Rising Medical Inflation

and international private medical insurance premiums

Welcome to Generali Global Health's eBook series

In this eBook we take an in-depth look at medical inflation in international private medical insurance (IPMI), including the causes and the strategies IPMI market adopt to minimise the annual effect on health insurance premiums.

This eBook provides IPMI brokers and advisers, and HR managers dealing with international employees and their health insurance, a deeper understanding of one of the key reasons why premiums rise each year, even if claims experiences are positive. There are specific challenges for the IPMI sector that are outlined in this ebook.

Meet the Author

MARCO GIACOMELLI – Head of Generali Global Health

Marco is Head of Generali Global Health (GGH), the Generali Group's dedicated provider of International Private Health Insurance solutions.

An actuary with 20+ year career at Generali, including several assignments around the world, he also serves as Chairman of the International Employee Benefits Association (IEBA) and a Fellow of the UK Institute of Directors.

Marco

What is Medical Inflation?

When a client's premium has increased by 10% even though they have a good claims record, they have every right to ask why.

The main culprit is medical inflation, an annual conundrum and major contributor to pressure on international private medical insurance premiums. Medical inflation is the scourge of brokers and advisers, who often have to explain double-digital premium increases to their clients at renewal.

The cost of medical services x the level of usage of those services = medical inflation Medical inflation is a broad term that refers to the rising levels of costs and usage associated with medical treatment. In fact, annual increases in medical inflation are driven by a simple formula:

The cost of medical services
x
the level of usage of those services
=
MEDICAL INFLATION

Statisticians, advisory companies and governments around the world seek to predict medical inflation trends in an effort to plan for the future. Here are some of the latest trends:

- Medical inflation in the United States is expected to be 6.5% in 2017, according to PwC. This number, the first rise in almost three years, compares to an 11.9% increase in 2007.
- In their 2017 Medical Trends Around the World survey, Mercer Marsh finds that the medical trend rate[1] in 2017 remains unchanged from 2016.
- According to a recent Willis Towers Watson report, global medical inflation is expected to be 7.2% in 2018, up from 6.8% in 2017. As a region, Latin America is expected to see the largest rise in medical cost rises at 11.4% in 2018.
- Aon Hewitt has stated that for 2017, the global average medical trend rate of 8.2% was 5.4 percentage points higher than the average inflation rate of 2.8%.

- Healthcare costs vary considerably by country
- These costs are globally showing over 5% real inflation. This varies considerably by country, affected by diverse underlying factors
- Healthcare costs can be managed in a variety of different ways depending on the underlying characteristics of a scheme.
- Payors can take advantage of advancing consumer technologies to capture new sources of valuable data to utilize in advance analytics

Individuals and corporates purchasing international private medical insurance will be concerned with how medical inflation affects their premiums at renewal. In this sense we can consider the factors affecting medical inflation, and thereby premiums, to be both generic and policy specific.

A number of factors influence medical inflation, including **Unit Costs**, **Utilisation** and the nature of an **Individual Policy**.

[1] Medical trend rate in this survey is the per person increase in cost due to medical inflation, changes in utilisation patterns and other factors, such as changes to government legislation.

Unit Costs and Utilisation

Unit costs of medical treatment

The unit cost of medical treatment can be used to measure trends in medical treatment costs in a particular region of the world. A less developed country might have a low medical unit cost of five. If this were to increase to six the following year, the impact on medical inflation would be 20%. But a medical unit cost of 20 in a more developed country that increases to 21 would be an inflation rate of 5%.

Unit costs are affected by a host of factors, including:

- The cost of drugs and equipment, including the effect of innovation
- New medical facilities with higher pricing structures opening up
- The level of medical treatment utilisation
- The ability to drive efficiencies in the local healthcare system

Innovations in medical equipment, for example, can cause costs to rise. An MRI scan costs at least twice as much as a CT scan; a CT scan is more expensive than an X-ray. Many improvements in clinician's ability to assess soft tissue and bone damage have been at the expense of cost increases.

