

Executive Summary

We support the Department of Health and Aged Care (Department) in your ambition of improving value, transparency, and access to medical services for international students, as well as ongoing sustainability for insurers and healthcare providers. We welcome the Overseas Student Health Cover (OSHC) consultation paper and subsequent reform process that is underway.

We are advocates for an OSHC system with market dynamics that promote genuine and fair competition. In this context, we broadly support the proposed changes, and have provided responses to each below. We also acknowledge the Department's focus on affordability, and we have highlighted in this response where the proposed changes may impact OSHC costs.

To summarise our response to the proposed changes to the Deed for the Provision of OSHC (Deed):

Publication of OSHC product information on privatehealth.gov.au

- This change may help students better navigate the OSHC market;
- Noting the significance of third parties in the distribution of OSHC, the likelihood of changing purchasing behaviour should be assessed prior to investing in this change; and
- Nevertheless, using existing Private Health Information Statement (PHIS) infrastructure appears a logical solution.

Caps on certain payments by insurers to third-party agents

- It is important in consideration of this change to include all third parties who receive any financial and non-financial reward from insurers with respect to OSHC, such as education institutions and universities;
- Third party agents play an important role in the sector, improving efficiency and adding value for both students and insurers. We work with many third-party agents who are highly reputable and in our observation the conduct of a few has tarnished the reputation of the many;
- Partnerships with institutions appear to attract much higher commission rates compared to other third party agents. These partnerships also attract additional financial incentives which are of incremental cost to students;
- These arrangements between insurers and institutions may appear anti-competitive, limiting student choice and in some cases costing students more in premiums than policies via other channels;
- Capping commission payments to all third parties may address these issues and support OSHC affordability. We consider a limit in the vicinity of 10%-15% of OSHC premiums to be reasonable and sustainable; and
- We estimate that implementing a payment cap such as this, with appropriate regulation of other non-healthcare based financial incentives, is likely to create significant financial value for overseas students and enable meaningful reinvestment in better products and services by insurers.

Waiting periods for pregnancy-related care

- Pregnancy-related services account for a significant portion of total OSHC costs and the proposed changes to waiting periods will result in higher premiums.

Response to Proposed Initiatives

In the response below we have addressed each of the proposed reform items individually and have incorporated responses to the specific questions for stakeholders.

We note that any references to the impact on OSHC premiums of proposed initiatives is illustrative only and will require further assessment at the point of implementation.

Change 1 - Publication of OSHC product information on privatehealth.gov.au

We support the proposal for OSHC product details to be published on the privatehealth.gov.au website and to use the existing Private Health Information Statement (PHIS) infrastructure template to accommodate this, similar to domestic Complying Health Insurance Products (CHIPs).

This change may help students better navigate the OSHC market and is unlikely to adversely impact premiums. However, the likelihood of changing purchasing behaviour should be considered as part of the proposal. Education institutions and third party agents play a significant role in facilitating the purchase of OSHC and in many instances, OSHC may be arranged offshore as part of the institution enrolment or migration process. In these cases, students may be less likely to compare cover.

As the Department noted, development of the existing PHIS template is required to cater to the differences between OSHC and CHIPs. While hospital covers between OSHC and CHIPs may be reasonably comparable, the proposal should consider where coverage differs including (but not limited to) public hospital services, out-of-hospital services and pharmaceutical items, emergency treatment and medical repatriation. The method by which OSHC products are priced compared to CHIPs also differs and it should be confirmed that the current PHIS functionality will be supportive of OSHC pricing inputs based on duration of coverage (in years).

Should this change proceed, we will work to the Department's proposed timeline. Notwithstanding the additional steps required from insurers during product and price changes, we expect the regulatory burden will be minimal.

Change 2 - Caps on certain payments by insurers to third-party agents

We advocate for an OSHC industry with fair market dynamics that are driven by genuine competition and based on the value and experience available to students with respect to their OSHC. As such, we welcome the Department's review of both the amount and circumstances in which payments are made by insurers to third parties for non-healthcare services.

Third party agents play an important role in the industry and improve efficiency for both students and insurers through their administrative services. We work with many third party agents and organisations who are highly reputable, are compliant with, and add value to the OSHC system. These intermediaries provide important services in supporting both students and insurers by facilitating the purchase of OSHC policies, ongoing policy maintenance and service, as well as end of policy management. We accordingly provide payments for these services in line with the terms of individual commercial agreements.

In addition to these commission-based payments, it is our understanding that OSHC providers may also offer additional incentives such as marketing fees and other bonuses above and beyond the original payments. We believe the restriction of commission payments to a percentage value cap is likely to increase competition and moreover the Department should also strongly consider limiting or removing the allowance for additional incentives (financial or non-financial) to maintain competitiveness based on merit and to improve affordability for students.

