



**HEALTH FUNDS
ASSOCIATION OF
NEW ZEALAND**

Annual Review 2010





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**HEALTH FUNDS
ASSOCIATION OF
NEW ZEALAND**

Health Funds Association of New Zealand

Executive Director

Roger Styles

Office Manager

Sharon Cossar

Media Advisor

Andrea McKay

Street Address

Level 5

Deloitte House

10 Brandon Street

Wellington

New Zealand

Postal Address

PO Box 25161

Wellington 6146

New Zealand

Facsimile

04 499 0813

Telephone

04 499 0834

General Inquiries

admin@healthfunds.org.nz

Website:

www.healthfunds.org.nz

HFANZ Executive

(as at March 31, 2010)

In order from top left:

Steve Boomert (president) **Tower Health & Life Ltd**

Dermot Martin **Union Medical Benefits Society Ltd (Unimed)**

Paul Regtien **Southern Cross Healthcare**

Chris Pentecost **Police Health Plan Ltd**

David Drillien **Sovereign Assurance Company Ltd**

Our other members:

Accuro Health Insurance

AIA New Zealand

EBS Health Care

ING Life (NZ) Ltd

Manchester Unity Friendly Society



Steve Boomert
President



President's Report 2009 – 2010

During the year we have seen signs that health insurance is being recognised as a critical part of the overall health system. We have seen an expansion in the services covered privately, and a pulling back on some services funded publicly. We have seen the Government move proactively to rein in health inflation and the beginnings of better public-private collaboration.

In 2009-10, total health insurance claims paid passed three-quarters of a billion dollars, with \$779 million in claims paid in the year ended March 2010. The high level of claims paid underlines the significant contribution the private health sector is making to overall healthcare costs in New Zealand.

While it is good to see that people are getting value from their insurance and that the private contribution to healthcare is significant, there are questions over the sustainability of significant year-on-year increases in claims. The industry has been particularly concerned at some of the underlying drivers of recent claims increases, including cost-shifting from the public sector and, in particular, ACC. These have often impacted most of all on older New Zealanders, with resulting premium increases inevitable.

“We believe that there is a real opportunity for health insurance to play a greater role in meeting New Zealand’s longer term health care needs than it does at present.”

Such a haphazard approach to cost-shifting will have unforeseen consequences. It could actually increase longer-term costs to the public sector rather than diminishing them. Wouldn't it be better to have a broader debate about how we go about increasing the relative share of total health spending that the private sector accounts for? In New Zealand this is just 22 percent compared with OECD average of 27 percent and Australia on 32 percent.



We believe that there is a real opportunity for health insurance to play a greater role in meeting New Zealand's longer term health care needs than it does at present. For this to happen there needs to be a greater common understanding of the relative roles of both public and private sectors. It is positive that this is now starting to happen under the Government's initiative to establish a dedicated private desk at the Ministry of Health.

We would also like to congratulate the Government on its efforts in its first year to contain health inflation and to pursue efficiencies in the public health sector. The Treasury's long term fiscal update in 2009 was a sobering reminder of the potential future escalation in health costs as the population ages.

In the year ahead we are looking forward to engaging constructively with the Government and developing a better understanding across public and private sectors of how each can add value. Greater collaboration could be key to helping contain future fiscal costs, through fostering a higher level of voluntary health cover among

New Zealanders, while helping more people to retain their cover in retirement.

I would like to thank executive director Roger Styles and his staff, and my fellow executive members for their hard work and support during the year.

It is with much pleasure that I present the Health Funds Association of New Zealand's Annual Review for the year ending March 31, 2010.

Steve Boomert
President.





Roger Styles
Executive Director



Executive Director's Report 2009 – 2010

The health insurance industry has held its own in the 2009-2010 year in the face of difficult economic circumstances. Statistics for the year to the end of March showed the number of New Zealanders with health insurance has dropped from 33 percent to 32 percent of the population over the last two years. This occurred as the number of lives covered has remained relatively stable despite population growth.

Although the number of lives covered has not increased, there has again been a significant increase in claims paid for the year – up 9.3 percent on last year. This has had a flow-on impact on premiums, although less severe, with premium income for the year up 6.9 percent.

Higher claims costs have been caused by a number of factors, including increased demand, an aging population, higher surgical costs, and the introduction of new services which were not previously available or to which the public sector had limited people's access. A good example is the new private Auckland radiotherapy clinic which offers patients an alternative to waiting for cancer treatment in the public sector. While such innovations add to the cost, they represent value for health insurance policyholders.

