health Insurance

- **Friendly Societies:** self help organisations – health/sickness, income support, death & funeral benefits  
Druids, Foresters, Free Gardeners, Rechabites, Oddfellows
- **Hospital subscription schemes:** HCF, HBF, Mildura, Cessnock, St. Lukes, Latrobe
- **Employment:** teachers, army, navy, police, railways, tramways, Westfund, HCI, public service, electricity, mining, banking, steel, doctors
- **Market Opportunity:** Medibank Private, Health Australia, FAI



## A changing landscape

- **1926 Royal Commission**

advocated a compulsory sickness and retirement scheme funded by employer and employee contributions – legislation never passed

- **Public Hospitals Act 1929**

allowed hospitals to establish contribution schemes for hospital charges

- **Hospital Benefits Act 1945**

provided Commonwealth subsidy to states for hospital benefits



## A changing landscape

- National Health Act 1953

Dr. Earle Page (minister for Health) scheme

Commonwealth subsidies for hospital and medical treatment  
administered by non-profit voluntary health funds

formalisation of community rating basis (pricing, access)

many health funds established around this time

massive increase in membership of private health funds

(to 83% of population in 1953)



## A changing landscape

- **Nimmo Inquiry 1968**

background of rising prices, gap between benefits & charges, complexity  
recommended common fee schedule for medical services & nationalisation

- **Medibank introduced 1975**

Universal hospital and medical coverage without means test  
Financed by specific income tax levy and general revenue  
Health funds provided top up hospital cover and started ancillary products

- **Medibank abolished 1978**

Health funds resumed hospital and medical cover, with reduced  
Government funding of hospital and medical services

- **Medicare introduced 1984**

Return to original Medibank concept with Govt financed hospital & medical



## A changing landscape

- **1985 reforms**

- health insurance business only allowed by registered health funds
  - prevented insurers avoiding the reinsurance arrangements
  - Front end deductible products allowed

- **1988 reforms**

- Minimum reserve requirements of 2 break-even contribution months
  - portability requirements introduced

- **1995 reforms**

- health funds permitted to negotiate contracts with hospitals and doctors

- **1997 PHIIS scheme**

- means tested subsidy for private health insurance contributions



## A changing landscape

- 1999 30% rebate

non-means tested subsidy for private health insurance premiums increased in 2005 to 35% for those aged 65-69 and 40% for 70+

- 2000 Lifetime Health Cover

entry age loadings of 2% for each year joining age exceeds 30  
transitional measures caused massive growth: 30% to 45% of population