Utilisation of medical treatment

Utilisation is the number of units of medical treatment used each year. This is driven by the following factors:

Usage Frequency

The average number of times that treatment is sought varies from country to country. Less developed countries see lower rates of usege than more developed environments. And countries with aging populations are likely to see increasing rates of utilisation over time.

If the average number of visits by those in less-developed countries rises from one to two, utilisation has increased by 100%. By comparison, if the average person in a developed country visits a doctor 10 times a year, increasing that number by one visit increases utilisation by only 10%.

As the world becomes more developed, so the trend in utilisation continues to rise.

Number of Services

The revenues of medical providers are determined by the number of services they deliver to their patients. For example, 200 MRI scans might deliver US$800,000 in revenue.

To increse revenues, providers can deliver more of the same services, increase the cost of services or introduce more services.

As the pressure to drive revenue increases, so does the need for practices to deliver on these demands. And where countries impose price caps, the need to introduce new services and increase services is even greater.

Awareness of Benefits

The more people are aware of what health services are available to them, the more they use those services.

Increasingly common mandatory health insurance schemes offer people a set menu of healthcare options. And hospitals are using aggressive marketing tactics to entice people to seek medical treatment more regularly, and to discuss what healthcare provision their plans can deliver.

This rising awareness of benefits is driving utilisation.

Drug and Technology Innovation

Drug or equipment innovation can increase utilisation.

Drug companies invest heavily in research and need to drive usage to deliver sufficient returns on their investment. And where a medical facility has invested in an expensive piece of equipment there is pressure to use it.

Demographic and Economic Factors

The world is seeing increasing levels of obesity and aging populations. Combine these trends with higher levels of disposable income and it's easy to anticipate the steady rise in medical utilisation in the coming years.

Policy Specific Factors

International Employee Location

Figure 1 illustrates how medical inflation varies between different countries. The United States experiences high rates of medical inflation so organisations sending employees to the states will see additional upward pressure on their health insurance premiums as a result.

A corporate based in a country with low rates of medical inflation that sends staff to the USA may not immediately consider this a factor that will affect their premiums.

Country of Origin

In the same way as the location of employees has a bearing on premium inflation at renewal, their country of origin can also can make a difference. Certain nationalities tend to experience higher incidence of specific conditions.

For example, people from the Far East have a higher propensity to experience cardio vascular disease, and underwriters will take into account changes in the employee group profile when pricing a policy and at renewal.

Old versus Young

Higher age profiles within an insured employee group will affect premium costs due to the heightened propensity for older people to make claims on their health insurance policy. If the profile of the group changes during the policy term, this will reflect in the renewal price.

Figure 2 below provides a general indication of how age affects insurance rates. The chart illustrates that an 80 year old can expect to pay around 400% more for their cover a 15 year old.

Insurance companies will consider that the older employee might have a higher chance of getting cancer, heart disease and diabetes.

Whilst a younger workforce might call on healthcare services for injuries due to sport, needing physiotherapy but overall it's expected there would be less claims from a younger workforce. Often mixed age groups will help keep costs low.

