

JULY 2017

MAKING PRIVATE HEALTH INSURANCE SIMPLER

Results from CHOICE's national survey

ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia's largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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CONTENTS

Introduction.....	3
Key insights and recommendations.....	4
Survey methodology	5
Background.....	5
Seeking information on private health insurance	8
Consistent and concise: the case for keeping SIS.....	9
Is the SIS useful?	10
Comparing policies	12
What do consumers find difficult when comparing policies?	13
Switching or dropping cover	15

Introduction

Private health insurance has become a perfect storm for Australian consumers. Premiums have increased an average of 54.6% since 2009, well ahead of CPI. According to CHOICE's national Consumer Pulse survey, it is the hardest market for people to find the product that best suits them. This toxic combination of surging prices and complexity is leading many Australians to downgrade or drop their cover completely.

CHOICE believes there are steps that government can take to improve the experience of private health insurance (PHI) for Australians. Some reforms are structural, touching on the blurry boundaries between public and private provision of healthcare, and radically simplifying the more-than-48,000 policies currently in the market.

Other changes are about providing much better information, learning from experiences in other 'perfect storm' markets like energy and banking, testing solutions, and giving consumers access to their own data to help navigate complex choices.

This report focuses on providing better information to consumers of private health insurance. To help understand the challenges faced by consumers, CHOICE conducted a nationally representative survey of PHI policyholders. The survey was aimed at better identifying the main sources of information currently used by consumers, including how these might vary according to consumer needs and life stages. It also sought to test whether current mandatory information disclosure requirements are useful, and to test interest in alternative approaches.

Key insights and recommendations

- The most common reason consumers purchase private health insurance is for 'extras' coverage (57%). However hospital and extras policies are very different products, and CHOICE's user testing indicates there is some confusion between the two. Issues of affordability and complexity could be addressed by helping consumers to better understand the difference between hospital and extras coverage, and to more easily assess the value of their extras based on data about how they use their policy.
- Consumers rely heavily on commercial comparison services as a source of information on private health insurance (e.g. iSelect – 25%; Compare the Market – 16%). There is a case for creating more transparency and comprehensiveness in third-party options to compare PHI.
- Policyholders who recall receiving their policy's Standard Information Statement (SIS) are much more likely to find it easy to understand their coverage (42% compared to 30%). This indicates that improving the SIS through consumer testing and ensuring it is proactively and regularly provided to all consumers will assist in reducing complexity.
- Two key reasons consumers find it hard to compare policies are the difficulty assessing side-by-side (69%) and inconsistent layout of information (53%). This suggests that maintaining a consistent layout of information provided to consumers will help effective comparison.
- The most significant reasons for consumers considering dropping or downgrading their coverage are cost concerns (66%) and low usage creating a sense of poor value (39%). This suggests that interventions promoting genuine demand-side competition in PHI would be helpful, encouraging consumers to regularly test their products against the market, re-evaluate their needs and make it easier to switch. It also reinforces the case for removing very low-value policies (i.e. junk insurance) from the market entirely.
- At the same time, any measures that would make consumers less likely to pay attention to their coverage, for example stopping proactively sending the SIS on an annual basis, or locking important information within the member-only sections of insurers' websites, should be avoided.