- April 2007 reforms

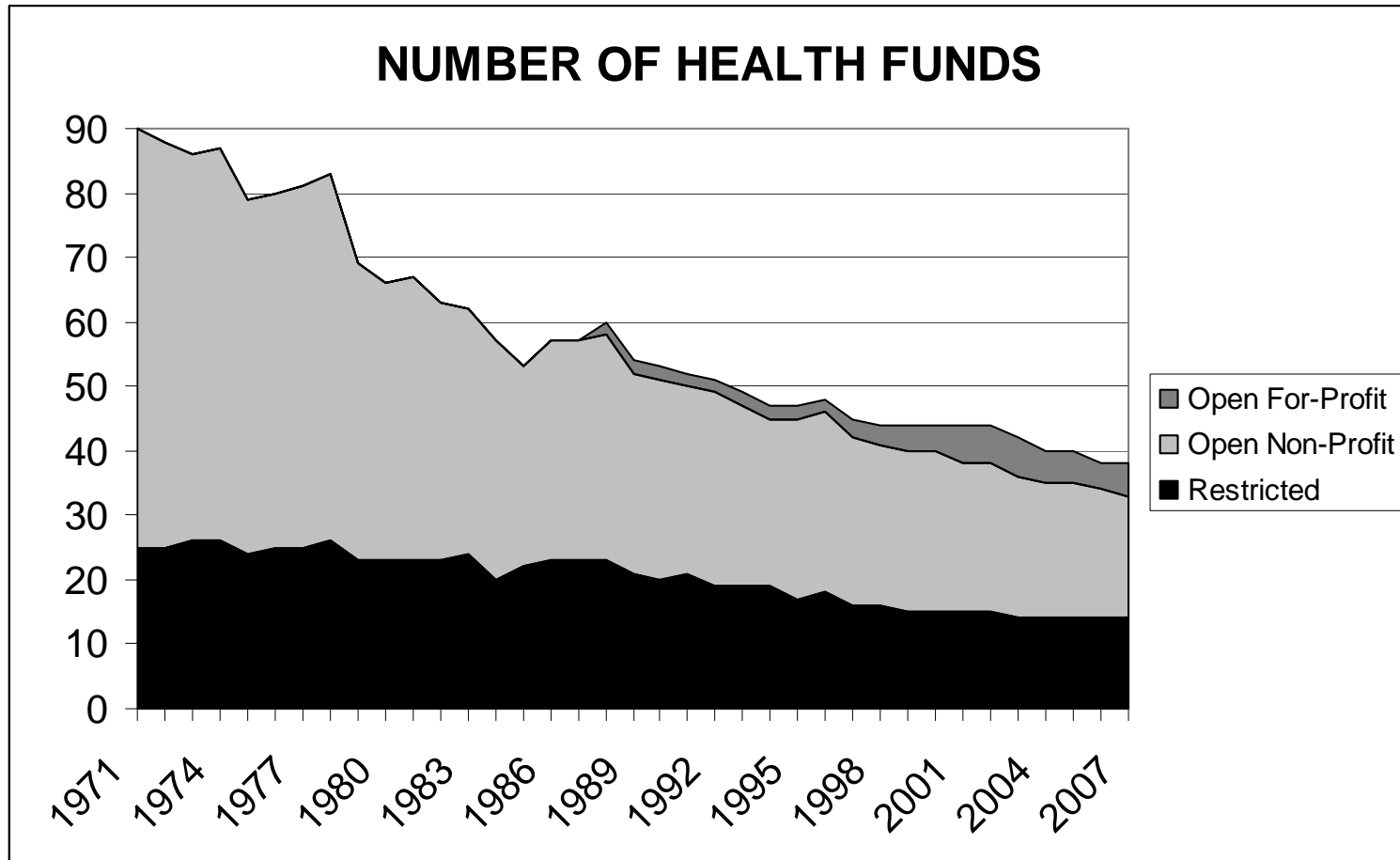
Private Health Insurance Act 2007

Broader Health Cover – hospital substitute and chronic disease mgt  
changes to Risk Equalisation arrangements  
re-registration of health funds





## Health fund rationalisation





## Today's health risk takers

- 38 health funds: 25 open, 13 restricted access
- 6 largest funds = 77% market share
  - Medibank Private (27.7%) commenced 1976
  - MBF (18.3%) commenced 1946
  - BUPA (9.7%) commenced 1934 (as HBA)
  - HCF (9.5%) commenced 1932
  - HBF (7.7%) commenced 1941
  - NIB (6.4%) commenced 1953



## Births, Marriages, Divorces & Death

- HCF and MBF marriage and divorce

HCF covered hospital benefits

MBF covered medical benefits

Oct 1961 – agreement in NSW for HCF to collect contributions for MBF

Fund administrations merged

Dispute over allocation of revenues collected between the two funds

Oct 1962 – HCF gives 12 months notice to terminate the agreement

Oct 1963 – joint operations ceased

Nov 1963 – both HCF and MBF commence offering hospital & medical cover in NSW in competition with each other



## Births, Marriages, Divorces & Death

- A Blue Cross merger?