Insurers have also had to pick up the tab for further cost-shifting from the public sector this year, with belt-

“It is pleasing that engagement with the Government has increased this year with positive signs coming from the new public/private desk at the Ministry of Health. Greater collaboration and understanding between sectors is critical.”

tightening by the Accident Compensation Corporation in the spotlight. ACC's introduction of stricter guidelines for funding elective surgery saw a doubling of cases rejected. Those with private health insurance were lucky and typically had their surgery funded by their insurer. Others were simply referred to public hospital waiting lists. ACC has also capped its payments relating to physiotherapy treatment from November 2009, leaving insurers to reimburse co-payments where policies provide for this. The state of ACC's finances suggests there could well be more cost-shifting to come.



During the year HFANZ made a number of submissions (listed at the end of this report) and has worked alongside the other insurance associations – Investment Savings and Insurance Association (ISI) and the Insurance Council of New Zealand (ICNZ) – to provide input into the Government's ongoing review of financial products and providers. This is a huge piece of work and there is a real need to ensure the regulation achieves its purposes of consumer protection and sound markets, without resulting in an unduly high level of compliance costs. After all, it is policyholders who will ultimately pay the price of the compliance costs in higher premiums.

It is pleasing that engagement with the Government has increased this year with positive signs coming from the new public/private desk at the Ministry of Health. Greater collaboration and understanding between sectors is critical.

A number of recent forums and conferences have had a specific focus on public and private collaboration, and I have been privileged to be invited to present on the

potential future role of health insurance in the New Zealand context.

We updated our popular information brochure – Making Sense of Health Insurance – at the beginning of 2010 and have begun to distribute it more widely, including to hospitals, GP clinics and practices, citizens' advice bureaus and brokers. A number of members regularly include the brochure in correspondence to new policyholders. Finally, the HFANZ website has been updated and more work is planned on it in the coming year.

I would like to thank our President Steve Boomert and the Executive for their invaluable support and for their contribution to the progress made over the last year.

Roger Styles
Executive Director



Submissions over the year included:

- Submission on the Insurance (Prudential Supervision) Bill to Finance and Expenditure Committee, and oral presentation to the Committee;
- Submission to RBNZ on the draft Solvency Standard and second version of the draft Solvency Standard for non-life insurers;
- Submission to Ministry of Consumer Affairs on the proposed Reserve Scheme levies (for dispute resolution);
- Submission to Otago District Health Board on proposed public-private initiatives;
- Submission on Ministry of Economic Development discussion document: Financial Service Providers (Registration and Dispute Resolution) Act 2008: Fees Regulations
- Submission on Ministry of Economic Development discussion document: Financial Advisers Act 2008 Disclosure Regulations;
- Submission on Ministry of Consumer Affairs paper: Draft Guidelines to assist schemes applying to become an approved dispute resolution scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008;
- Submission on Ministry of Consumer Affairs paper: Proposed Reserve Dispute Resolution Scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008;
- Submission on Securities Commission Staff paper on Regulating and Supervising Financial Advisers;
- Submission to the Reserve Bank of New Zealand on the draft Insurance (Prudential Supervision) Bill.

HFANZ has also provided industry feedback on a formal and informal basis to Government agencies and other organisations, such as the Insurance and Savings Ombudsman in relation to proposed rules changes.

Health Insurance Key Statistics 2009-10

Summary

The year showed a slight easing in the number of lives covered by health insurance, with a decline of 0.3 percent over the March year. Total lives covered at 1.39 million are similar to levels recorded in June 2008. While the number of lives covered has remained virtually static, there has been growth in both claims paid and premium income over the year. Premium income for the year ended March 2010 was up 6.9 percent on the previous year. Claims paid during the year increased by 9.3 percent on the previous year.