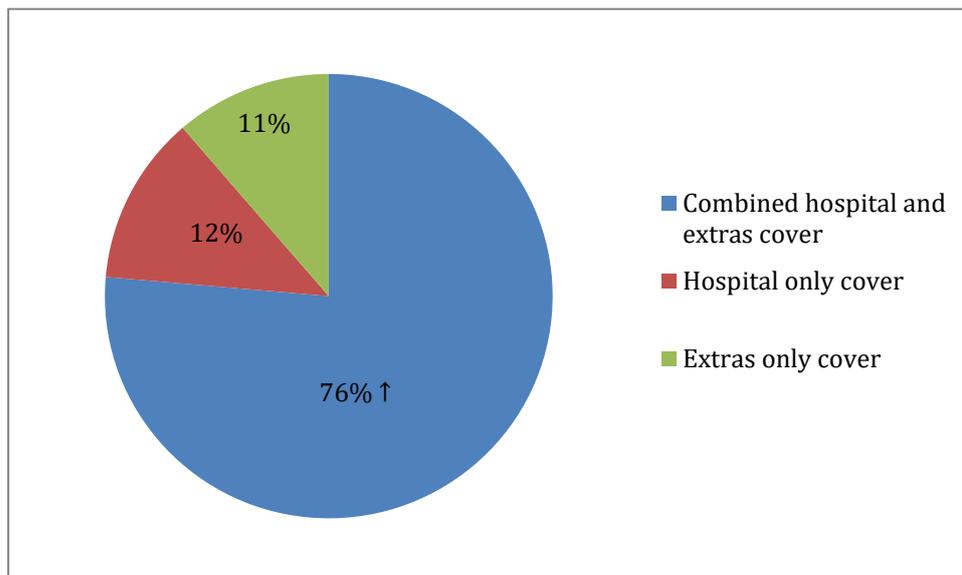
Survey methodology

CHOICE conducted a national survey of 1,027 Australian private health insurance policyholders in April 2017. The sample and online data collection was provided by an independent, accredited third party, The ORU. Quotas and weighting has been applied, ensuring the sample is reflective of the 2011 Census results by age and geographic location. Fieldwork was conducted from the 7th to the 12th of April 2017. All tables presented in this report are of the sample N=1027 unless otherwise indicated.

Background

Overwhelmingly, respondents have both combined hospital and extras cover, with smaller numbers of consumers having only hospital or extras cover.

Diagram: Q2. Do you currently have private health insurance for:



Consumers took out private health insurance for a variety of reasons, with the top two reasons being “cover for extras” (57%) and “peace of mind/as a security ‘just in case’” (56%). Cover for pregnancy and birth related services was the least popular reason for taking out private health insurance.

Table: Q3. What are the key reasons why you have taken out private health insurance?

	%
Cover for extras	57% ↑
Peace of mind/ as a security 'just in case'	56% ↑
Avoid public hospital waiting lists	43% ↑
Caring for my own wellbeing (and, if applicable, that of my family)	40% ↑
Have a private room in a private hospital	32% ↓
Have my choice of doctor	30% ↓
Avoid paying extra tax (Medicare Levy Surcharge)	34%
Cover for specialists' treatments	28% ↓
Avoid paying higher premiums after turning 31 (Lifetime Health Cover Loading)	24% ↓
Cover for pregnancy and birth-related services	10% ↓

Females were more likely to cite extras cover as the reason for taking out private health insurance. More than half of older Australians (56+) listed extras, peace of mind, avoiding waiting lists, caring for their wellbeing, private room, choice of doctor and cover for specialists' treatment. They were less likely to want health insurance to avoid paying extra tax, to avoid paying lifetime health cover loading, and, unsurprisingly, cover for pregnancy and birth-related services (0%). 55% of private health insurance holding households earning \$150,000+ cited avoiding paying extra tax as their reason for taking out health insurance.

While extras coverage is the most common reason consumers purchase PHI, hospital and extras policies are obviously very different products, and CHOICE's user testing indicates there is some confusion between the two. We believe affordability and complexity could be addressed by helping consumers to better understand the difference between hospital and extras coverage, and to assess the value of their extras based on data about how they use their policy. For example:

- Some consumers may believe extras coverage is required for tax benefits, when it is not;
- Many consumers are likely unaware that it is possible to purchase hospital and extras policies from separate insurers, rather than as combined policies;
- Extras cover is essentially a budgeting tool. Perceptions of value would be enhanced if consumers could quickly assess the benefits of their extras policies against the costs, and use this data to explore the potential savings of other policies, from their own and other insurers. There is a role for government in enabling easier access and use of this information through open data initiatives.