1951 – Blue Cross Association established (large fund industry body)

MBF (NSW, QLD, TAS), HBA (VIC), Mutual Community (SA), HBF(WA)

May 87 – proposal for merger of Blue Cross Funds, response to competition from Medibank Private

Aug 87 - All funds except HBF support proposal, but no agreement reached

Late 87 – Professor Alf Pollard (Chairman of MBF) develops alternative plan to merge administrative operations with separate assets, boards & articles

Opposition from HBF and Mutual Community

1988 – Mutual Community propose alternative merger proposal

HBF rejects proposal, but Mutual Community, HBA & MBF continue talks

July 1989 – Mutual Community and HBA reach agreement for a merger

1990 – Blue Cross Association disbanded as member funds pursue own strategies, including expanding across state borders into each others territories



# Births, Marriages, Divorces & Death

- Turmoil in Victoria 1987-1991

*Anni horribiles* for Victorian health funds – significant underwriting losses (net margin)

Year	Medibank Private	HBA	ANA	Manchester Unity	Health Australia
1987/88	(6.7%)	(3.5%)	(2.3%)	(4.5%)	2.8%
1988/89	(4.3%)	(5.9%)	(3.3%)	(5.9%)	(14.2%)
1989/90	(13.7%)	(3.3%)	(26.7%)	(5.8%)	(29.3%)
1990/91	(15.7%)	(4.1%)	(12.7%)	(6.9%)	-

All five funds were affected by these underwriting losses



## Births, Marriages, Divorces & Death

- Health Australia

Commenced operations in September 1986

Joint venture between Australian Hospital Care and Switzerland Insurance

Grew rapidly in VIC and NSW with aggressive marketing (4% of VIC market)

Lured good risk members from existing funds

Risk equalisation changes in June 89 to include over 65s claims

Australian Hospital Care sold shareholding to Switzerland Insurance May 89

Incurred losses of \$35 million over four years

Merged with Medibank Private October 1990



## Births, Marriages, Divorces & Death

- The birth of Australian Unity

The Australian Natives Association was established in 1871

By 1989 ANA was third largest fund in Victoria in a strong financial position

Three years of significant underwriting losses wiped out all of its net assets

Manchester Unity in Victoria was established in 1840

It also incurred underwriting losses during this period, but was still in a sound financial position

On 22 September 1993 ANA merged with the financially stronger MU

The merged fund was named Australian Unity with a 16% VIC market share



## Births, Marriages, Divorces & Death

- **Two fallen giants: HBA & Mutual Community**

In 1989/90 HBA's net assets were wiped out by write-offs of \$47 million in loans to subsidiaries, development projects, joint ventures  
HBA was taken over by Mutual Community in December 1990

Mutual Community's net assets were wiped out by losses of \$42 million in 1989/90 and \$35 million in 1990/91, primarily from asset adjustments and software development expenditure write-offs

In 1991 the National Mutual Life Association took over HBA and Mutual Community with a capital injection of \$34m and a loan of \$35m

For HBA and Mutual Community combined, \$121m was written-off in investment writedowns and software development write-offs over two years, increasing to \$197m by 1999.

National Mutual sold the business to BUPA for \$595m in 2002





## Births, Marriages, Divorces & Death

- Interstate expansion

### MBF

Strong in NSW, QLD, TAS

Commenced operations in VIC (Dec 89), SA (Oct 93), WA (Jul 97)

Estimated underwriting losses (net margin) in these states of \$57 million over 10 years to June 1999

Achieved market shares of 4.4% (VIC), 5.1% (SA), 1.3% (WA) (excl NRMA)

### National Mutual Health Insurance (now BUPA)

Strong in VIC, SA

Commenced operations in NSW, QLD and WA in 1995

Estimated underwriting losses (net margin) in these states of \$26 million over 4 years to June 1999

Achieved market shares of 1.2% (NSW), 2.4% (QLD), 1.0% (WA) (Jun 06)



# Births, Marriages, Divorces & Death

- The Lifetime Health Cover explosion

Fund	Hospital membership change: June 1999 to June 2002	Underwriting Profit (Net Margin) as % of contribution income		
		1999/00	2000/01	2001/02
Goldfields	403%	(6.6%)	8.2%	(20.0%)
IOR	116%	4.2%	4.0%	(17.1%)
NRMA	105%	1.8%	3.9%	(11.5%)
HIF	88%	1.9%	4.9%	(9.7%)
Medibank Private	69%	0.9%	4.1%	(8.1%)
AHMG	57%	6.3%	11.3%	(9.4%)

