Healthcare Reform: Opportunity for Public-Private-Partnership

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Agenda

- Healthcare Financing: A Global Challenge
- Public and Private Solutions: Rivals or Partners?
- Successful PPP Models: Denia & Abu Dhabi
- Hong Kong Reform: Challenges & Questions
- Conclusion
HEALTHCARE FINANCING:
A GLOBAL CHALLENGE
Healthcare Reform
A common theme across national boundaries

Healthcare Reforms around the world

Goals
- Accessibility
- Affordability
- Efficiency
- Transparency
- Competitiveness
- Manageability

Goals are the same, but challenges and measures are different.
Prospect of rising Total Health Expenditure (THE)
Increasing need for Public-Private-Partnership (PPP)

- Total health expenditure growth
- Increasing pressure on public health expenditures
- Health system reforms
- Increasing role of the private sector

Opportunities for PPP

Health expenditures are the most predominant expense in government spending

- The more THE grows, the more private sector will become a component part of the health system
- Increasing need for private health insurance to cover out-of-pocket expenses or enable access to private health care
  
  e.g., reforms and privatization in Spain, Netherlands, Switzerland, USA
- Growth of specialized health players in private sectors

Source: OECD health data (2008), Munich Re
Trend towards PPP in Asia Pacific
Demonstration of private insurance sector’s contribution

- National health system facing great difficulties of sustainability also in developed countries
- While social insurance has long been perceived as a government business, commercial insurers are actually operating most mandatory schemes in developed countries

**China**
System: Began re-establishing social insurance system since 1998
Issue: Difficulties in access to suitable healthcare and large out-of-pocket spending

**India**
System: Community cover and government funded employer cover
Issue: Developing market. Looking for insured option and expertise to help growth

**SE Asia (HK, Malaysia, Singapore)**
System: Tax financed public healthcare
Issue: Public provision of healthcare is becoming unsustainable owing to increasing usage and expectations.

**Australia**
System: State-run Medicare since 1984
Issue: Medicare becoming unsustainable owing to increasing costs driven by surge in over 65s and lifestyle

**Korea**
System: Social insurance dominant
Issue: Unstable state system owing to increasing medical inflation and deteriorating quality

**Japan**
System: Social insurance dominant
Issue: Unstable state system owing to increasing medical inflation and deteriorating quality

**Taiwan**
System: Social insurance dominant since 1995
Issue: Unstable state system owing to increasing medical inflation and deteriorating quality

Clear international trend to increase private sector participation
PUBLIC AND PRIVATE SOLUTIONS: RIVALS OR PARTNERS?
Total healthcare expenditure already accounts for an average 9% of GDP (2008) among OECD countries.

Public sources constitute majority of the spending and are already facing challenges in terms of long-term sustainability.

The Social Insurance design in most countries does not prioritize the needs of the aging population or address their specific issues.

Source: OECD Health Data 2010.
Public healthcare spending in Asia
Increasing trend with concerns

Sources of Healthcare Spending in Asia: % of Total Health Expenditure (2006)

% Changes of Public/private healthcare expense (2000-2009)

- Clear trend observed of increasing public share of THE financing from Asian countries

Concerns:
- No dedicated plans for the elderly (except for Japan)
- Long-term sustainability issue (pay-as-you-go financing)
Strength:

- Largest member base and public sponsored coverage: affordable for everyone. No risk selection or risk loading

Weakness:

- Longer life expectancy and aging population basis requires increasingly dedicated resources for healthcare of the aging population
- Health care demand driven by increased knowledge of options and by less healthy lifestyles
- Medical innovation and technological advances propel healthcare expenditure to higher levels
- Efficiency and quality concerns
- Rationing of care and escalating waiting time
PPP SUCCESS MODELS: DENIA & ABU DHABI
Denia Concession Model
Background

- The Spanish health system is publicly funded by tax income granting universal healthcare free of charge at the point of use
- Since 1986 transfer of financial and administrative responsibility for public healthcare to the 17 autonomous Spanish regions possible
- Public Finance constraints lead to the development of unique concession model for Valencia province: overall public healthcare services provided by private insurance carriers funded by state via capitation payments
- So far 5 regions in Valencia province have introduced the concession model
- Start of Denia Concession Model through public tender in 7/2004
15-year contract based on an innovative per capita insurance contract

Comprehensive provision of public healthcare via private joint venture Marina Salut (65% owned by DKV): primary care, hospital care, specialized care, emergency care, home care, compulsory health prevention programs

Built-up of a new hospital in Denia City (285-bed comprehensive surgery and diagnostic facilities)

Collection and administration of governmental capitation fees paid for permanent residents

The Denia Concession Model requires sophisticated skills in medical and funding management
## Denia Concession Model

