

The Health Insurance Authority
Canal House
Canal Road
Dublin 6



Consultation Paper on Risk Equalisation in the Irish Health Insurance Market

BACKGROUND

On the 18th June the Health Insurance authority (“HIA”) wrote to AXA inviting submissions on risk equalisation in the Irish Private Health Insurance market.

This submission is made in the context of a consultation paper issued by the HIA

INTRODUCTION TO AXA INSURANCE

AXA Insurance Ireland

AXA operates across the island of Ireland providing financial protection to our customers in the Republic of Ireland and Northern Ireland employing over 1,000 people.

Today, AXA is one of Ireland’s largest private car insurers with over 700,000 customers nationwide. AXA are also very active in the home insurance and taxi market. We have more than 50 branches located throughout the Republic of Ireland & Northern Ireland giving our customers local access to their nearest branch. We are an integral part of the community and our local knowledge allows us to provide products that best suit our customers’ needs.

For those who prefer to arrange their home and motor insurance over the telephone, we offer first class service from our customer contact centres located in Dublin, Derry, Belfast and Athlone. We also offer a completely integrated internet service at www.axa.ie. We also offer personal and commercial insurance through a network of independent, professional insurance Brokers under the AXA Broker brand.

AXA Globally

AXA is one of the largest Insurance companies in the world. We have 96 million customers worldwide employing over 128 thousand people. In 2009 AXA had revenues of €90Bn and earnings of €3.6 Bn. AXA have a stable and strong financial rating, rated Aa3 by Moody's (31.03.10)

AXA Health Insurance in the UK

AXA provides Health Insurance in the UK under the AXA PPP Brandname.

AXA PPP healthcare is the second largest private medical insurer in the United Kingdom with a 27% market share. We also have a growing international portfolio of expatriate and overseas domestic business. 2009 revenue was £1.04bn and we currently have 1.9m customers across the individual and corporate markets that we serve. Denplan, a fully owned subsidiary, has a c.65% market share of the UK dental benefit plan market. AXA PPP is headquartered in Tunbridge Wells, Kent.

GENERAL FACTORS TO BE CONSIDERED IN A NEW RISK EQUALISATION SYSTEM

- Age, Gender and Disability are factors beyond the influence of individuals and are therefore legitimate factors in a Risk Equalisation Scheme (“RES”)
- Factors other than Age, Gender and Disability, for example Health Status, may be influenced by individuals and therefore should not be factors within a RES. To include them would penalise those consumers who are pro-active in managing their health by forcing them to pay higher premiums.
- People who purchase Private Medical Insurance (“PMI”) later in their lives than others should pay a higher premium. This “late entry” premium should be determined by competition within the marketplace rather than a fixed regulated formula.
- Any proposed RES should encourage consumers to shop around and should not act as an impediment to innovation in products and services.
- There is a moral hazard risk that an all encompassing RES would result in individual insurers having no incentive to be more efficient and these higher costs will simply be passed onto consumers through higher premiums.
- Minimum Benefit provisions risk reducing innovation opportunities and could result in unnecessary costs on consumers.

GENERAL FACTORS TO BE CONSIDERED IN THE OPERATION OF THE MARKET

- A revised RES should only be implemented when the VHI’s exemption from prudential regulation has been ended. To do otherwise risks exacerbating an already dominant market position and would be contrary to natural justice.
- The three existing players in the Irish Market have all received substantial periods of exemption from making any Risk Equalisation Payments and in certain cases operated in an environment of substantially reduced capital requirements. In the interests of fairness other new entrants should receive an equivalent time based derogation from RES payments.
- New entrants will only be attracted to the Irish Market if risk equalisation and regulatory requirements provide a realistic prospect of generating adequate and long term returns.
- Specific proposals in relation to changes in Regulations and RES along with the other matters referred to in the Competition Authority Report below should be presented and a second round of consultation should be undertaken before any further changes are implemented.

Competition in the Private Health Insurance market was reported on by the Competition Authority in 2007 at the request of the Minister for Health and Children in December 2005.

This report outlined the effect of public policy on competition (Page 2, Section 7)

“Competition in private health insurance in Ireland is constrained by the combination of it being a voluntary system and founded on the concept of intergenerational solidarity. The legislative and regulatory framework designed to support this decision significantly limits the scope for competition in private health insurance; by definition, community rating, open enrolment, lifetime cover, the Minimum Benefit Regulations and risk equalization prevent many of the key features of competition in insurance markets from emerging in private health insurance. For example;

- Health insurers cannot offer discounts to people with healthier lifestyles, such as non-smokers;
- Health insurers cannot offer discounts to employers who have programmes for promoting employee health, such as free/subsidized health screening;
- Innovation in private health insurance is limited as health insurers must continue to cover

procedures that have been overtaken by more effective and efficient technologies until the Minimum Benefit Regulations are updated; and,

- Health insurers are constrained in their ability to select the most efficient network of hospitals.”