Goldfields: PHIAC appointed administrator Dec 2001, merged with Healthguard

IOR: PHIAC appointed administrator July 2002, sold to HCF

NRMA: \$40m capital injection from parent, sold to MBF July 2003 for \$110m

HIF: restored financial position via rate increases: 12.5%, 12.7%, 10% in 02-04

AHMG: restored financial position via rate increases: 17.4% & 19.6% in 02-03

Medibank Private : restored financial position via 8.9% rate increase in 02 and \$85m capital injection in Jul 04



## Births, Marriages, Divorces & Death

- Rise of the for-profit health fund

Sept 1985 reforms allowed for-profit funds following mandatory registration

Feb 1986: FAI Health Benefits (sold to Grand United Mar 1997)

May 1986: Health Australia (merged with Medibank Private Oct 1990)

June 1986: Hospita (never traded, licence sold to National Mutual)

Oct 1988: AUSI Health Insurance (never traded)

June 1989: ACC Health (merged with National Mutual Health Insurance)

Mar 2007: National Health Benefits Australia

Conversions from non-profit to for-profit:

Jan 1997: SGIO Health

Jan 1999: Grand United

June 2001: IOOF

June 2001: Australian Unity

2007/08?: NIB, MBF, Medibank Private ?



## Births, Marriages, Divorces & Death

- The health funds that never were

### ABC Staff Association Health Insurance Society

Registered May 1971, never commenced operations, deregistered June 1972

### AUSI Health Insurance

Registered as a for profit fund in October 1988

Never commenced operations, deregistered June 1991

Owned by Insurance Exchange of Australia, a major player in sports insurance

### Hospita

Registered as a for profit fund in June 1986, never commenced operations

Joint venture between Capita (City Mutual) and Hospital Corporation Australia

Aimed to position for any move towards Health Maintenance Organisations

Licence sold to National Mutual – now operates as BUPA Australia



## Births, Marriages, Divorces & Death

- **Removing the restrictions: closed to open**  
a number of funds have made the transition from a restricted access fund to open membership, seeking to grow beyond their origins
  - 1976 HIF (formerly WA Government Railways fund)
  - 1992 Healthguard (formerly Professional & Technical Officers fund)
  - 1994 CPS Health Fund (Commonwealth Public Service Qld credit union)
  - 1995 Health Partners (formerly SA Public Service Association fund)
  - 1997 Government Employees Health Fund (now part of AHMG)
  - 1999 Queensland Country Health (formerly MIM employees health fund)
  - 2006 Lysaght Peoplecare



## Lessons from the past

*Those who cannot remember the past are condemned to repeat it*  
(George Santayana, *The Life of Reason*, 1906)

Typical dangerous pursuits that have led to death or near-death experiences:

- Regulatory change (Lifetime Health Cover)
- Poor, or deliberately low, pricing
- Inadequate price increases
- Poor investment decisions
- Product cannibalisation
- Poor product design or generous benefits



## What's next?

# NIB members vote for ASX listing

*The way is clear for demutualisation and a float by November*

# MBF set to float on ASX

MBF shrugs off BUPA bid for sharemarket listing

# Health fund on ASX

NIB board confident premiums will not go up



## Demutualisations and ASX Listings

- **NIB**

March 2007: announced plans to demutualise

19 July 2007: members vote in favour of demutualisation

Late 2007: ASX listing expected

- **MBF**

17 August 2007: Council endorse demutualisation proposal

31 August 2007: BUPA announces interest in buying MBF

2008: MBF expects to demutualise and list on ASX

- **Medibank Private**

December 2006: Medibank Private Sale Act passed

2008: ASX listing expected if coalition government re-elected





## Thanks and an apology

- Thank you to people who assisted our research
- Considering continuation of our research – comments, corrections and further information welcome
- Comments and discussion