Table: Q3. What are the key reasons why you have taken out private health insurance? Results by individual.

	Row %	Cover for extras	Peace of mind/ as a security 'just in case'	Avoid public hospital waiting lists	Caring for my own wellbeing (and, if applicable, that of my family)	Have a private room in a private hospital	Have my choice of doctor	Avoid paying extra tax (Medicare Levy Surcharge)	Cover for specialists' treatments	Avoid paying higher premiums after turning 31 (Lifetime Health Cover Loading)	Cover for pregnancy and birth-related services
Gender	Male	51% ↓	55%	42%	39%	34%	31%	36%	30%	23%	7% ↓
	Female	61% ↑	56%	43%	41%	31%	29%	33%	27%	25%	12% ↑
Age	18-30	57%	49% ↓	31% ↓	39%	22% ↓	21% ↓	31%	17% ↓	17% ↓	14% ↑
	31 - 40	46% ↓	47% ↓	30% ↓	30% ↓	22% ↓	16% ↓	42% ↑	21% ↓	32% ↑	17% ↑
	41 - 55	62%	61%	47%	42%	37%	32%	42% ↑	28%	32% ↑	6%
	56 +	66% ↑	70% ↑	67% ↑	51% ↑	50% ↑	55% ↑	20% ↓	50% ↑	12% ↓	0% ↓
PHI decision role	Main / sole	55%	54%	41%	38%	31%	28%	35%	28%	25%	9%
	Joint	61%	59%	46%	44%	35%	33%	34%	28%	24%	12%
Type of cover	Combined hospital & extras	62% ↑	61% ↑	48% ↑	44% ↑	37% ↑	33% ↑	38% ↑	32% ↑	27% ↑	12% ↑
	Hospital only	6% ↓	46% ↓	43%	26% ↓	33%	35%	35%	19% ↓	20%	7%
Household income	Extras only	77% ↑	30% ↓	8% ↓	28% ↓	3% ↓	4% ↓	12% ↓	13% ↓	9% ↓	1% ↓
	Under \$50K	60%	61%	42%	44%	32%	36%	21% ↓	33%	19%	4% ↓
	\$50-\$150K	58%	53%	43%	39%	30%	27%	34%	27%	25%	11%
	\$150K+	57%	57%	40%	37%	42%	33%	55% ↑	25%	29%	20% ↑

Seeking information on private health insurance

Consumers find their information on private health insurance from a variety of sources. Most commonly, consumers reported sourcing information on private health insurance from friends, family or colleagues (29%), this was followed by materials from their own health insurers (25%) and comparison website iSelect (25%).

While we asked about awareness of the 'standard information sheet' (16%), we also hypothesised that many consumers do not understand the difference between this mandated document and simply 'material from your health insurer' and therefore decided to further test awareness of the SIS by showing examples in a later question.

Table: Q4. Which of the following sources, if any, have you used to get information about private health insurance?

	%
Family, friends or colleagues	29% ↑
Material from your health insurer incl. print, online or over the phone information	25% ↑
iSelect (iselect.com.au)	25% ↑
Material from other health insurers incl. print, online or over the phone information	18% ↑
Compare the Market (comparethemarket.com.au)	16% ↑
The one page key factsheet (also referred to as regulated 'standard information sheet') from your health insurer	16% ↑
Health insurer's store / shop	14%
The government's website (privatehealth.gov.au)	11%
Health Insurance Comparison (healthinsurancecomparison.com.au)	8% ↓
CHOICE (choice.com.au)	7% ↓
Choosi (choosi.com.au)	6% ↓
Canstar, including the CANSTAR Star Ratings (canstar.com.au)	6% ↓
Finder (finder.com.au)	3% ↓
Private Health Insurance Ombudsman service	3% ↓
Choosewell (choosewell.com.au)	1% ↓
Other (please specify)	1% ↓
Didn't seek out any information at all	18% ↑

There is a significant reliance on commercial comparison services as a source of information on private health insurance. This suggests that any interventions that simply target the marketing materials provided by insurers, or information through privatehealth.gov.au, may fall short of addressing issues with complexity.

