

Managing Medical Claims Inflation

The growing availability of private healthcare treatment as an alternative to public hospitals has been accompanied by a rise in demand for medical and health insurance and takaful (MHI) in Malaysia. This is a significant and growing product segment, accounting for 15.5% of total gross premiums in the life insurance and family takaful sector in 2019. Alongside growing demand, Malaysia's cost of medical care has been reported to be rising above the global average and is among the highest in Southeast Asia¹.

Between 2016 and 2019, MHI claims grew by 11.6% a year. This trend has increased pressure on the underwriting performance of MHI providers, given that rising claims have continued to outstrip the increase in premiums. Over the same four-year period, MHI premiums grew on average by 9.5% a year. In that period, 96 MHI products were repriced, affecting 4.5 million policies. This is a concern as more expensive premiums make coverage increasingly unaffordable to many.

What is driving MHI claims inflation?

Today, Malaysians are living longer and have access to better and more advanced medical care. While this is a positive development and a sign of progress in the country's health outcomes, this development naturally contributes to higher medical costs.

At the same time, there are a number of other factors driving unwarranted increases in medical costs. There are anecdotal accounts of healthcare providers who engage in price differentiation, charging higher if a patient is insured. This is exacerbated by the "buffet syndrome" where policyholders seek to maximise the value of premiums paid. Hence, they tend to utilise medical services with little incentive to consider the associated costs. These behaviours contribute to escalating costs that are ultimately translated back into higher premiums. Insurance claims data analysed over 2013 to 2018 show that hospital supplies and services² form the largest component of claims costs and is one of the main factors driving the increase in hospital charges. In the long run, this makes MHI policies for all policyholders less affordable, and increases the prospects of some higher risk groups being excluded from access to medical insurance.

Considerations moving forward

The ecosystem for medical services in Malaysia involves many stakeholders including payors, healthcare providers, regulators, managed care organisations and end consumers. Accordingly, containing medical claims inflation requires coordinated actions that address the different incentives at play. The Bank has issued the Guidelines on Medical and Health Insurance Business which set out minimum standards for insurers and takaful operators to promote sound underwriting and pricing practices. While recognising the need for insurance premiums to adjust in line with claims experience, the Bank has required insurers and takaful operators to provide policyholders who have been impacted by repricing actions with options to maintain or to vary their medical coverage. However, longer-term solutions to promote the sustainability of MHI protection call for deep reforms in a number of areas.

As a start, there is a need to provide greater public transparency of the various costs of medical procedures. This can be achieved through the publication of reference benchmark costs for common medical procedures. This will enable patients – particularly those who are self-paying – to make well-informed decisions on

¹ Willis Towers Watson's "2019 Global Medical Trends Survey Report":

- Malaysia - 13.1%;
- Global average - 7.6%; and
- Other South East Asian countries: Indonesia - 10.9%; Philippines - 11.5%; Singapore - 9.1%; Thailand - 8.5% and Vietnam - 16.3%.

² Comprises items such as laboratory and imaging, medicine, nursing and medical equipment (e.g. medical ventilator, dialysis machine and eye microscope), and on average constitute more than 50% of a medical bill.

their desired level of healthcare service and its associated costs. For insured patients who do not have to pay out-of-pocket, costs are less likely to factor into their healthcare decisions. In order to encourage a collective responsibility to ensure affordable access to MHI protection for all, the adoption of co-payments or deductibles in MHI plans which can give policyholders more control over the costs of their healthcare decisions is also important. These changes, which have also been observed in other countries such as Singapore and Australia, can have an important effect in capping the persistent increase in healthcare costs through better market discipline.

There is also a need to facilitate the standardisation and collection of data that can be used by both the medical and insurance and takaful industries to increase efficiency, reduce waste, prevent fraud and improve product design. This calls for, among others, the application of a consistent diagnostic classification standard and standardised formats for billings to increase cost transparency. The digitalisation of medical records and integration of health information systems also have the potential to generate significant operational efficiencies and contribute towards moderating medical claims inflation.

Reforms to address medical claims inflation

