

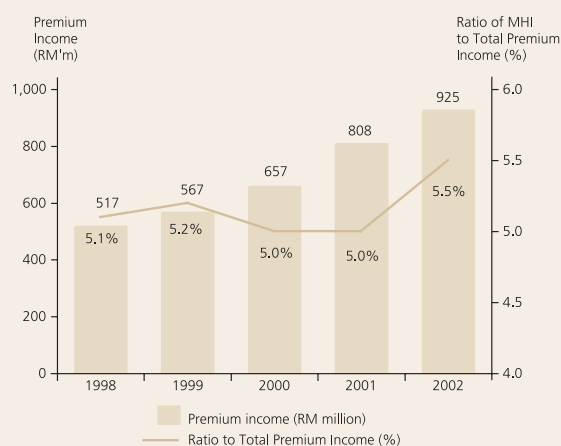
DEVELOPMENTS IN MEDICAL AND HEALTH INSURANCE BUSINESS

Medical and health insurance (MHI) business is emerging as an important sector of the insurance industry, complementing the public healthcare system by providing healthcare protection to certain segments of society. MHI business has experienced an upward trend over the recent years and this pace of development is expected to accelerate in the future as the changing demographic profile of the nation, the rising medical and healthcare costs and increasing sophistication of consumers. While the business has been identified as a sector with strong potential to develop into an important component of the insurance industry, the orderly development of the sector for a sustainable growth as well as the protection of consumer interests become paramount as consumers increasingly turn to the insurance industry for protection to meet their healthcare financing needs.

Development

MHI business has recorded significant growth over the past few years. Total MHI premium income increased by an annual rate of 15.6% during the period 1998-2002 to RM925 million in 2002, accounting for 5.5% of the insurance industry's total premium income in 2002 (Chart 1). Life insurers generated 78% of MHI premium income, 18% of which was from standalone MHI policies, while the remaining 82% was generated from MHI riders. Life insurers have been allowed to sell standalone MHI policies with the coming into force of the Insurance Act 1996 in January 1997. Prior to this, only general insurers were allowed to sell standalone MHI policies while life insurers were selling it as a rider to life policies. With the significant growth in MHI business, the number of Malaysian individuals covered with MHI policies as at end 2002 increased to 3.8 million, accounting for 15.5% of Malaysia's population.

Chart 1: MHI premium income and its ratio to total premium income



The following factors are attributable to the significant growth in MHI business:-

- **Ageing population**

Malaysia currently has a relatively young population, with 76% of the population being under the age of 40 years. By the year 2020, Malaysia will face an increasingly ageing population due to improved living standards and advances in medical and healthcare. The life expectancy of Malaysians at birth is expected to increase from 75 years for females and 70 years for males in 2000 to 79 and 75 years respectively in 2020. With increasing life expectancy and falling birth rates, the percentage of population aged 55 and above is expected to increase to 14% by 2020 from 9% in 2000. Healthcare costs will become increasingly more expensive as a person ages. An ageing society will also create demands for new and innovative MHI products, such as long-term care policies to cover for the nursing needs of the elderly.

- **Breakdown of extended family structure**

Although there is still a strong family culture amongst the majority of the population and the expectation that children will take care of their parents at

Table 1
MHI Premium income by types of business (RM million)

Types of MHI coverage	Life			General			Total		
	Indv.	Group	Total	Indv.	Group	Total	Indv.	Group	Total
Medical expense insurance	531.4	47.5	578.9	70.4	95.9	166.3	601.8	143.4	745.2
Dread disease benefits	76.7	...	76.7	13.7	2.9	16.6	90.4	2.9	93.3
Disability income insurance	57.0	–	57.0	5.6	...	5.6	62.6	...	62.6
Others	11.2	–	11.2	11.5	1.4	12.9	22.7	1.4	24.1
Total	676.3	47.5	723.8	101.2	100.2	201.4	777.5	147.7	925.2

... negligible

old age, such values may change over time. There is therefore a need to ensure that the aged population be more financially independent. Insurance can provide a viable solution to achieve greater financial independence.

- **Healthcare as employment benefits**
 Healthcare benefits are becoming an essential component of the remuneration package offered to employees to attract and retain the best staff. There is therefore a growing market for group MHI policies as employers source the insurance industry to provide healthcare covers for their employees.
- **Personal income tax exemption**
 A tax allowance of RM3,000 for the purchase of MHI (and education) policies has been granted since 1996 (the initial tax allowance of RM2,000 was increased to the current limit in 2000). This tax allowance serves as an incentive to individuals to purchase MHI policies.

Types of MHI Cover

MHI is basically a promise by an insurer to pay for healthcare services to the policy owners in exchange for payment of premiums. Traditionally, two main forms of medical insurance available in the local market are 'medical expense insurance' and 'dread disease benefits'. Medical expense insurance, which is also known as hospital and surgical insurance, provides financial assistance to cover medical and surgical expenses incurred, while the latter usually provides a lump sum benefit upon diagnosis

of any of the dread diseases or critical illnesses specified. Medical expense insurance is the largest MHI class, which accounted for 81% of total MHI premiums in 2002. This type of cover is mainly generated through riders attached to individual life insurance policies. The premiums collected under dread disease benefits represented 10% of the total MHI premiums.

More innovative products have also been introduced in the market to provide consumers with wider options of MHI policies. For example, some insurers have introduced 'disability income insurance' cover, which provides an income stream to replace a portion of the insured's pre-disability income. In 2002, such policies accounted for 6.8% of total MHI premiums. Further, while a significant proportion of MHI policies are renewable annually, some insurers have also introduced longer term insurance policies packaged with MHI benefits like hospitalisation and surgical benefits and dread disease cover, in addition to the basic term and whole life plans.