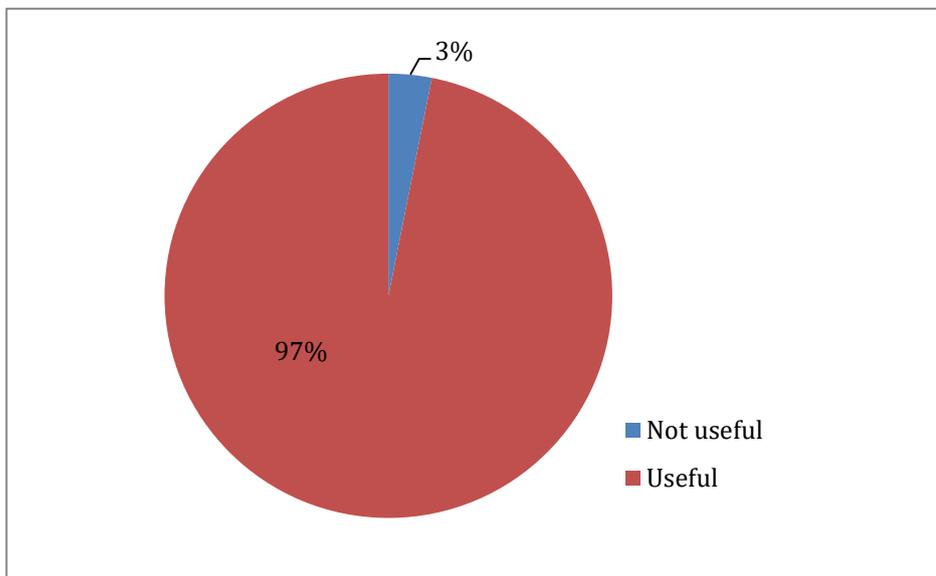
CHOICE believes that on the whole, current commercial comparison sites are not transparent or comprehensive. They commonly use their websites as funnels into call centres, where 'comparison' gives way to sales. At the same time, it is not in the interest of insurers to provide unbiased comparison of their own products with the rest of the market.

Given this mix of conflicts and barriers, a priority should be creating more transparency and comprehensiveness in third-party options for consumers to compare PHI. This could be progressed by making information about PHI policies more openly available so that third parties with new approaches and non-commission based business models can create solutions.

Consistent and concise: the case for keeping SIS

96% of private health insurance policyholders believe it is important to understand exactly what they are covered for. More than one third of policyholders (35%) believe it is difficult to understand policy coverage.

Diagram: Q8. How useful would it be to receive information about health insurance cover in a standardised and concise manner?



97% of private health insurance policyholders felt that it was useful to receive information about health insurance cover in a standardised and concise manner. Survey respondents were given definitions of standardised and concise:

- Standardised: A consistent way of listing what you are and aren't covered for irrespective of health fund and policy type

- Concise: short (1-2 pages), easy to understand language and tables/visuals

Respondents were asked how they would prefer to receive information about their private health insurance coverage as one of two approaches:

- Over two-thirds of consumers (68%) said they would prefer “a concise, standardised key factsheet containing consistent types of information irrespective of fund and policy”.
- 32% said they would prefer receiving information “as material that includes a set minimum of key information but allows each insurer to design, modify and add information.”