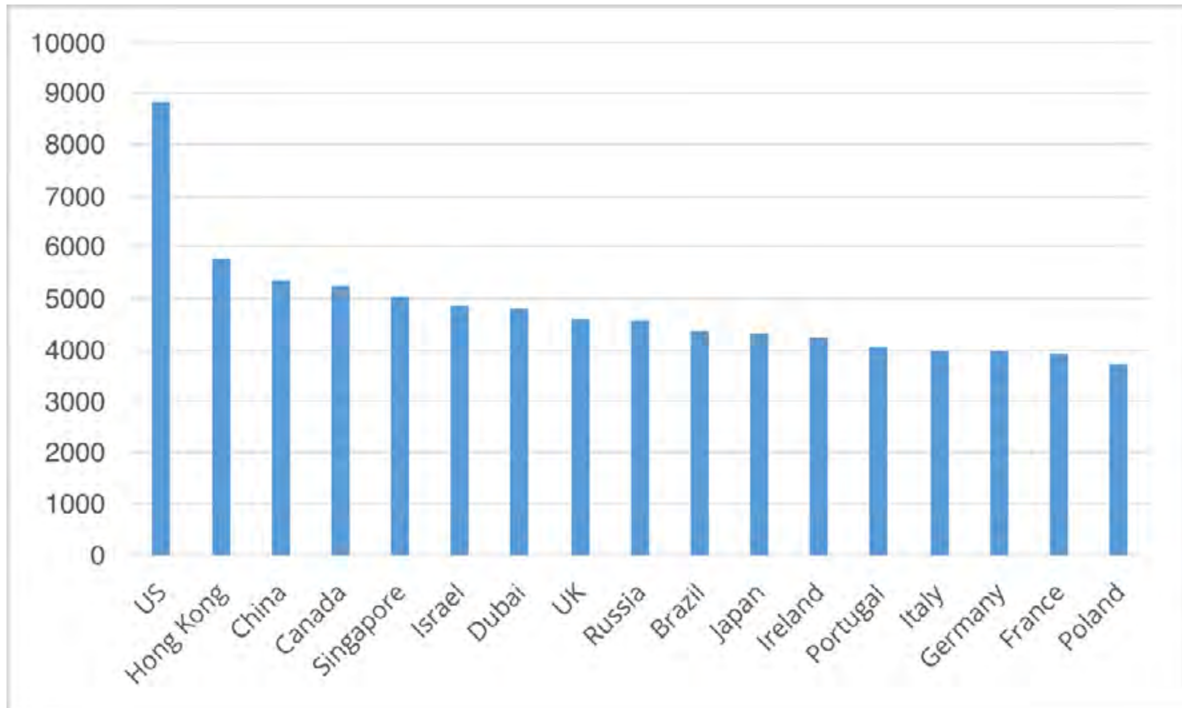


Figure 1: Real Global Healthcare Inflation Above 5 %

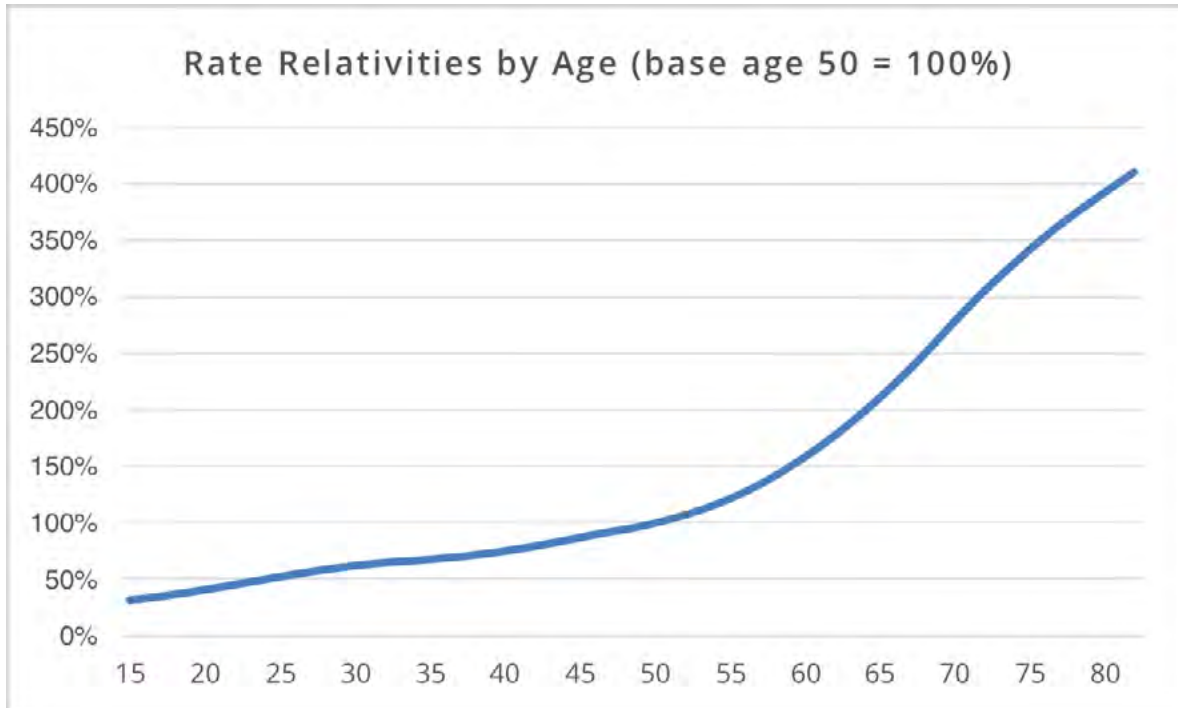


Figure 2: Rate Relativities by Age (base age 50 = 100%)

Minimising the impact of medical inflation on health insurance premiums

Medical inflation is a major force in annual international health insurance rate increases. Policyholders, intermediaries and insurers all want to slow the rate of increases, and the industry does have some tools available to ensure this happens.

Network management

Carefully managed provider networks can help to control the costs of medical treatment. Contracts between providers and insurers that cap the cost of certain procedures help ensure that costs are managed effectively. Pre-authorisation allows insurers to assess treatment recommendations before they are approved.

Member advice

Expatriates living in the same part of the world can often find themselves drawn to the same medical facility when seeking treatment, influenced by brand and word-of-mouth. These facilities may be the most expensive option whilst not necessarily offering the best treatment for the member's condition. Insurers can offer useful advice to members seeking treatment to ensure they receive the best treatment, which might be a lower cost facility.

Second opinion services

Arranging for a member to get a second opinion following a diagnosis can help to keep long term costs down. A specialist doctor can offer advice on the best course of treatment and where this may be available.

Wellness strategies

Providing the tools that enable members to stay as healthy as possible is a key strategic aim for the international private medical insurance industry. Healthier members mean reduced utilisation and lower costs overall. This is good for all parties – the member, the employer, the intermediary and the insurer.

Employee Assistance Programs (EAPs) are an example of a wellness tool usually offered by insurers as a standard plan benefit. EAPs can help members deal with the challenges of living and working abroad.

Health Risk Assessments (HRAs) help the insurer to spot emerging health conditions early in their development and can help deliver preventative strategies to minimise their impact.