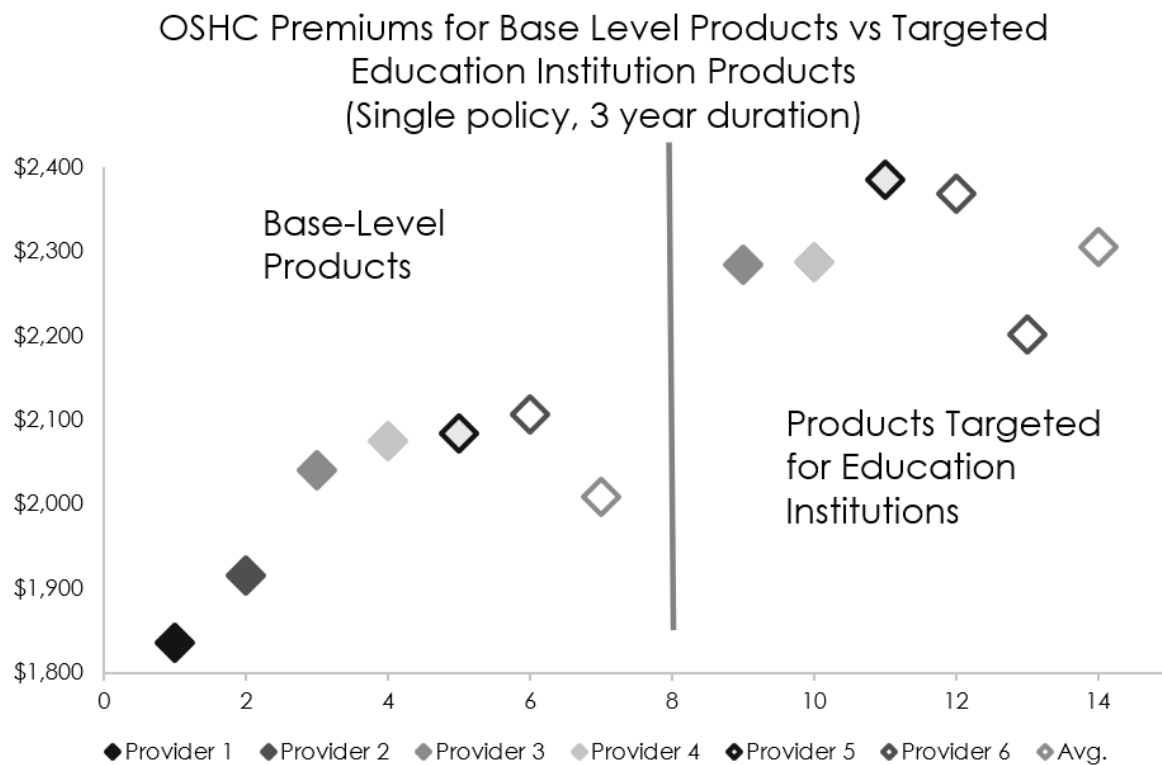
We believe a commission rate between 10%-15% is a reasonable and sustainable limit to place on commission payments to third parties.

It is our observation that educational institutions, including Australian universities, generally have preferred OSHC provider agreements in place with individual insurers. Previous experience in competing for these partnerships has been that they often extract substantial commission payments and other financial incentives. This can inflate premiums and benefit the institution over its students.

Our experience is that these arrangements also hold substantially more weight during the OSHC provider selection process, where institutions may choose partnerships based on commercial value, rather than merit-based criteria which may be more likely to benefit overseas students.

It is also important to note that the premiums for products principally offered to students at institutions as part of these preferred provider agreements are often substantially higher than insurers OSHC base level products. Figure 2 below sets out this range in premium pricing where the average 3-year duration, Single price for products available via institutions may be up to 15% higher versus products sold through other channels.

Figure 2: OSHC prices by provider – base level products vs targeted institution products



Currently, we consider that the open-ended commission and additional incentives allowable in these bids to institutions may be viewed as anti-competitive on the basis that:

1. there is a lack of preferred OSHC provider churn in the sector; and
2. students may feel obliged to purchase a university endorsed product without assessing whether the product or provider meets their needs.

Importantly, some products in market are generally reserved for particular education institutions and students who are not affiliated with those institutions may find them difficult to access. This can restrict the choice of many students in finding a best fit OSHC product and provider.

We maintain that all payments to education institutions including commissions, one-off payments or otherwise, should be included in this review and be limited by a cap. In a capped payments environment, visibility for the Department over all types of third-party remunerations could prevent the diversion of payments towards other financial incentives that may have otherwise been paid as a commission under current arrangements. These considerations should be dealt with to ensure reform promotes genuine competition based on product, price, student experience and client management.

Change 3 - Waiting periods for pregnancy-related care

Pregnancy-related services account for a high portion of OSHC claims costs each year.

Our analysis indicates that reducing the maximum waiting period is likely to result in higher premiums for all students and may have unintended consequences for the industry if adequate controls are not made available to OSHC providers. The proposal should also be considered in the context of fairness for Australian residents, who are often required to wait 12 months to access pregnancy benefits through their private health insurance.

Based on the scenarios put forward, our impact assessment concludes that all proposed changes to the maximum pregnancy and birth waiting period will increase premiums for students. Many students apply for new OSHC policies offshore before arriving in Australia and we anticipate that for these students, any incremental medical tourism risk as a result of the proposed changes is low. However, we do expect increased exposure through other future overseas students, who are already onshore, and who may be planning to claim for pregnancy-related care. Increased utilisation such as this is likely to further increase OSHC premiums for all overseas students.

We suggest the proposal should also consider the potential for the misuse of OSHC which can be observable in the system today as despite pregnancy contributing to a high portion of overall OSHC claims cost, insured groups that include child dependents account for a very low portion of policies. This may indicate that dependents of overseas students are remaining uninsured in Australia and the Department should consider how removing or reducing the maximum pregnancy waiting periods will impact this issue.

Implementation

The proposed initiatives, if implemented, will require some level of systems and operational uplift and a technical review will be required once any decisions have been made regarding changes to the Deed.

We anticipate each reform item approved could be implemented at dates proposed by the Department and we are committed to working pragmatically with the Department to ensure any high value/high complexity initiatives are implemented in a timely way.

We also seek Department clarification on proposed initiatives for pregnancy waiting periods. If enacted, would changes apply to existing policyholders retrospectively, or only new OSHC policyholders.