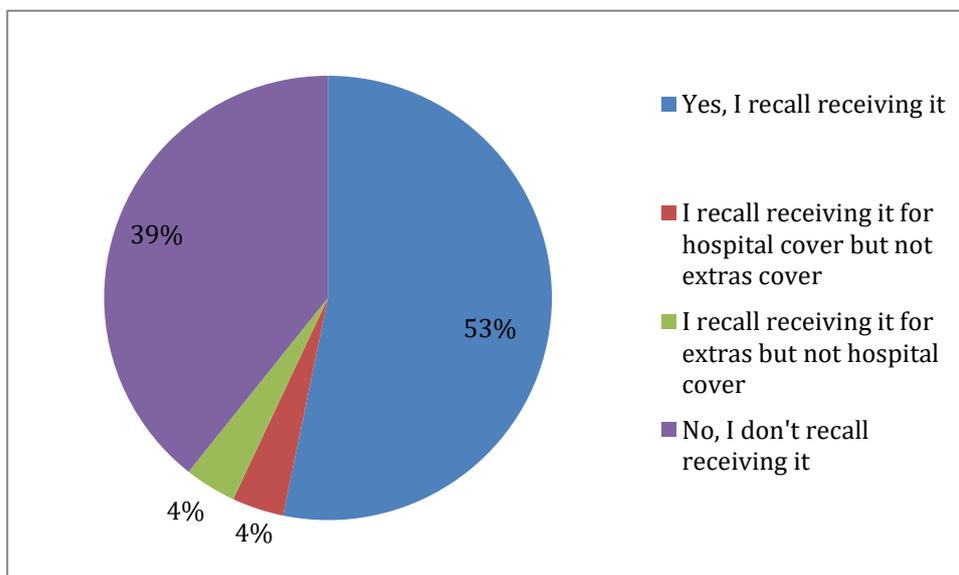
Is the SIS useful?

One way that consumers find it easier to compare policies is by using the standard information statement (SIS). CHOICE asked survey respondents whether they recalled receiving their SIS. We did so with the hypothesis that very few consumers are aware that this document is called the ‘Standard Information Statement’, and may not be aware it is mandated by government.

Therefore in order to differentiate the SIS from other materials consumers receive from their insurers the question showed one example each of statements for hospital and extras cover in the following context:

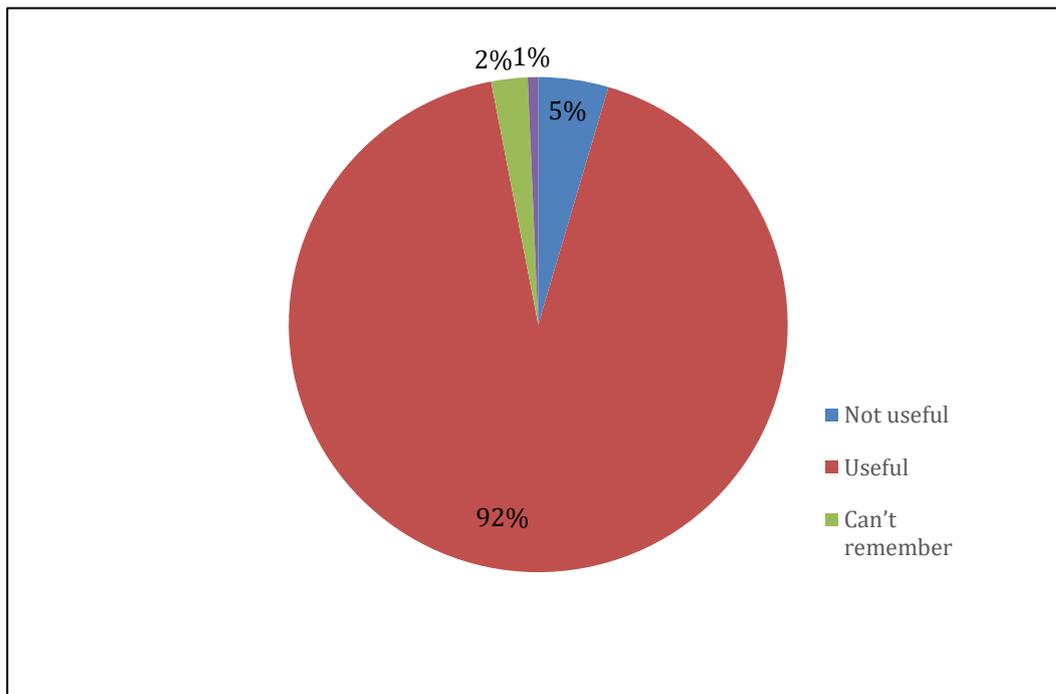
*Once a year private health insurance customers are sent a key factsheet by their insurer about their health insurance. This is known as the ‘standard information statement’. It describes what your health insurance policy includes and what you’re covered for.
(Examples shown)*

