

Annual Review 2016





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HFANZ Board

(2015-2016)

In order from top, left to right:

Geoff Annals

Accuro Health Insurance

(Chairman from September 2015)

Dermot Martin (Chairman until September 2015)

Union Medical Benefits Society Ltd (UniMed)

Peter Tynan

Southern Cross Health Society

Heather Verry

Police Health Plan Ltd

Joyce Au-Yeung

Sovereign Assurance Company Ltd

(until December 2015)

Nicola Cresswell

Sovereign Assurance Company Ltd

(from December 2015)

Grant Hill (until October 2015)

OnePath (NZ) Ltd

Our other members:

AIA New Zealand

EBS Health Care

Manchester Unity Friendly Society

nib NZ Ltd

Associate member:

Accident Compensation Corporation



**Geoff Annals
Chairman**



Chairman's Report 2015 – 2016

The past year has been a positive one for the health insurance industry in New Zealand. We have seen a return to growth in lives covered over the year, together with a growing recognition of the inability of taxpayer funding to meet all healthcare needs. As this intensifies, the policy debate around growing alternative funding sources is inevitable. HFANZ has a lead role to play as a credible contributor to this debate. Our overriding objective is a sustainably well-funded health system and a healthier New Zealand.

"We have seen a return to growth in lives covered over the year, together with a growing recognition of the inability of taxpayer funding to meet all healthcare needs. As this intensifies, the policy debate around growing alternative funding sources is inevitable."

It has been pleasing to see the return of growth in health insurance over the past year, with an additional 10,000 lives covered in the year ended March 2016. While this is modest growth, at just 0.7 percent, it is hoped that it draws a line under the decline in lives covered post-2008. The industry is also adapting, with growth over the past year in newer products including lower cost primary care policies aimed at attracting a younger demographic to health insurance.

The value of claims paid has also grown, up 5.5 percent in the year to \$1.05 billion. Overall, the private share of total health funding continues to edge up slightly, with pressures on public spending. However, at just 20 percent of overall health spending, the private share remains low by international comparisons.

HFANZ has been at the forefront of the debate around broadening New Zealand's reliance on taxpayer funding for healthcare. In our submission on the Ministry of Health's draft health strategy we argued that this was of such importance it should be included as one of the key overall objectives.

This year has seen HFANZ continue to fund research of importance to the wider health sector and to the financing of healthcare specifically.

In conjunction with the New Zealand Private Surgical Hospitals Association, we engaged TNS Research to

conduct a repeat of their 2013 research on elective surgery and unmet surgical need. This showed the level of unmet need in 2016 was similar to 2013 levels, despite increases in both public and private funding for surgery since 2013. In terms of waiting times, these appeared to have lengthened for those waiting for public surgery.

During the year HFANZ engaged TDB Advisory to assess the net impacts of private health insurance in New Zealand. This report assesses the costs and benefits of PHI to the New Zealand economy, not just in straight economic terms, but against a range of policy outcomes. The report's robust approach, together with its conservative assumptions, make it a solid basis for future policy engagement.



During the year HFANZ put in place a new strategic plan to guide its activities over the coming four years. This represents somewhat of a shift in strategic focus, with a greater emphasis on leadership in the debate over healthcare financing, and ensuring HFANZ is recognised as a credible commentator on relevant health issues. We have made some good progress already, with the research projects carried out along with a reasonable level of publicity and coverage achieved.

The past year has also seen the formalisation of the integrity register, a measure HFANZ has put in place to detect and deter fraudulent activity by implementing a register of suspicious claims or inappropriate billing activity. It is regrettable that HFANZ has lost three members during the year – through a combination of withdrawal and industry consolidation. Despite this, membership remains relatively high, covering over 80 percent of lives covered.

I would like to thank Chief Executive Roger Styles and his staff for their work over the year, as well as fellow board members – both past and present – for their work and support. I would particularly like to acknowledge the significant contribution of Dermot Martin during his tenure as Chair of HFANZ.