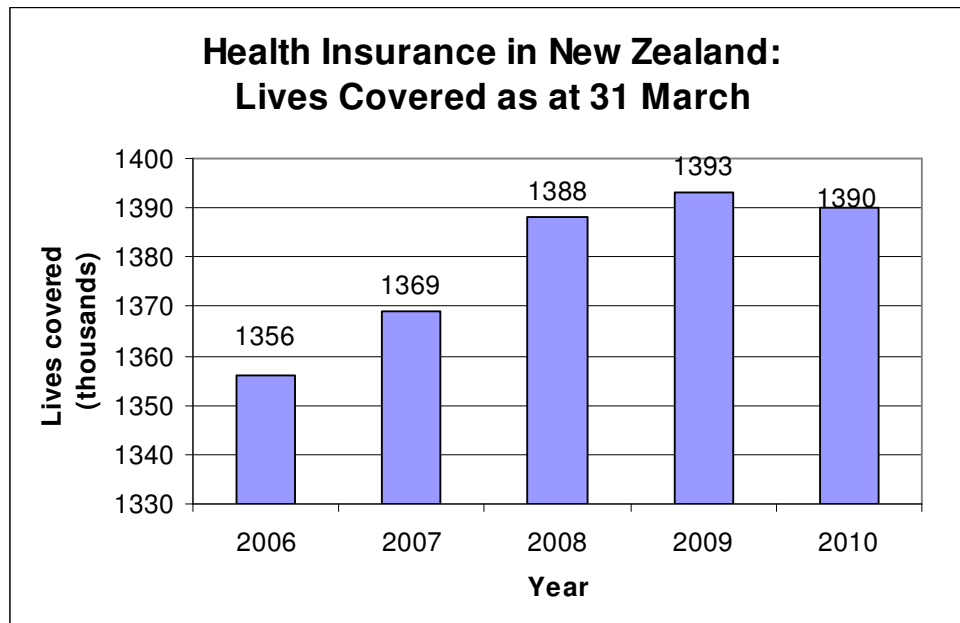
Summary Financial Data: Premiums, Claims and loss ratios (March Years)

	2006-7	2007-8	2008-9	2009-10
Premium income (\$m)	\$ 726.1	\$ 791.3	\$ 837.7	\$ 895.3
Claims paid (\$m)	\$ 582.3	\$ 630.6	\$ 712.2	\$ 778.8
Loss ratio	80.2%	79.7%	85.0%	87.0%

➤ Lives covered down 0.3 percent

The number of lives covered fell by 3700 (-0.3 percent) compared with March 2009. This takes the number of lives covered back to mid-2008 levels.

Health insurance coverage is correlated with employment numbers, as many of those insured are members of group health insurance schemes, some of which are part-funded by employers. The easing of coverage may simply reflect the continuation of subdued employment levels following the previous year's recession.



The total growth in the number of lives covered over the four years from March 2006 to March 2010 is 34,000.

➤ **Lives covered by age**

A breakdown of the lives covered by age group highlights a number of offsetting changes which contribute to the overall change for the year. The 2009-10 year is of interest because for the first time since 2003-04 there has been a reduction in the number of lives covered in the 55-69 age group. Coverage in this age group has been increasing every year, with an aging population.

Over the last two years, the rate of increase for the 60-69 age group has slowed considerably, to the extent it is now below that expected by reference to demographic changes.

Despite the slow-down in growth for older age groups, there is a significant offsetting increase of 3000 recorded for the 0-5 age group – possibly in line with continued higher birth rates in recent years.

Table: Lives Covered by Age group: March 2009 and March 2010

Age	Mar 2009	Mar 2010	Diff	Percent
0–4	64,376	67,425	3049	4.7%
5–9	82,308	82,040	-268	-0.3%
10–14	91,624	89,852	-1772	-1.9%
15–19	99,613	97,826	-1787	-1.8%
20–24	74,905	75,339	434	0.6%
25–29	66,311	68,063	1752	2.6%
30–34	81,189	80,846	-343	-0.4%
35–39	110,029	108,429	-1600	-1.5%
40–44	119,690	118,563	-1127	-0.9%
45–49	130,819	128,671	-2148	-1.6%
50–54	122,816	122,613	-203	-0.2%
55–59	114,484	112,497	-1987	-1.7%
60–64	97,548	98,765	1217	1.2%
65–69	58,362	58,394	32	0.1%
70–74	32,812	33,837	1025	3.1%
75–79	22,032	21,712	-320	-1.5%
80–84	15,501	15,433	-68	-0.4%
85–89	6784	7026	242	3.6%
90+	2046	2256	210	10.3%

