

Medical Inflation Indices

Summary of the Report of the Working Party

Working Party Members

- Neil Hilary
- Ian Sissons

Terms of Reference

- Explore the feasibility of setting up a framework by which, on a regular basis, statistics are collected, indices are calculated and results are published to indicate the growth or otherwise in medical costs.

The rationale

The Working Party was established following concerns expressed by a number of organisations about the data available to monitor the effect of medical expense inflation and the impact on medical expense insurance.

These concerns included;

- Consistency with other personal lines insurance products
- Transparency for purchasers
- OFT concerns over the information available to potential policyholders
- Comments at Healthcare Conferences
- Confusion in published comparisons

Definitions

The terms of reference include two items that do not have unambiguous definitions, namely "...indices are calculated..." and "... growth or otherwise in medical costs". Part of the Working Party's work was to identify whether such items could be defined in a clear way.

There were potentially different views on the meaning of medical inflation from the following.

- The members of the public
- Insurers
- Regulators or Trade Bodies
- The Press

The Working Party needed to obtain views from a broadly representative group of participants on the following aspects.

- Is it desirable to produce an index or indices?
- Is it feasible to produce an index or indices?
- How frequently should indices be produced?
- Should indices be published and, if so, how frequently?

Constraints

There were certain practical constraints. Within the timeframe there was not the time, or a budget, to perform public research. In addition it was clear that the majority of data lay with two major insurers.

Data Gathering

A questionnaire was sent to a range of organisations in order to determine whether there was a demand for an index or indices. The recipients included;

- ABI
- Consumers' Association
- Hospitals
- Limited number of Insurers
- OFT
- Ombudsman
- Journalists
- Politicians

In addition there was a series of detailed discussions with BUPA and AXA PPP. This was due to their pre-eminence in the market, their ability to access data on significant volumes of business and their long record of monitoring data trends.

The Survey

There were five questions in the survey.

- Would you (or those you represent) welcome the publication of a medical inflation index?
- What would you like it to show? Possible measures include:
 - Increase in hospital costs only
 - Changes in costs of all insured procedures
 - Changes in cost relating to different operations being undertaken
 - Movement in the numbers of operations being undertaken
- In what form would it be most meaningful to you (a single index or several, available via a Website or published in newspaper/magazine etc)?
- To what use would you put the index or indices?
- How frequently would you like to see it published?

Response

In general organisations representing a number of different members or individuals returned completed questionnaires. There were few replies from Hospitals and none from political groups.

Rather than returning a completed questionnaire the ABI discussed the subject and provided informal feedback to the Working Party. This feedback indicated that although the ABI members had certain reservations about the proposition they would like to consider the subject again in meetings later in the year.

Survey results

- Would you welcome publication of a MII?
 - Broadly 80% said yes
 - Interesting comment (not word for word)
 - The data doesn't exist to create an index that would do more good than harm

- What would you like it to show?

The general response was that all the suggested options looked good

- What is the most meaningful form?
 - Over half respondents mentioned Websites
 - Publishers recommended their own publications
- To what use would you put the index or indices?
 - The responses tended to be rather vague
 - Useful background information
 - Help to monitor the market
 - Might help pricing and product design
 - Benchmark internal statistics
- How frequently would you like to see it published?
 - Responses varied from quarterly to annually

The detailed discussions results

- BUPA and AXA PPP have suitable data and already do similar calculations for internal purposes
- If the calculation is restricted to individual business then the production of indices is feasible
- Different experience under e.g. comprehensive and budget plans means that a range of indices would be necessary
- The Companies question the value of market statistics. They already provide information on specific products to their current policyholders
- If indices were to be produced then there are already processes, through the ABI committee structures, to do this and to share costs

Conclusions

- Desirability
 - A number of organisations would welcome the availability of an index or indices
 - There is no clear view on what would be suitable as an index or indices
 - There would be potential for adding confusion rather than clarity
- Feasibility
 - It is technically feasible to produce indices
 - The major companies remain unconvinced of the value of market indices so are unlikely to make data available
 - A range of indices would be necessary
 - There are difficulties over homogeneity of data due to different product designs
- Frequency
 - Infrequent - annual would suffice
- Publication
 - Insurers and other organisations hold different views about the desirability of publishing an index or indices

Other product lines

For comparison purposes it was noted that the publicly available information for other personal insurance product lines tends to be rather more comprehensive than for medical expense insurance. Some examples are as follows.

- For Motor business there are regular ABI Industry statistics on claims frequency, average claims, repair cost trends subdivided by type and region
- For Life business there are CMI reports on life, pensions, annuity, income protection and critical illness
- For medical expense insurance in Germany there is a wide range of statistical information collected and published regularly
- There is a paper on "Premium rating indices" being presented at GIRO

Summary

- There are no particular theoretical problems in producing medical inflation indices
- Medical inflation indices are wanted by a range of organisations, but not all
- There are issues about robustness and consistency of definitions
- The necessary data exists but would not necessarily be made available
- There are issues about the homogeneity of data
- Many organisations would be interested in publishing results
- Discussions within the ABI are continuing

Ian Sissons

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