*Diagram: Q10. Do you recall receiving this key factsheet for your current health insurance?
(Respondents with combined hospital and extras cover)*



The majority of policyholders recalling receiving this document (58% overall; 61% of those with combined policies). Of those policyholders who recalled receiving the SIS, 92% said they found it useful.

Diagram: Q11. How useful was the key factsheet in explaining what you are covered for? (N=594)



Importantly, consumers who recalled receiving their SIS were significantly more likely to understand what their private health insurance covered them for. Of those that recalled receiving the SIS, 42% found it easy to understand what exactly was covered for by their health insurance, compared to only 30% of those who did not recall receiving their SIS.

Table: Ease of understanding coverage by whether respondents recalled receiving their SIS

Row %	Difficult	Neither	Easy
Yes, I recall receiving it	32% ↓	25% ↓	42% ↑
No, I don't recall receiving it	38% ↑	32% ↑	30% ↓
Column n	357	289	381

These results indicate that private health insurance policyholders who recall receiving their policy's SIS are much more likely to find it easy to understand their coverage, and that the SIS is significant in making private health insurance easier to understand. Improving the SIS through consumer testing and ensuring it is proactively and regularly provided to all consumers will help policyholders better understand their coverage.

Comparing policies

Consumers find it difficult to compare private health insurance policies. In our survey, 44% of private health insurance policyholders said they found it difficult to compare policies, compared to only 28% of policyholders who say it is easy.

Extras cover was the easiest policy type to compare, with 43% of individuals finding it easy to compare. It was significantly harder for individuals to compare hospital policies, with only 20% finding it easy.

Table: Q16. Overall, how easy or difficult would you say it was to compare different health insurance policies? Results by individual.

	Row %	Difficult	Neither	Easy
Gender	Male	44%	27%	29%
	Female	44%	28%	28%
Age	18-30	35% ↓	29%	36% ↑
	31 - 40	38%	30%	32%
	41 - 55	49%	25%	26%
	56 +	57% ↑	27%	16% ↓
PHI decision role	Main / sole	42%	27%	31%
	Joint	49%	28%	23%
Type of cover	Combined hospital & extras	46%	27%	27%
	Hospital only	48%	31%	20%
	Extras only	25% ↓	32%	43% ↑

What do consumers find difficult when comparing policies?

Comparing policies side by side (69%), comparing out of pocket costs (54%), inconsistency of information from insurers (53%), and difficulty comparing extras rebates (53%) were the main reasons listed for finding it difficult to compare policies. This suggests that maintaining a consistent layout of information provided to consumers will be critical to help effective comparison.

Table: Q16A. Please select what you found difficult when comparing different health insurance policies. (N=325)

	%
Difficulties comparing policies side by side	69% ↑
Difficulties comparing out-of-pocket costs if I were to go to hospital	54% ↑
Information from insurers not set out consistently	53% ↑
Difficulties comparing extras rebates	53% ↑
Not all policies available for comparison	45%
Confusing terminology and language	43%
Unable to compare cover for specific health problems I'm worried about	39%
Unable to find independent information I could trust	36%
Too much information from insurers	25% ↓
Difficulties comparing what I would save on tax or get from rebate	21% ↓
None of the above	0% ↓

