Laya Healthcare Limited

HIA/Department of Health Public Consultation on the Proposed Change to the Risk Equalisation Scheme

February 8, 2021

INTRODUCTION

Laya Healthcare Limited ('Laya') acts as an agent for healthcare products for Elips Insurance Limited. Laya is proudly part of AIG, one of the leading global insurance organisations in the world with customers in more than 80 countries and jurisdictions. Laya is a major contributor to the Irish economy, employing more than 500 people in its offices in Dublin and Cork.

Laya have been delivering private health insurance ('PHI') solutions to its customers in the Irish market since 1996 and was the first challenger brand to the state owned Voluntary Health Insurance ('VHI') who were the only participant in the Irish market since 1957. Laya healthcare is now the 2nd largest PHI provider in the Irish market with c.600,000 customers representing c.26% of the health insured population. The Laya brand has become synonymous with putting its consumer front and centre of every decision it makes. In 2019, Laya was independently recognised as providing the best customer experience in the Insurance sector. (General, Motor, Home, Health).

In addition to PHI, Laya is the largest provider of Health & Wellbeing services in the country. While looking after the health and wellness needs of our customers and ensuring they get the best medical outcomes are a top priority for us, we are a committed stakeholder in the Irish health system and want to play a role in designing and implementing a better healthcare model that benefits all of Irish society.

RISK EQUALISATION SCHEME ('RES') PROPOSED CHANGES

As a proponent of intergenerational solidarity and how the RES underpins that principle, Laya agrees with the proposal of introducing a High Cost Claims Pool ('HCCP') as an integrated element of the RES going forward. However, Laya does have reservations in respect of the proposed 2022 implementation date, the current lack of transparency of the RES and the associated heightened risk of overcompensation and its impact on affordability and imbalance between treatment of PHI market consumers.

SPECIFIC CONSULTATIONS QUESTIONS

1. *Given that Ireland has a voluntary community rated market for health insurance, do you agree with the principle and overall substance of the Risk Equalisation Scheme?*

   Laya fundamentally agrees with the four principal pillars of PHI in Ireland as laid out in the Health Insurance Act 1994 and its effort to support intergenerational solidarity. While the current RES supports these pillars, the mechanism of evaluating an individual's health status is arguably not sophisticated enough. Laya welcomes an enhanced solution in the form of the proposed HCCP, however the timing of its introduction and future evolution, towards an enhanced measurement of health status such as Diagnosis Related Groups ('DRGs'), are crucial.

2. *Would the changes proposed affect your involvement in the private health insurance market?*

   Laya are a committed long-term participant in the Irish PHI market. While modelling by Laya indicates that the HCCP proposal would adversely impact upon Laya commercially, it is clear that the proposal would increase the effectiveness of the RES and would not change our long-term commitment to the PHI market.

3. *Are there risks or vulnerabilities that do not feature and should be included, and why?*

Timing:

The impact of Covid-19 on the Irish economy and the health system is ongoing and difficult to predict in the medium to long term. Given these material levels of uncertainty, with a direct impact on the PHI market and RES, consideration should be given to a further deferral of the introduction of the HCCP. A shorter-term review of current RES distributions during periods with significant claims reductions, such as a Covid impacted 2020, would seem prudent given the imbalance in benefits redistributed from the RES fund during the Covid-19 pandemic period.

The introduction of the HCCP in 2022 could destabilise an already volatile market due to current ongoing pandemic. The pandemic has caused significant disruption to availably of health services, furthermore the wider economic impacts such as increasing unemployment levels are directly impacting on some PHI consumers ability to continue to afford cover. It would be better to introduce HCCP at a time when the economy has recovered, and employment levels return to levels experienced before the pandemic.

Transparency:

The proposal to introduce the HCCP for a 5 year period and "*on a phased basis with a view to maintaining market stability and to provide the opportunity to monitor market reaction and recalibrate the High Cost Claims Pool appropriately over time"* alludes to the need for on-going review of its impact and effectiveness in maintaining the pillars of the Health Insurance Act. Crucial to this on-going review is a significant increase in transparency around the workings of the RES. Laya believes that transparency is a critical component of ensuring the markets' continuing support of the RES and that no PHI provider is disproportionately compensated from the RES fund leading to an unfair competitive advantage being realised.