Geoff Annals
Chairman



Roger Styles
Chief Executive



Chief Executive's Report 2015 – 2016

2015-16 has been a busy year for HFANZ. The strategic review and adoption of a new strategic plan has meant a shift in emphasis and a renewed focus on the Association leading the debate on healthcare reform, particularly on healthcare funding.

Recent research projects have afforded an opportunity for comment on topical issues, and HFANZ has been prominent in various media with the repeat of the TNS research on elective surgery and unmet need, and in commentary on the release of the Ministry of Health's statistics on referred need.

As part of the strategic review, there has been a greater focus on the communications area, with the development of a more extensive communications strategy, refresh of the HFANZ website, development of new logo and the initiation of social media tools.

“The strategic review and adoption of a new strategic plan has meant a shift in emphasis and a renewed focus on the Association leading the debate on healthcare reform, particularly on healthcare funding.”

A number of submissions were made during the year, including submissions to MBIE on both issues and options papers on the Financial Advisers Act and the Financial Service Providers Act. HFANZ also made a submission on the Ministry of Health's draft strategy refresh, arguing for a more prominent goal around growing the level of non-tax funding for healthcare.

The year also saw the drawing of the Affordable Healthcare Bill from the member's ballot and subsequent debate in Parliament. The bill contained measures including a rebate on premiums for those over 65 and the abolishing of FBT on health insurance premiums paid by employers. Although failing at first reading, this was the first time in decades that Parliament has debated measures to lift insurance coverage to help broaden the dependence on taxpayer funding in healthcare. As such, I believe this marks the start of the debate rather than the end of it.

It was good to be able to attend and contribute to a meeting of the International Federation of Health Plans' Panel on Public Affairs in September. Meetings of the panel provide an opportunity for the Association CEs and others from the different participating countries to get

together and discuss topical issues for PHI and get an update on what is happening internationally.