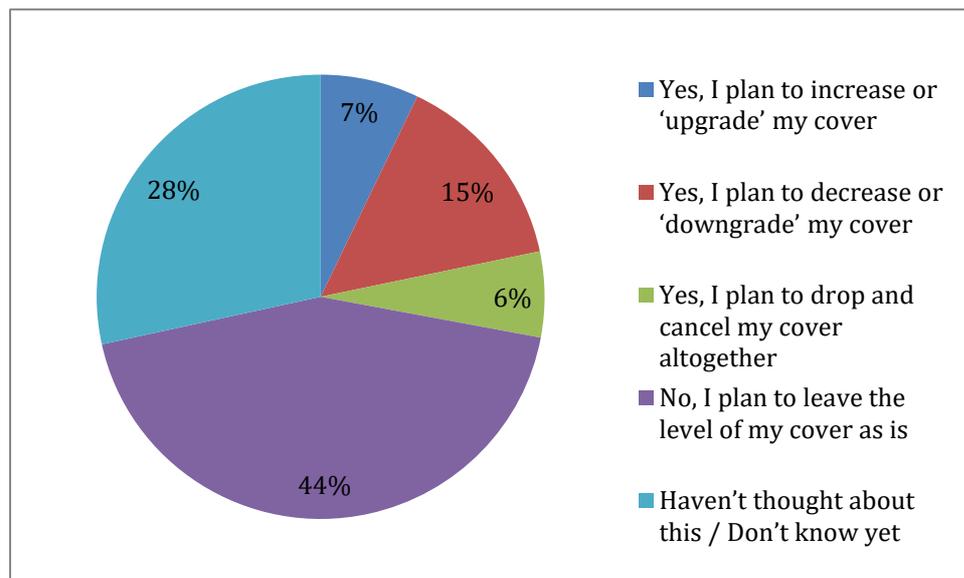
Table: Q16A. Please select what you found difficult when comparing different health insurance products. Results by individual. N=325

Column %	Gender		Age				PHI decision role		Type of cover		
	Male	Female	18-30	31 - 40	41 - 55	56 +	Main / sole	Joint	Combined hospital & extras	Hospital only	Extras only
Difficulties comparing policies side by side	66%	71%	50% ↓	61%	75%	83% ↑	63% ↓	80% ↑	69%	71%	65%
Difficulties comparing out-of-pocket costs if I were to go to hospital	52%	55%	43%	47%	53%	67% ↑	51%	59%	54%	56%	40%
Information from insurers not set out consistently	54%	53%	42%	51%	55%	61%	51%	59%	56%	50%	35%
Difficulties comparing extras rebates	54%	52%	43%	53%	57%	55%	53%	53%	58% ↑	31% ↓	50%
Not all policies available for comparison	46%	44%	32%	45%	51%	48%	42%	50%	43%	54%	45%
Confusing terminology and language	49%	40%	45%	43%	36%	47%	40%	48%	43%	44%	40%
Unable to compare cover for specific health problems I'm worried about	45%	36%	33%	39%	40%	42%	37%	42%	37%	40%	65%
Unable to find independent information I could trust	38%	35%	27%	26%	35%	53% ↑	39%	33%	36%	46%	25%
Too much information from insurers	27%	24%	28%	26%	30%	19%	25%	25%	25%	21%	30%
Difficulties comparing what I would save on tax or get from rebate	22%	21%	22%	26%	17%	19%	22%	18%	22%	19%	10%
None of the above	0%	1%	0%	1%	0%	0%	0%	0%	0%	0%	0%
Column n	125	200	60	92	77	96	206	116	254	48	20

Switching or dropping cover

CHOICE asked respondents whether they were considering upgrading, dropping or changing their level of cover in the next twelve months. 44% of respondents planned to leave their cover as is. 21% of current private health insurance policyholders plan to drop or decrease cover.

Table: Q20. Will you consider changing the level of your health insurance cover in the next 12 months?