Recent years have provided several instances where certain market participants have been able to provide benefits and rebates to members beyond what would be considered viable or reasonable by the other market competitors, facilitated by an imbalance in the RES. Examples include:

- Continued provision of cover for treatments and drugs outside of Health Service Executive ('HSE') and their advisory council in this area NCPE
- 2017/2018 premium rate reductions were out of line with the market, claims inflation and the other market participants,
- 2019 cashback awards to customers, for switching to online documentation and to automated/direct debit premium payments, which were both disproportionate refunds for these actions,

Each of the above examples provide some PHI customers with heighted levels of service at a reduced cost, which is effectively being paid for by customers of the other market participants in the PHI market and the current RES scheme would appear to be facilitating this ongoing imbalance.

The HIA are required by section 7 (f) of the Health Insurance Acts to carry out an overcompensation assessment, with the most recent review, completed by KPMG, published in December 2019. However, this heavily redacted report lacks transparency with the conclusions being unreconcilable with publicly available financial and Solvency II records. The limitations of this report, completed based on 2016-2018 market data, significantly undermines the conclusion that the net benefactor, in particular, were 'determined not to have made a profit in excess of a reasonable profit' and thus had not been overcompensated from the RES fund for this period.

Laya has a strongly held opinion that a greater of level of transparency, regulatory oversight and independent verification should be introduced to mitigate the risk of overcompensation from the RES fund. This should include accountable validation of data submitted, full transparency within the report with no redaction and certification around the independence and accuracy of the report. An independent review of the 2019 overcompensation report would also be welcome.

4. *Do you have additional suggestions for refinement of the Risk Equalisation Scheme in Ireland?*

Affordability:

The proposal to introduce the HCCP in 2022 for a 5-year period should not result in an adverse impact on the affordability of PHI for Irish consumers, considering the current economic uncertainty because of Covid 19 and Brexit. Laya believe there should be no increase to current stamp duty levied on PHI policies (which can run to > 50% of certain policies). Stability in this regard of the RES would mitigate affordability challenges. To prevent an increase in stamp duty, laya recommends a reduction in ARTR to fund the introduction of the HCCP. This would mean age-related credits paid to market participants would reduce, allowing stamp duty to remain unaffected and improving the competitive balance in the market
Laya understands that the introduction of the HCCP is an interim measure with the longer-term view being the introduction of a DRG's based system for measuring health status. Laya understand and concur that HCCPs and DRGs are an internationally recognised effective means of better determining health status, and we believe any enhanced RES should be calculated at a standard product level. Also, the practical systems and reimbursement challenges and experience of DRGs internationally should also be considered.

The introduction of the HCCP in its proposed format with a 40% quota share per claim over €50,000 could have the impact of discouraging efficient claims management. In an effort to improve the calibration of the HCCP, and avoid a reduction in claim cost efficiency, consideration could be given to a claim cap/ceiling. Setting such a cap at circa €100,000, with no recovery above such levels, would encourage market participants to manage high cost claims/treatments which would, in turn, continue to support the overall affordability of the RES and PHI in Ireland. Significant clarity and regulation would also be required around the definition of a 'claim' for the purposes of the HCCP.

As previously proposed by Laya Healthcare, the introduction of a standard product across the market would be an effective means of providing fairness and transparency. In such a scenario, RES credits and levies would solely be based on the standard product. This would be a more efficient way of calculating and distributing credits than the existing methodology.

CONCLUSION

Laya supports the proposed enhancement of the RES through the introduction of the HCCP, including the key aims detailed. As outlined in the above submission, key to the introduction of the HCCP is an increased level of transparency and governance around the RES, with a particular focus on over-compensation and the impact it may have on the affordability of PHI and imbalance of treatment between consumers in the Irish market. In addition, to avoid further market destabilisation on the back of Covid-19, careful consideration should be given to the timing of any HCCP changes.