Group MHI policies, consisting of mainly healthcare benefits provided by employers as an essential component of the remuneration package to their staff, accounted for 16% of total MHI premiums or RM147.7 million (Table 1). The bulk (97%) of group MHI premiums was generated from group medical expense insurance policies, as the main type of healthcare benefits provided by employers was usually reimbursement or direct payment of certain healthcare costs, like hospitalisation, medical and surgical costs, incurred by their employees. The growth of group MHI business

is a positive development in the sector as it shows that employers play a larger role in financing healthcare expenditure of their employees.

Major Issues in MHI Business

As the MHI business develops, issues faced by both the consumers as well as the insurers underwriting the business must be addressed to ensure the long-term viability of the business and ability of insurers to meet their obligations to policy owners. One recent major issue raised by MHI consumers is the increase in premium rates. A number of insurers have increased premiums for MHI products in view of the deterioration in claims experience, largely attributable to increases in medical expenses. Medical costs worldwide have been increasing and are expected to increase further in the future in view of the emergence of chronic and debilitating diseases and increase in operating expenses of medical providers. Abuses of the system by some policy owners and medical service providers have been detected and these have also aggravated the deterioration in claims experience.

Many insurers have incurred losses on MHI business. The loss ratio for general insurers was 126% in 2002. Insurers which operate on commercial basis cannot be expected to continue operating a loss making business portfolio as further losses in the business could lead to the depletion of their insurance funds, which in turn, would undermine their ability to fulfill their financial obligations to policy owners. To offset the rising claims costs, insurers have increased the premiums for certain MHI policies to ensure sustainability of their MHI portfolio. Adjustments to premium rates are not unique to Malaysia, as similar experiences were reported in the advanced economies and emerging market economies.

Lack of consumer awareness of the essential features of MHI policies, such as terms and conditions, exclusions, pre-existing conditions and benefit restrictions, has contributed to increasing complaints by policy owners. In 2002, the number of complaints against insurers on MHI insurance accounted for 25% of total complaints received by the Bank.

The complaints received are mainly in relation to increase in premium rates, delay in the settlement of claims due to disputes over eligibility of benefits under the policy, and lack of transparency due to bundling of insurance products with other services offered under medical cards. One of the key areas that need to be addressed therefore is the issue of consumer education and awareness.

Measures to Address Issues in MHI Business

In order to accord greater consumer protection and to facilitate the long-run sustainability of the MHI sector, various measures have been and are being taken to address the issues confronting the business. The Bank has undertaken several initiatives in this respect and is also working with other related agencies in addressing the issues. Among the proposed measures is the implementation of higher professional standards of practice in the area of claims settlement, minimum qualifications for intermediaries selling MHI products, and proper pricing and reserving requirements for all MHI policies, in order to ensure a more orderly development of MHI business. To enhance consumer awareness and enable consumers to make informed decisions in the purchase of MHI products, product disclosure and transparency in the sale of MHI policies will be improved further. Further, education programmes for the consumers will also be launched to enhance consumer awareness and to increase the knowledge of the public on insurance matters.

The insurance industry, on its part, has also introduced various measures. This includes the joint issuance of the 'Underwriting Guide on Medical and Health Insurance' by LIAM and PIAM to set the minimum basic standard and controls on underwriting of MHI business by all insurers, and as a risk management tool to minimise risks of anti-selection and moral hazard to ensure the sustainability of the business. The industry continues to initiate measures to contain the escalating medical costs, including negotiations with private hospitals and setting up of panel hospitals to isolate service providers with

dubious practices. To ensure professionalism in the selling of MHI policies, the industry has also issued circulars to prohibit insurers from dealing with multi-level marketing (MLM) companies by imposing the requirement that the marketing of the MHI products can only be done by registered intermediaries. Insurers are required to unbundle the insurance cover from the other services provided by MLM companies under any card schemes to ensure the transparency on insurance products offered under the schemes. The industry has also introduced measures to address the issue of claim abuses by policy owners and hospitals, including co-sharing of medical costs which requires policy owners to share a portion of their medical costs, tightening of cashless admission benefit conditions with the aim of minimising abuses in claims and placing more responsibility on the policy owners to ensure that hospital charges are reasonable.

Conclusion

Further development and sustainability of the MHI business in the long run depends largely on the cooperation, commitment and professionalism of all stakeholders. Insurers need to maintain high professional standards, provide good customer services and build customer trust in order to facilitate the orderly development of MHI business. This includes the

emphasis on greater professionalism and integrity in selling practices, improvement in product disclosure and transparency, and product innovations to meet the increasing and diverse healthcare needs of the insuring public.

The consumers and healthcare service providers need to also play their role to ensure proper development of MHI business. Consumers need to be aware of the product features, be able to understand the terms and conditions of a MHI policy, as well as match their insurance needs with their financial resources before ultimately making a commitment to purchase. This would result in a more informed decision when purchasing MHI products and protect their interests. Healthcare service providers would also benefit with the long-term sustainability of MHI business. Measures can also therefore be initiated by healthcare service providers to address the escalation in medical costs and claims abuses, so as to ensure the viability of the schemes.

The insurance industry is increasingly expected to complement the social role of the Government in meeting the diverse healthcare needs of the population. Private MHI schemes could provide benefits that complement the public healthcare system, as well as additional benefits required by the consumers based on sound underwriting and actuarial principles.