Collaboration with the pharmaceutical industry

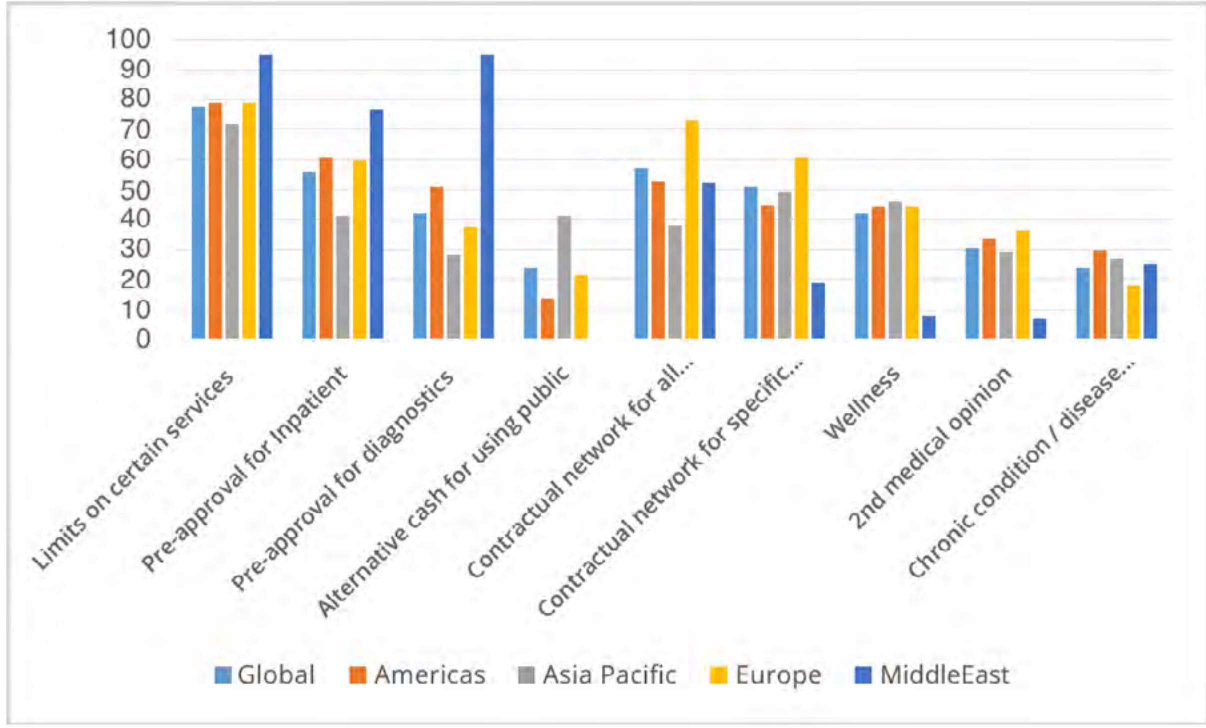
Developing specialist treatments and products for high-risk and high-cost diseases such as cancer also can help reduce costs. Generali Global Health, for example, offers specialist genome testing techniques to help clinicians make treatment recommendations for patients diagnosed with cancer. Such techniques will help treat diseases more effectively, resulting in better outcomes for the member and reduced long-term medical utilisation.

Excesses and deductibles

Demand for medical services is influenced by excesses and deductibles. Excesses help to reduce the number of smaller claims, thus reducing the utilisation of an insurance policy's benefits. Deductibles also reduce the number of smaller claims and, as a co-pay arrangement, help to spread the overall cost of treatment.

Product benefit limits

Plan benefits limit the amount a member can claim through a plan. Limits tend to be more restrictive for outpatient treatments like physiotherapy and vision care. Inpatient benefits are limited, but at far higher levels.



Most Effective Tool for Managing Costs by Region (Source: Towers Watson 2016)

Conclusion

Many factors contribute to medical inflation but the result is usually an annual upward pressure on medical insurance premiums.

For intermediaries and HR managers, a better understanding of what drives medical premium increases can be helpful at renewal time and when considering strategies to help their international workforce reduce the incidence of claims.

If you have an understanding of why the costs of annual premium has increased you are better armed to explain this to a client. At Generali we will always endeavour to help our intermediaries understand rising costs when they occur.

GENERALI
GLOBAL HEALTH

Generali Global Health provides international private health insurance to globally mobile people. Through their worldwide network of customer service centres, medical professionals and facilities, they give their members access to the best healthcare services in the world.

Generali Global Health is a specialist division of Generali – one of the largest and best-known global insurance groups, with a reputation for protecting people and businesses since 1831. Generali operates in over 120 countries worldwide, providing insurance and assistance for both individuals and groups. Generali also has the biggest worldwide employee benefits footprint of any major insurer – and can support clients in more destinations across the globe.
Global Choice is an international health insurance offering, that gives the flexibility to tailor benefits, depending on the needs of employees and the regions they live and work. No what size the business Global Choice helps strike the right balance of benefits, service and price to meet any needs.

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