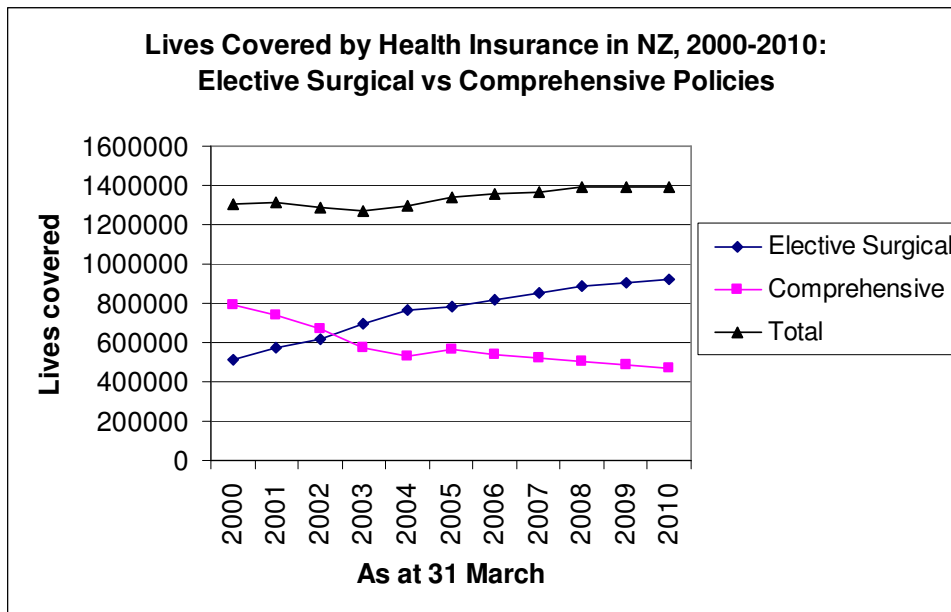
Note: Lives covered in the 55-69 age group 2009-2010

- Total March 2009: 270,400
- Total March 2010: 269,700
- Reduction in lives covered: 700

➤ **Trend to elective surgical cover**

The trend away from comprehensive health insurance towards elective surgical and specialist cover continues. The net 3700 decrease in lives covered over the year represents an increase of 13,600 people with elective surgical and specialist cover and a reduction of 17,300 having comprehensive insurance policies.

Elective surgical and specialist cover now accounts for 918,500 of the 1.390 million lives covered, or 66.1 percent of those covered by health insurance. Comprehensive health insurance coverage now accounts for just 471,100 lives covered, or 33.9 percent of policies.



➤ **Premiums paid up 6.9 percent**

Health insurance earned premiums in the year ended March 31, 2010 totalled \$895 million, an increase of \$57 million or 6.9 percent on the \$838 million in premium income for the March 2009 year.

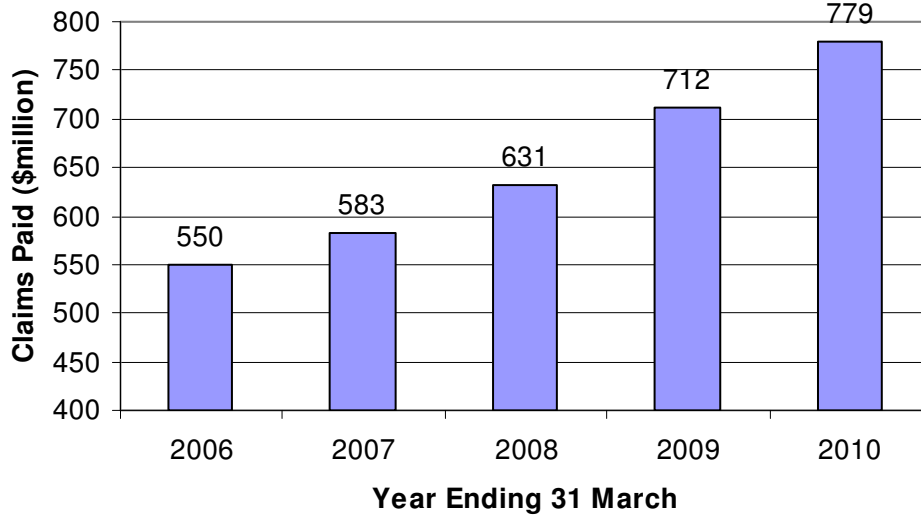
➤ **Claims paid up 9.3 percent**

Health insurance claims paid in the 12 months to March 2010 totalled \$779 million. This is an increase of \$66 million or 9.3 percent on the total claims paid in the 12 months to March 2009.

Growth in claims costs has been running at a high level over recent years due to increased demand, expansion of services funded, and medical inflation. Cost-shifting from the public sector has also contributed. The 9.3 percent annualised claims growth continues a downward trend since claims cost growth peaked at 13.2 percent in the December 2008 quarter.

Growing Contribution from Health Insurance:

Growth in Claims Paid, 2006-2010



Annualised increase in claims costs: March 2007 - March 2010