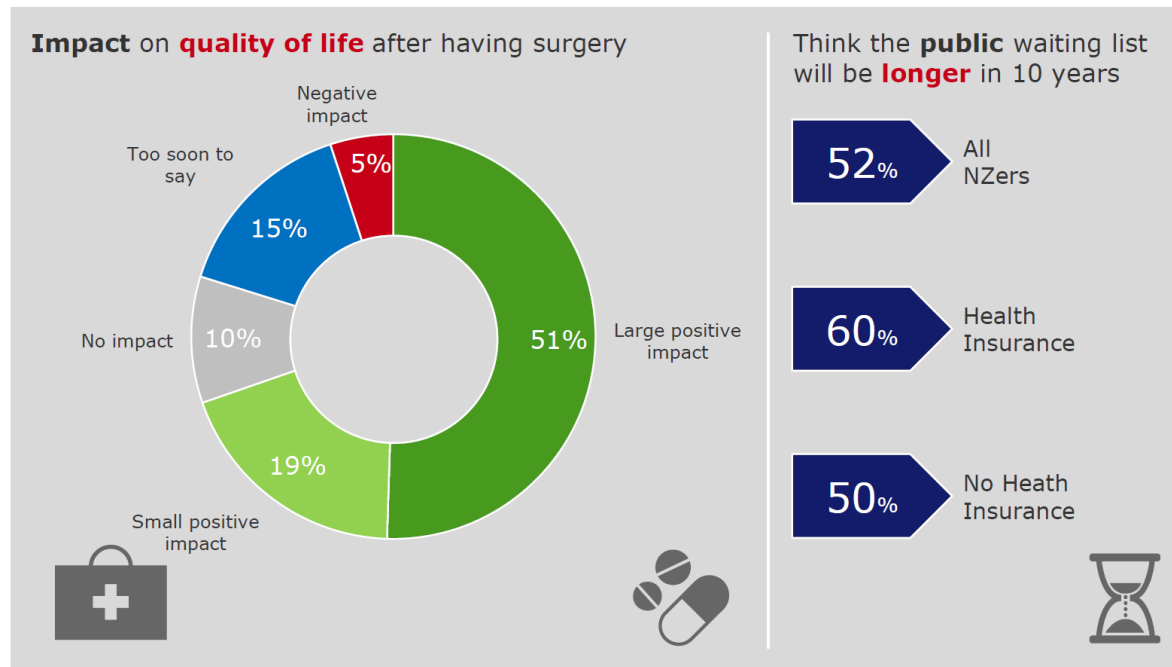
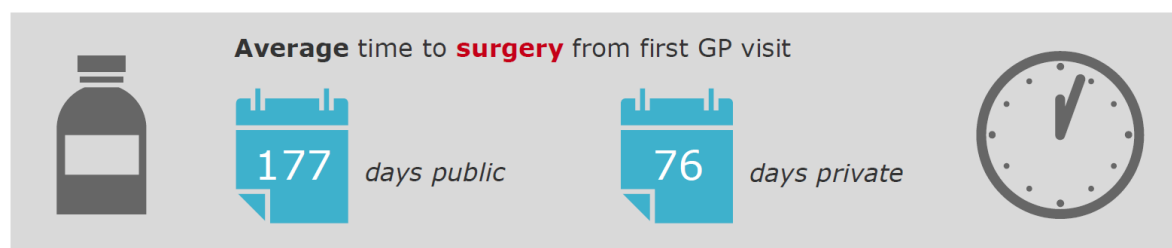
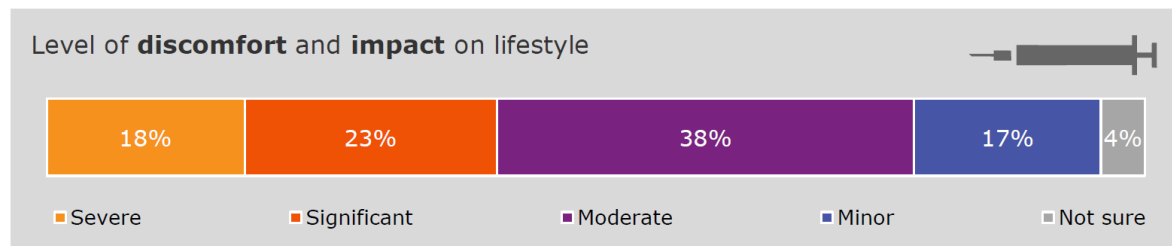
Turning to the Association's finances, HFANZ posted a deficit for the year – its first since 2008 – although this was planned for and is the result of applying some of the Association's reserves towards strategic projects during the year. The loss of members due to withdrawals and industry consolidation has made budgeting for the year ahead a challenging exercise, with a deficit projected again for the 2016-17 year.

I would like to thank the members of HFANZ for their support over the past year and their contribution to HFANZ. I would especially acknowledge the contribution from Chair Geoff Annals, and immediate past Chair Dermot Martin, along with that of Chris Pentecost as Acting CE for the period I was on leave in 2015.

Roger Styles
Chief Executive

Assessing demand for Elective Surgery

March 2016



Note: Results are based on January 2016 survey of 1,800 New Zealanders aged 18 plus conducted by TNS New Zealand

Health Insurance Key Statistics 2015-16 Summary

During the 2015-16 year, there was growth of almost 10,000 lives covered by health insurance, marking the first full year of quarter-on-quarter growth since 2008. This is a welcome sign of growth following a period of several years where the number of lives covered by health insurance had declined and then stabilised.

Along with growth in lives covered, there has been continued growth in both claims paid and premium income over the year. Premium income for the year ended March 2016 was up 5.9 percent on the previous year. Claims paid during the year increased by 5.4 percent on the previous year.