There were 16 key recommendations from the Competition Authority, in particular they recommended;

- “VHI Healthcare’s exemption from prudential regulation should be ended as soon as possible so that it becomes subject to the legal solvency requirements and corporate structuring rules that apply to other health insurers in Ireland;
- A package of measures should be introduced to provide consumers with useful and timely information to enable them to consider alternative private health insurance products, and to promote consumer awareness of the ease of switching health insurer;
- VHI Healthcare should discontinue its practice of cancelling its MultiTrip Travel Insurance when its members switch health insurer;
- The Minimum Benefit Regulations should be modernized and the Health Insurance Authority should be allowed to approve limited cover plans, to allow more innovation in the market;
- The Health Insurance Authority should conduct an information campaign to inform employers about how to set up multiple salary deduction mechanisms;
- The Health Insurance Authority should be given wider powers to enforce the Health Insurance Acts and formally assigned the function of promoting the interests of consumers; and,
- The Health Insurance Authority should undertake a full cost benefit analysis of what would be required to move to a prospective Risk Equalisation System and the Minister for Health and Children should clarify the exemptions from Risk Equalisation that apply.

These measures will promote competition in private health insurance, within the limits of intergenerational solidarity, regardless of how the market structure evolves.”

Comments on Section 4 – Consideration of Different Risk Factors

- Underlying Risk Factors: Age, Gender and disability may not be influenced by an individual however other factors , for example Occupation, may be influenced by a consumer and should not be part of a RES. To equalise for factors such as occupation risks imposing higher costs on consumers who elect to engage in more healthy lifestyles .
- Diagnosis Related Factors: These have a legitimate role in a RES but insurers should be able to reflect their own treatment cost efficiencies in premia rather than have generic costs imposed in a RES formula.
- Proxies for Health Status: Attempting to legislate for proxies for Health costs risks distorting the market and should be avoided. Age ,gender and disability are legitimate however consumers should be free to have their own lifestyle decisions reflected in lower or higher premiums as would be the case in most insurance markets.

Comments on Section 5 – Benefits to be included

- Additional regulatory reporting results in additional costs to consumers and it is unclear what benefits would arise from the proposed additional information.

Comments on Section 6 - Transition Arrangements

- It is unclear how these proposals would impact on a new entrant where no historical data was available
- There are inherent risks that the HIA would be the sole arbiter of the efficiency levels of individual insurers and essentially setting market rates.
- It is not clear what benefits would accrue to consumers from these proposals

Comments on Section 7 – Other issues

7.1 New Entrants to the market

Change of ownership does not in itself provide the benefits associated with new entrants. Therefore we believe there should be no special provisions for changes in ownership or purchasers of blocks of business

The three existing players in the Irish Market have all received substantial periods of exemption from making any Risk Equalisation Payments and in certain cases operated in an environment of substantially reduced capital requirements. In the interests of natural justice other new entrants should receive an equivalent time based derogation from RES payments.

One form that this could take would be for a derogation from RES payments for a five year period.

7.2 Lifetime Community Rating

Lifetime community rating should not be reflected in RES payments. Instead consumers will pay different premiums depending on the amount of years they have had Health insurance cover for. This will then provide for normal competition in the marketplace and avoid an overly complex RES model.

7.3 Minimum Benefit Regulations

There are risks with increasing the coverage provided in the minimum benefits regulations, namely;

- Increasing the minimum benefits reduces consumers freedom of choice to select the level of health cover that they are prepared to pay for
- Increasing the minimum benefits risks increasing costs to consumers and they may simply elect to exit the private healthcare market altogether.
- Increasing the minimum benefits reduces the opportunity for insurers to provide innovative products and services that consumers can opt to select

As an alternative to this approach and recognising the important role that prevention has to play in reducing future years health care costs the Government could provide a separate additional tax credit where consumers spend money on primary healthcare services and this would include insurance premia for such cover.

7.4 Publication of Results

The insurance industry already provides a substantial amount of data to the public through the Financial Regulator however it would be appropriate for the RES calculations to be made available on an anonymised basis to all insurers who are covered by the RES legislation.