Older Australians (56+) were far more likely to leave their cover level unchanged (61%), while only 36% of 31-40 planned to keep their cover level the same. 9% of those aged 31-40 planned to drop and cancel their cover altogether.

Table: Q20. Will you consider changing the level of your health insurance cover in the next 12 months? Results by individual.

	Row %	Yes, I plan to increase or 'upgrade' my cover	Yes, I plan to decrease or 'downgrade' my cover	Yes, I plan to drop and cancel my cover altogether	No, I plan to leave the level of my cover as is	Haven't thought about this / Don't know yet
Gender	Male	6%	11% ↓	8%	49% ↑	26%
	Female	8%	17% ↑	5%	40% ↓	30%
Age	18-30	10%	14%	5%	38%	32%
	31 - 40	8%	18%	9% ↑	36% ↓	29%
	41 - 55	6%	16%	6%	42%	30%
	56 +	3% ↓	10%	3%	61% ↑	22%
PHI decision role	Main / sole	9% ↑	15%	8% ↑	42%	26%
	Joint	4% ↓	15%	4% ↓	46%	32%
Type of cover	Combined hospital & extras	7%	17% ↑	6%	44%	26%
	Hospital only	12%	12%	10%	38%	27%
	Extras only	4%	4% ↓	6%	45%	40% ↑

The main reasons given for dropping or downgrading cover is cost concerns (“my current policy is too expensive”, 66%) and lack of value (“I’m not using my current policy enough to get value for money”, 39%). Only 2% of respondents had a bad experience with their current health insurer. 21% of respondents aged 18-30 had considered changing their policy as their current policy is too complicated.

Table: Q21. What are the main reasons for this? [Reasons for changing the level of health insurance] (N= 214)

	%
My current policy is too expensive	66% ↑
I'm not using my current policy enough to get value for money	39% ↑
My current policy is too complicated	8% ↓
My health circumstances have changed	20%
I had a negative experience with my current health insurance provider (please briefly specify what happened)	2% ↓
I had unexpected or high out-of-pocket costs	12% ↓
I would prefer to use the public system, Medicare	9% ↓

There is a clear emphasis on cost and value from those consumers considering dropping or downgrading their coverage. This suggests that interventions to promote genuine demand-side competition in PHI would be helpful.

As in banking and energy, there should be a priority on measures that encourage consumers to regularly test their products against the market, re-evaluate their needs and make it easier to switch.

Obviously this requires consumers having access to clear information, at the right time and in a convenient format, to compare their product to others that meet their needs. It also reinforces the case for removing very low-value policies (i.e. junk insurance with very low usage) from the market entirely as by definition these products promote low usage and therefore low perceptions of value.

Conversely, it suggests that any measures which would make consumers less likely to pay attention to their coverage, for example stopping proactively sending the SIS on an annual basis, or locking important information within the member-only sections of insurers' websites, should be avoided.

CHOICE believes it would be worthwhile to draw on interventions tested in other jurisdictions. For example, in 2014, the UK's Financial Conduct Authority launched a large scale randomised controlled research project with over 300,000 general insurance customers to assess whether improved disclosure can help consumers become more engaged at renewal.¹ This found the biggest impact was a requirement for insurers to include previous year's premiums on renewal notices along with a prompt for consumers to shop around. We would encourage testing a similar approach in an Australian context, including a direct link to online, unbiased comparison of PHI policies.

Figure: Financial Conduct Authority, 'Increasing transparency and engagement at renewal in general insurance markets', December 2015, p. 7

In order to work most effectively, we are proposing to allow firms to implement a format appropriate to their customer communications. We set out below one version of how firms might consider meeting the requirement to disclose last years' premium:

Your renewal quote for this year is:	£200.00
Last year's premium was:	£150.00
This is £50 more than last year.	
Remember:	
Check your cover	
Shop around for the best deal	

¹ <https://www.fca.org.uk/publication/consultation/cp15-41.pdf>