Headline changes

- ▲ Lives covered up 9900 or 0.7 percent for the year;
- ▲ Premium income of \$1.297 billion, up 5.9 percent on March 2015 year;
- ▲ Claims paid for March year of \$1054 million up 5.4 percent on March 2015 year claims.

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

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Premium income (\$m)	\$ 983.8	\$ 1053.9	\$1101.9	\$1155.0	\$1224.9	\$1297.4
Claims paid (\$m)	\$ 828.1	\$ 844.5	\$879.6	\$962.4	\$999.7	\$1054.2
Loss ratio	84.2%	80.1%	79.8%	83.3%	81.6%	81.3%

▲ Lives covered up 9,900 or 0.7 percent for the year;

The change in lives covered was an increase of 9900 or 0.7 percent for the year ending March 2016. This marks the first full year of quarter-on-quarter growth in lives covered since 2008.

Over the 2016 year, the trend towards elective surgical cover continued. While there was a net increase of 9900 lives covered, this comprised the following changes:

- Comprehensive policies – lives covered: -6650
- Elective surgical and specialist policies – lives covered: +16,450

Elective surgical and specialist policies now account for 68.3 percent of all lives covered.

Changes in lives covered by age group

The table below gives a breakdown of the changes in lives covered over the past year by age group.

Of note is the significant increase of almost 7000 lives covered in the younger 25-35 age group, possibly attributable to the popularity of a newer category of minor medical health insurance products which have found favour with this younger demographic.

The ageing population has again meant an increase in lives covered in the over 65 age group – up by almost 3500 lives covered (+2.4 percent) to 153,900 lives covered.

Table: Change in lives covered by Age: March 2016 year

age	Mar 2015	Mar 2016	Diff	percent
0–4	61,863	60,074	-1789	-2.9%
5–9	83,124	83,427	303	0.4%
10–14	82,828	82,918	90	0.1%
15–19	84,902	84,401	-501	-0.6%
20–24	76,778	76,789	11	0.0%
25–29	69,353	73,604	4251	6.1%
30–34	83,159	85,781	2622	3.2%
35–39	92,664	93,911	1247	1.3%
40–44	112,332	110,139	-2193	-2.0%
45–49	115,659	117,109	1450	1.3%
50–54	119,527	118,925	-602	-0.5%
55–59	108,463	109,765	1302	1.2%
60–64	90,769	90,921	152	0.2%
65–69	66,428	67,468	1040	1.6%
70–74	38,344	39,045	701	1.8%
75–79	22,098	23,691	1593	7.2%
80–84	13,290	13,235	-55	-0.4%
85–89	7400	7557	157	2.1%
90+	2820	2926	106	3.8%
total	1,331,804	1,341,687	9883	0.7%

Premium income up 5.9 percent

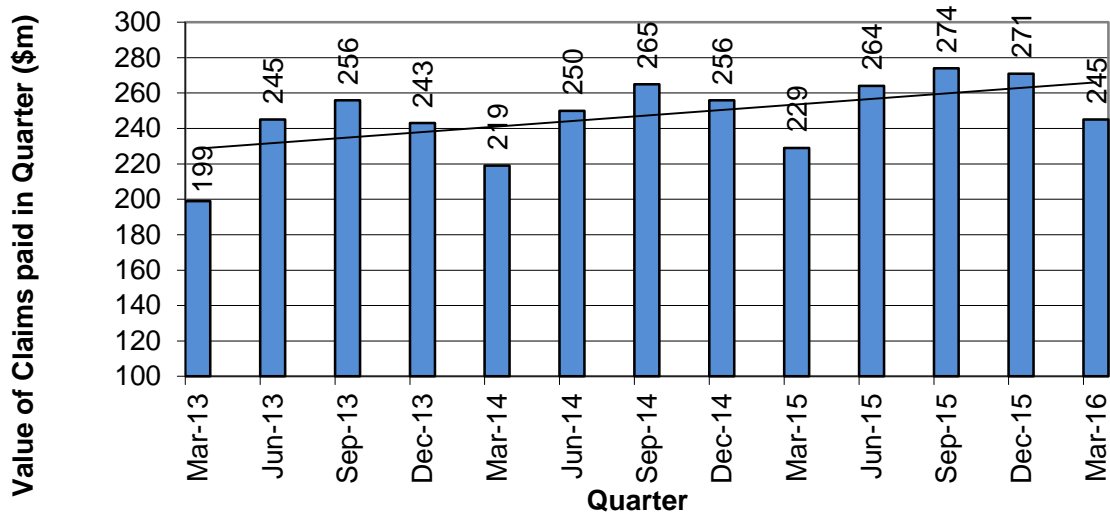
Premium income for the year ended 31 March 2016 was \$1.297 billion, up 5.9 percent or \$73m on premium income for the March 2015 year.