### Overview

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<thead>
<tr>
<th>Initial Challenges</th>
<th>Objectives</th>
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<tr>
<td>• Ensure medical hospital services for a region with high quality standards</td>
<td>• Sustainable cost savings for the government</td>
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<td>• Increase quality of care while achieving sustainable cost reductions</td>
<td>• Increased Focus on preventive measures</td>
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<tr>
<th>Solution</th>
<th>Result</th>
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<td>• Public Private Partnership</td>
<td>• Population capacity to be served:</td>
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<td>• Munich Re designed and implemented a model for managing all public health services in the Denia region</td>
<td>• 140,000 permanent residents</td>
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<td>• Munich Re receives a capitation fee from the state</td>
<td>• 50,000 secondary residents</td>
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<td>• 500,000 tourists</td>
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<td>• Operational go-live February 1, 2009</td>
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Denia Concession Model
Healthcare network in Marina Salud

[Diagram showing the healthcare network in Marina Salud]
Abu Dhabi, the Capital of United Arab Emirates has a population of about 1.9 million, of which 20% are nationals and 80% are foreign expatriates.

The previous healthcare system offered free healthcare for nationals and heavily subsidized healthcare for foreigners.

The government would like to increase quality of care while reducing costs and achieving guaranteed sustainability of the healthcare system.

The government needed full range support including risk management, product development, service design, management support, and back-office system.
Progressive mandatory health insurance for foreigners & nationals:

- Expats in government, semi-government entities and larger companies effective 7/1/2006
- All expats effective 1/1/2007
- All nationals 1/1/2008

Income-based Segmentation

- Expats below AED 4,000 per month are eligible for government-subsidized product from Daman
- Other Expats purchase private insurance from competitive market
- Daman also serves as the exclusive insurer for civil servants & government owned companies
- The government reinsures the low-income basic product
- Munich Re reinsures the enhanced products
## PPP in Abu Dhabi

### Overview

#### Initial Challenges

- Support the reform of the health care system in Abu Dhabi
- Ensure the health insurance of expats working in Abu Dhabi

#### Objectives

- Ensure affordable access to essential health care for both nationals & foreigners
- Improve the quality of healthcare by providing a reliable & equitable funding system
- Gradually reduce the need for government subsidies

#### Solution

- Daman, managed by Munich Re, is the specialized health insurer in the UAE, licensed 2006
- Money follows patients and serves as proper incentive to providers
- Munich Re is the exclusive reinsurer as an incentive alignment
- Supports competition among private insurers

#### Result

- Profitable PPP since Day 1
- Successful even outside the Emirate of Abu Dhabi
- Steady increase of membership to 1.8 million members enrolled after 3 years
- Munich Re’s management contract was extended for another 10 years in 2009
HONG KONG HEALTHCARE REFORM: CHALLENGES & QUESTIONS
For the Health Protection Scheme (HPS) to be viable, it must attract a broad cross-section of risks

The preferred approach would be a mandatory scheme. Alternatively, the voluntary HPS needs to attract the majority of the Hong Kong population and ensure a less fragmented healthcare infrastructure.

- Adverse selection is a by-product of voluntary health insurance market.
- Well-intended rules (e.g., guaranteed issue and guaranteed renewability) may exacerbate adverse selection by offering misguided incentives and disincentives.

- How would the government attract a large proportion of the young, healthy population upon kick-off?
- How would HPS offer a healthy level of competition and consumer choice?
- How would HPS compete against private insurance plans?
Market competition requires a level playing field

New regulation about the government-endorsed product needs to take into account the incentives for participating insurers especially given the flexibility of the free market outside this scheme.

- Private insurers need assurances about profitability and branding.
- Unreasonable restrictions on profit margin and claim management would discourage participation but will not curb innovation to undercut and outcompete the scheme.

- How would the government ensure a level playing field between larger and smaller insurers?
- How would the scheme allow product innovation?
- How would the scheme compete against offshore insurers?
- What are the exits for participating private insurers?
Medical costs must be managed over the long run

The increases of medical costs, coupled with unchecked pricing practices of private hospitals and physicians would endanger the insurance industry, the broader healthcare profession, and the society.

- Clearly defined mandate and sophisticated management are critical to sustainability of the High Risk Pool.
- Efficiency and administrative simplification along healthcare value chain are critical to ensure competitive HPS and provider participation.
- Care should be taken to avoid excessive risk-shifting from existing risk-takers such as employers to the government.
- *How would insurance pricing and price increase controls translate into pricing transparency and pricing discipline for medical providers?*
- *What would serve as the interface between insurers and providers?*
CONCLUSION
Conclusion

- Private insurers are critical partners to help Hong Kong Healthcare Reform succeed.
- Reforms can give rise to new challenges, and new products, that nobody ever expected.
- Prepare for change and even if it does not happen be prepared someone else might change anyway.
- Communication is key – the insurance industry needs to effectively communicate with other stakeholders about the role of a vibrant private healthcare system.
THANK YOU!

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