The rate of premium growth had slowed over recent years, although has increased slightly over the past year due to the return to growth in lives covered together with the increased claims costs.

Claims paid up 5.4 percent

Claims paid for the 12 months ending 31 March 2016 were \$1054 million, up 5.4 percent on March 2015 year claims.

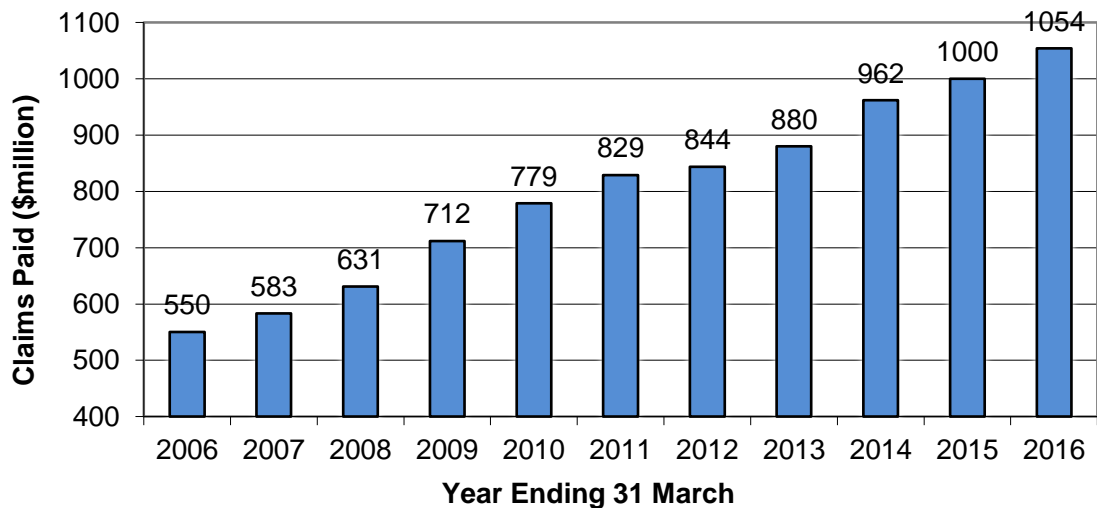
Value of Claims paid: March 2013 - March 2016



The strong growth in claims paid recorded over recent quarters has seen annual claims paid surpass the \$1 billion mark in 2015.

Annual claims for the March 2016 year at \$1.054 billion are almost double what they were a decade ago. This underpins the valuable contribution health insurance makes to healthcare funding in New Zealand.

Growing Contribution from Health Insurance: Growth in Claims Paid, 2006-2016



Movements in Premiums and Claims

Over time, the annualised growth in claims cost and premium income are broadly similar, although they may differ from year to year.

A comparison of the past decade shows this, with both premium growth and claims paid almost doubling over the period. For most of this period, claims cost growth has been leading growth in premium income, which has tended to increase at a smoother rate and in response to increased claims costs.

